YumChina

ANNUAL REPORT 2020

Dear Stockholders,

I want to start by thanking our employees for their dedication, and our customers, business partners and shareholders for their trust placed in Yum China in this most unprecedented year.

Good times build confidence; bad times build character. While the COVID-19 pandemic challenged our people, systems and capabilities, Yum China showed its resilience, responding with compassion, world-class execution and innovation. After the pandemic hit in the first quarter, KFC and Pizza Hut recovered sales sequentially and delivered solid profit. Our financial strength allowed us to honor commitments to our employees for scheduled hours and extend much needed support to our employees and business partners. We captured market opportunities and accelerated new store openings, ending the year with 10,506 stores. We drove growth in coffee and Chinese dining with the joint venture with Lavazza and acquisition of Huang Ji Huang, respectively. Finally, we improved our access to shareholders in Asia by listing in Hong Kong in September, making us the first Delaware-incorporated company to list on both the New York Stock Exchange and Hong Kong Stock Exchange.

$961 million
Operating Profit

$732 million
Adjusted Operating Profit

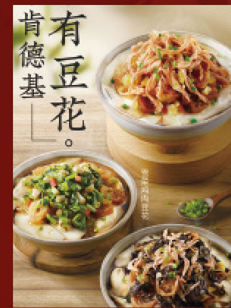
$695 million
Free cash flow from operations (Net cash from operating activities minus capital expenditure)

Commitment to Employee Care

We could not have navigated the challenges we faced without the commitment and creativity of our employees. Yum China is committed to a "People First" philosophy, and the pandemic reinforced our determination to care for our employees. After the COVID-19 outbreak, we extended our family care coverage for critical illness and accidents to the restaurant management team and supervisors. By year end, more than 18,000 employees and 40,000 family members were covered under this program. In addition, we established a fund with contributions from our senior executives, board members and employees to help frontline employees and their families impacted by COVID-19.

As a testament to our commitment to employee care, for the third consecutive year, we were both certified as a Top Employer China by the Top Employers Institute and named to the Bloomberg Gender-Equality Index (GEI). Yum China is the only company operating in mainland China included in the latest Bloomberg GEI. Yum China has also endorsed the United Nations Women's Empowerment Principles, demonstrating our commitment to promoting gender equality in our workplace, industry and communities.

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



Serving the Community and Protecting the Environment

We strive to be a responsible corporate citizen, and support our communities during times of difficulty. Even at the peak of the outbreak, a majority of our restaurants remained open, so that millions of people could have access to safe and hearty meals. To protect the health and safety of our employees and customers, we quickly put in place robust health measures such as contactless delivery and takeaway. Yum China also supported our communities by providing donations, free meals, and volunteer services to medical workers on the frontline.

We have also made significant progress in sustainability and were named the Industry Leader for the Restaurant & Leisure Facilities Industry in the 2020 Dow Jones Sustainability Indices. In December 2020, we launched a series of plastic reduction initiatives, such as replacing plastic straws, cutleries and packaging with environmental friendly materials. In addition to complying with regulatory requirements, we are working towards a 30% reduction on non-degradable plastic packaging weight by 2025. We also refuse to purchase paper products from suppliers that knowingly cause deforestation.

Bloomberg Gender-Equality Index 2021

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

Top Employer China 2021

Innovation-Led Strategy

COVID-19 did not derail us from our vision to be the world's most innovative pioneer in the restaurant industry. One area of innovation of which I am most proud is our ability to launch disruptive products that resonate with consumers. In 2020, we launched approximately 500 new or upgraded products at great prices. For example, at KFC we launched the Wagyu beef burger, tea-infused hard-boiled egg and tofu pudding, while at Pizza Hut we introduced roasted sirloin steak with rice on an iron pan, baked crayfish with salted eggs and volcano tiramisu with Belgian chocolate. We also tested regional flavors in selected markets, such as Wuhan hot dry noodles and Sichuan spicy crayfish (a great late-night snack!).

Our innovation capabilities have made it possible for us to quickly adapt to evolving consumer demands. KFC, Pizza Hut and Taco Bell were among the first western restaurant brands to introduce plant-based meat products in China, providing consumers with more healthy choices. To address the home-consumption trend, Pizza Hut launched ready-to-cook steak for takeaway and delivery in early 2020. We also launched ready-to-heat chicken soup, fried rice, and a popular spicy noodle dish (Luosifen) in late 2020 under a new retail brand, which leverages our product innovation capabilities, supply chain and online/offline assets. We are encouraged by the excitement surrounding the launch and are working on other attractive additions to our offerings.

Our Growth Initiatives

Despite the challenges in 2020, we remain confident in the growth opportunities in China and have been staying the course with our long-term strategy. We believe the Yum China of the future will have a much larger footprint across China, enabled by growth in our store network, growth in our portfolio of brands and growth in our digital and delivery capabilities.

Store Network Expansion

In a year that was anything but normal, we opened 1,165 new stores. This marks the highest number of new openings in our history of operating in China. More importantly, we remain disciplined with our store expansion. The payback period for new stores continues to be healthy at approximately 2 years for KFC and 3 to 4 years for Pizza Hut. There is still ample white space in China to grow. We have been tracking several hundred cities that we currently do not have a presence yet for KFC and even more cities for Pizza Hut. Smaller store formats such as the "small town model" at KFC and "Hub and Spoke model" at Pizza Hut will enable us to penetrate lower-tier cities and increase density in existing cities. While it took us 33 years to reach 10,000 stores, we intend to accelerate our store expansion to reach the next 10,000 at a faster pace!

Our leadership position in China is underpinned by our world-class supply chain management and nationwide network. Consisting of 25 logistics centers, 7 consolidation centers, over 2,000 cold-chain trucks and real-time monitoring systems, our supply chain enables us to serve quality food to our customers and helps fuel store expansion in China. To efficiently and adequately support our store expansion, we will continue to invest in strengthening our logistics and other operational infrastructures.

Small Town model

Hub and Spoke model

1,165

New stores

10,506

Total stores

(at year end 2020) across 1,500+ cities

>300
million members

KFC and Pizza Hut combined (at year end 2020)

~80%
Digital orders

KFC and Pizza Hut's Company sales

>50%
Off-premise sales

KFC and Pizza Hut's Company sales

Growing Emerging Brands

While we remain dedicated to the growth of our core brands, there are considerable opportunities in scaling our emerging brands, including two segments with strong growth potential: coffee and Chinese dining.

We have three distinct coffee brands with clear segmentation and strategy. At KFC, K-Coffee offers good quality coffee at affordable prices. Over 140 million cups of K-Coffee were sold in 2020. Meanwhile, COFFii & JOY offers specialty coffee for coffee lovers utilizing an asset-light model. In addition, we opened Lavazza's first flagship store in Asia in early 2020 with premium coffee and high-quality food offerings. Since then, four additional beautiful Lavazza stores have been opened in Shanghai. Encouraged by the overwhelmingly positive consumer feedback of our initial stores, we expect to accelerate the store openings for Lavazza and test different store formats. We are excited about the growth potential across all our coffee brands and are committed to making coffee a meaningful part of Yum China.

The Chinese cuisine market is massive. In particular, hot pot is very popular in China. In 2020, we acquired Huang Ji Huang, an industry-leading simmer pot brand. In tandem with this acquisition, we established a Chinese dining business unit to consolidate and strengthen our capabilities in Chinese dining. We are pleased with the integration progress and will continue to drive synergies between Huang Ji Huang and Little Sheep in the areas of menu innovation, seasoning distribution, supply chain and franchise development.

K-coffee capsules

Joey Wat

Chief Executive Officer
Yum China Holdings, Inc.

Driving Growth with Digital and Delivery

We started to accelerate our digital capabilities over half a decade ago. Today, Yum China has developed a powerful digital ecosystem, which allows us to better engage with our customers throughout the customer journey. Digital ordering increased from approximately 55% of KFC and Pizza Hut Company sales in 2019 to 80% in 2020, reflecting the increased popularity of delivery and mobile ordering. Our membership base continued to grow, exceeding 300 million by year end, and accounting for approximately 60% of system sales of KFC and Pizza Hut in 2020. We are leveraging a variety of tools to further improve member stickiness and spending. For example, our privilege subscription program has been effective in increasing member spending during the subscription period.

Powered by our digital and delivery capabilities, we captured the shift in customer demand to delivery and takeaway. Off-premise dining accounted for over 50% of our KFC and Pizza Hut Company sales in 2020, compared to approximately 40% in 2019. With redesigned menu items, packaging suitable for takeaway and enhanced digital platforms, Pizza Hut nearly doubled its takeaway sales mix in 2020. We continued to improve our delivery rider management by upgrading our rider platform with better zoning and rider routing, and rolling out trade zone and cross-brand rider sharing.

The pandemic highlighted the importance of digital and delivery. We will continue to invest in this area, to achieve greater digitization, automation and intelligence across our operations. The capability to track, analyze and automate across our value chain, from farm to fork, will make us even stronger and nimbler.

Last but not least, Yum China is committed to providing steady shareholder returns. With our strong cash generation capabilities, we have returned approximately $1.2 billion to our shareholders since we became an independent public company in 2016. After suspending our share repurchases and, for two quarters, cash dividends due to the unprecedented effects of the COVID-19 pandemic, we resumed cash dividends in the fourth quarter of 2020. I am confident that our strategic growth initiatives will position Yum China well to yield sustainable returns for our shareholders in the long-run.

I am humbled to lead this talented and dedicated team. We will remain focused on positioning Yum China for sustainable long-term growth, while working with our employees, customers, shareholders, and business partners to create positive impact on our communities and the environment.

Joey Wat
Chief Executive Officer

YumChina

Yum China Holdings, Inc.

7100 Corporate Drive
Plano, Texas 75024
United States of America

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

April 15, 2021

Dear Fellow Stockholders:

We are pleased to invite you to attend the 2021 Annual Meeting of Stockholders of Yum China Holdings, Inc. (the "***Annual Meeting***"). The Annual Meeting will be held on Friday, May 28, 2021, at 8:00 a.m. Beijing/Hong Kong time (Thursday, May 27, 2021, at 8:00 p.m. U.S. Eastern time). Our Board of Directors implemented a virtual meeting format in 2020, and determined that it is prudent to hold a virtual meeting again this year, in light of the continued public health concerns regarding the novel coronavirus (COVID-19) pandemic and related travel restrictions.

You may attend the Annual Meeting via the internet at *www.virtualshareholdermeeting.com/YUMC2021*. To participate in the Annual Meeting, you will need the 16-digit control number which appears on your Notice of Internet Availability of Proxy Materials (the "***Notice***"), proxy card or the instructions that accompanied your proxy materials. The attached notice of annual meeting and proxy statement contain details of the business to be conducted at the Annual Meeting and the detailed procedures for attending, submitting questions and voting at the Annual Meeting. In addition, the Company's 2020 annual report, which is being made available to you along with the proxy statement, contains information about the Company and its performance.

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

Sincerely,

Joey Wat
Chief Executive Officer

[THIS PAGE INTENTIONALLY LEFT BLANK]

Yum China Holdings, Inc.

Notice Of Annual Meeting Of Stockholders

Time and Date: 8:00 a.m. Beijing/Hong Kong time on Friday, May 28, 2021 / 8:00 p.m. U.S. Eastern time on Thursday, May 27, 2021.

Location: Online at *www.virtualshareholdermeeting.com/YUMC2021*.

Items of Business:

(1) To elect the 10 director nominees named in the accompanying proxy statement to serve for a one-year term expiring at the 2022 annual meeting of the Company's stockholders.

(2) To ratify the appointment of KPMG Huazhen LLP as the Company's independent auditor for 2021.

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

(4) To approve an amendment to the Company's Amended and Restated Certificate of Incorporation to allow stockholders holding 25% of the Company's outstanding shares the right to call special meetings.

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

Who Can Vote: You can vote if you were a stockholder of record as of the close of business on March 29, 2021.

Attending the Meeting: Stockholders of record as of the close of business on March 29, 2021 and the general public will be able to attend the Annual Meeting by visiting our Annual Meeting website at *www.virtualshareholdermeeting.com/YUMC2021*. To participate in the Annual Meeting, you will need the 16-digit control number included on your Notice, on your proxy card or on the instructions that accompanied your proxy materials.

The Annual Meeting will begin promptly at 8:00 a.m. Beijing/Hong Kong time on May 28, 2021 / 8:00 p.m. U.S. Eastern time on May 27, 2021. Online check-in will begin 15 minutes prior to the start of the meeting, and you should allow ample time for the online check-in procedures.

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

Date of Mailing: This notice of annual meeting, the accompanying proxy statement and the form of proxy are first being mailed to stockholders on or about April 15, 2021.

By Order of the Board of Directors,

Joseph Chan
Chief Legal Officer

[THIS PAGE INTENTIONALLY LEFT BLANK]

PROXY STATEMENT – TABLE OF CONTENTS

PROXY STATEMENT SUMMARY

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

MEETING INFORMATION

Time and Date: 8:00 a.m. Beijing/Hong Kong time on Friday, May 28, 2021 / 8:00 p.m. U.S. Eastern time on Thursday, May 27, 2021

Location: Online at *www.virtualshareholdermeeting.com/YUMC2021*

Record Date: March 29, 2021

HOW TO VOTE

Stockholders of record as of the close of business on March 29, 2021 may vote by using any of the following methods:

Before the Annual Meeting:

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

Proxies submitted through the Internet or by telephone as described above must be received by 11:59 p.m. Beijing/Hong Kong time / 11:59 a.m. U.S. Eastern time on May 27, 2021. Proxies submitted by mail must be received prior to the meeting.

During the Annual Meeting:

- Vote online **during the Annual Meeting**. You may vote during the Annual Meeting through *www.virtualshareholdermeeting.com/YUMC2021* using your 16-digit control number.

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

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

ITEMS OF BUSINESS

Proposal	Board Voting Recommendation	Page Reference
1. Election of the 10 Director Nominees Named in this Proxy Statement to Serve for a One-Year Term	FOR each nominee	24
2. Ratification of the Appointment of KPMG Huazhen LLP as the Company's Independent Auditor for 2021	FOR	30
3. Advisory Vote on Named Executive Officer Compensation	FOR	32
4. Approval of an amendment to the Company's Amended and Restated Certificate of Incorporation to allow stockholders holding 25% of the Company's outstanding shares the right to call special meetings	FOR	33

COMPANY OVERVIEW

Yum China Holdings, Inc., a Delaware corporation (the "***Company***," "***we***," "***us***" or "***our***") is the largest restaurant company in China in terms of system sales, with $8.3 billion of revenue in 2020 and over 10,500 restaurants as of year-end 2020. Our growing restaurant network consists of our flagship KFC and Pizza Hut brands, as well as emerging brands such as Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell and Lavazza. We have the exclusive right to operate and sublicense the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China (excluding Hong Kong, Macau and Taiwan), and own the intellectual property of the Little Sheep, Huang Ji Huang, COFFii & JOY and East Dawning concepts outright.

SUMMARY INFORMATION REGARDING NOMINEES

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

Name	Age	Director Since	Primary Occupation	Independent	Board Committee Membership as of April 15, 2021* A	C	G	F
Fred Hu (Chairman)	57	2016	Chairman and founder of Primavera Capital Group	✓			CC	
Joey Wat	49	2017	Chief Executive Officer of the Company					
Peter A. Bassi	71	2016	Former Chairman of Yum! Restaurants International	✓	X			X
Edouard Ettedgui	69	2016	Non-Executive Chairman of Alliance Française, Hong Kong	✓		X	X	X
Cyril Han	43	2019	Chief Financial Officer of Ant Group Co., Ltd.	✓	X			
Louis T. Hsieh	56	2016	Former Chief Financial Officer of NIO Inc.	✓	X			
Ruby Lu	50	2016	Venture capitalist	✓		CC	X	
Zili Shao	61	2016	Non-executive Chairman of Fangda Partners	✓				CC
William Wang	46	2017	Partner of Primavera Capital Group	✓		X		
Min (Jenny) Zhang	47	—	Vice-chairlady of Huazhu Group Limited	✓				

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

* Christian L. Campbell is the chair of Audit Committee, and a member of Compensation Committee and Nominating and Governance Committee. Ed Yiu-Cheong Chan is a member of Audit Committee. Messrs. Campbell and Chan will not stand for re-election to the Board at the Annual Meeting.

Proxy Statement

GOVERNANCE HIGHLIGHTS

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

Director Independence	• Independent Board Chairman • 9 of 10 director nominees are independent
Director Elections and Attendance	• Annual election of all directors • Majority voting policy for elections of directors in uncontested elections • Proxy access for director nominees by stockholders • 97% director attendance at Board and committee meetings in 2020
Board Refreshment and Diversity	• Directors with experience, qualifications and skills across a wide range of public and private companies • Directors reflect a diversity of gender, race and ethnicity • Average director nominee age of 55 as of April 15, 2021 • Independent and non-management directors may generally not stand for re-election after age 75
Other Governance Practices	• Active stockholder engagement • No shareholder rights plan (also known as a poison pill) • Director and executive officer stock ownership policies • Policy prohibiting hedging or other speculative trading of Company stock • Policy regarding resignation if any director experiences a significant change in professional roles and responsibilities • Board access to senior management and independent advisors

WHERE YOU CAN FIND ADDITIONAL INFORMATION

Our Investor Relations website is located at *ir.yumchina.com*. Although the information contained on or connected to our website is not part of this proxy statement, you can view additional information on our website, such as our 2020 annual report, the charters of our Board committees, our Corporate Governance Principles, our Code of Conduct and reports that we file with the Securities and Exchange Commission (the "***SEC***") and the Stock Exchange of Hong Kong Limited (the "***Hong Kong Stock Exchange***" or the "***HKEX***"). Copies of these documents may also be obtained free of charge by writing Yum China Holdings, Inc., 7100 Corporate Drive, Plano, Texas 75024, or Yum China Holdings, Inc., Yum China Building, 20 Tian Yao Qiao Road, Shanghai 200030 People's Republic of China, Attention: Corporate Secretary.

QUESTIONS AND ANSWERS ABOUT THE MEETING AND VOTING

The Board of Directors of Yum China Holdings, Inc. solicits the enclosed proxy for use at the Annual Meeting to be held at 8:00 a.m. Beijing/Hong Kong time on Friday, May 28, 2021 / 8:00 p.m. U.S. Eastern time on Thursday, May 27, 2021. This year, the Annual Meeting will be held in a virtual-only format, through a live audio webcast. The meeting will only be conducted via webcast; there will be no physical meeting location. This proxy statement contains information about the matters to be voted on at the Annual Meeting and the voting process, as well as information about our directors and most highly paid executive officers.

What is the purpose of the Annual Meeting?

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

Why am I receiving these materials?

You received these materials because our Board of Directors is soliciting your proxy to vote your shares at the Annual Meeting. As a stockholder of record as of the close of business on March 29, 2021, you are invited to attend the Annual Meeting and are entitled to vote on the items of business described in this proxy statement.

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

As permitted by SEC rules, we are making this proxy statement and our 2020 annual report available to our stockholders electronically via the Internet. On or about April 15, 2021, we mailed to our stockholders the Notice containing instructions on how to access this proxy statement and our 2020 annual report and vote online. If you received a Notice by mail, you will not receive a printed copy of the proxy materials unless you request a copy. The Notice contains instructions on how to access and review all of the important information contained in the proxy statement and the annual report. The Notice also instructs you on how you may submit your proxy over the Internet. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials contained on the Notice.

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

Why is the Annual Meeting a virtual meeting this year?

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

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

How do I attend the Annual Meeting?

The Annual Meeting will be held in a virtual-only format, through a live audio webcast. The Annual Meeting will only be conducted via webcast; there will be no physical meeting location. Stockholders of record as of the close of business on March 29, 2021 and the general public will be able to attend the Annual Meeting by visiting our Annual Meeting website at *www.virtualshareholdermeeting.com/YUMC2021*. To participate in the Annual Meeting, you will need the 16-digit control number included on your Notice, on your proxy card or on the instructions that accompanied your proxy materials.

The Annual Meeting will begin promptly at 8:00 a.m. Beijing/Hong Kong time on May 28, 2021 / 8:00 p.m. U.S. Eastern time on May 27, 2021. Online check-in will begin 15 minutes prior to the start of the meeting, and you should allow ample time for the online check-in procedures. We encourage our stockholders to access the meeting prior to the start time.

May stockholders ask questions?

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

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

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

Who may vote?

You may vote if you owned any shares of Company common stock as of the close of business on the record date, March 29, 2021. Each share of Company common stock is entitled to one vote. As of March 29, 2021, there were 420,467,575 shares of Company common stock outstanding.

What am I voting on?

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

- The election of the 10 director nominees named in this proxy statement to serve for a one-year term;
- The ratification of the appointment of KPMG Huazhen LLP as the Company's independent auditor for 2021;
- The approval, on an advisory basis, of the Company's named executive officer compensation; and
- The approval of an amendment to the Company's Amended and Restated Certificate of Incorporation to allow stockholders holding 25% of the Company's outstanding shares the right to call special meetings.

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

How does the Board of Directors recommend that I vote?

Our Board of Directors recommends that you vote your shares:

- **FOR** each of the 10 nominees named in this proxy statement for election to the Board;
- **FOR** the ratification of the appointment of KPMG Huazhen LLP as our independent auditor for 2021; and
- **FOR** the proposal on named executive officer compensation.
- **FOR** the proposal to amend the Company's Amended and Restated Certificate of Incorporation to allow stockholders holding not less than 25% of the Company's outstanding shares the right to call special meetings.

How do I vote before the Annual Meeting?

There are three ways to vote before the meeting:

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

Proxies submitted through the Internet or by telephone as described above must be received by 11:59 p.m. Beijing/Hong Kong time / 11:59 a.m. U.S. Eastern time on May 27, 2021. Proxies submitted by mail must be received prior to the meeting.

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

Can I vote during the Annual Meeting?

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

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

Can I change my mind after I vote?

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

- signing another proxy card with a later date and returning it to us for receipt prior to the Annual Meeting;
- voting again through the Internet or by telephone prior to 11:59 p.m. Beijing/Hong Kong time / 11:59 a.m. U.S. Eastern time on May 27, 2021;
- giving written notice to the Corporate Secretary of the Company prior to the Annual Meeting; or
- voting again during the Annual Meeting.

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

Who will count the votes?

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

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

If you vote by proxy card, your shares will be voted as you instruct by the individuals named on the proxy card. If you sign and return a proxy card but do not specify how your shares are to be voted, the persons named as proxies on the proxy card will vote your shares in accordance with the recommendations of the Board set forth on page 1.

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

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

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

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

The proposal to ratify the appointment of KPMG Huazhen LLP as our independent auditor for 2021 is considered a routine matter for which brokerage firms may vote shares for which they have not received voting instructions. The other matters to be voted on at our Annual Meeting are not considered "routine" under applicable rules. When a matter is not a routine matter and the brokerage firm has not received voting instructions from the beneficial owner of the shares with respect to that matter, the brokerage firm cannot vote the shares on that proposal. This is called a "broker non-vote."

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

Your shares are counted as present at the Annual Meeting if you attend the Annual Meeting via webcast using your 16-digit control number or if you properly submit a proxy by Internet, telephone or mail. In order for us to conduct our Annual Meeting, a majority of the shares of Company common stock outstanding as of March 29, 2021 must be present via webcast or represented by proxy at the Annual Meeting. This is referred to as a "quorum." Abstentions and broker non-votes will be counted for purposes of establishing a quorum at the Annual Meeting.

How many votes are needed to elect directors?

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

How many votes are needed to approve the other proposals?

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

Proposal 4 must receive the "FOR" vote of a majority of the shares of our common stock outstanding and entitled to vote on the proposal. For Proposal 4, you may vote "FOR," "AGAINST" or "ABSTAIN." Abstentions and broker non-votes constitute shares outstanding and entitled to vote for purposes of Proposal 4, and so a vote to "ABSTAIN" or a broker non-vote will have the same effect as a vote "AGAINST" Proposal 4.

When will the Company announce the voting results?

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

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

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

GOVERNANCE OF THE COMPANY

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

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

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

Director Independence	• Independent Board Chairman • 9 of 10 director nominees are independent
Director Elections and Attendance	• Annual election of all directors • Majority voting policy for elections of directors in uncontested elections • Proxy access for director nominees by stockholders • 97% director attendance at Board and committee meetings in 2020
Board Refreshment and Diversity	• Directors with experience, qualifications and skills across a wide range of public and private companies • Directors reflect a diversity of gender, race and ethnicity • Average director nominee age of 55 as of April 15, 2021 • Independent and non-management directors may generally not stand for re-election after age 75
Other Governance Practices	• Active stockholder engagement • No shareholder rights plan (also known as a poison pill) • Director and executive officer stock ownership policies • Policy prohibiting hedging or other speculative trading of Company stock • Policy regarding resignation if any director experiences a significant change in professional roles and responsibilities • Board access to senior management and independent advisors

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

Our Board of Directors presently consists of 11 directors, nine of whom are standing for re-election at the Annual Meeting. Each director is elected for a one-year term.

Two of our current directors, Christian L. Campbell and Ed Yiu-Cheong Chan will not stand for re-election at the Annual Meeting. The Company thanks Messrs. Campbell and Chan for their service as members of our Board. The Board determined that, effective at the conclusion of the Annual Meeting, the size of the Board will be decreased from 11 to ten directors.

How often did the Board meet in 2020?

Directors are expected, absent extraordinary circumstances, to attend all Board meetings and meetings of committees on which they serve. Our Board met 10 times and the committees collectively met 25 times during 2020. In 2020, overall attendance at Board and committee meetings was 97% and all directors attended at least 75% of the aggregate total of meetings of the Board and committees on which the director served. Our independent directors meet privately in executive session without management present at each regularly scheduled Board meeting. Our independent Chairman leads these Board executive sessions.

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

All directors are encouraged to attend the Annual Meeting. All incumbent directors attended the 2020 annual meeting of the Company's stockholders.

How are director nominees selected?

The Nominating and Governance Committee is responsible for recommending director candidates to the full Board for nomination and election at the annual meetings of stockholders. The Nominating and Governance Committee will interview a director candidate before the candidate is submitted to the full Board for approval. The Nominating and Governance Committee's charter provides that it may retain a third-party search firm to identify candidates from time to time. This year, with the assistance of a third-party search firm, the Nominating and Governance Committee undertook a broad and extensive search for new directors who would contribute to the collective skills, experience and diversity of the Board. The Nominating and Governance Committee provided the search firm with guidance as to the skills, experience and qualifications that it was seeking in potential candidates, and the search firm identified several potential candidates. After considering and interviewing a number of highly qualified candidates, the Nominating and Governance Committee recommended to the Board that Min (Jenny) Zhang be nominated to stand for election by our stockholders at the Annual Meeting.

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

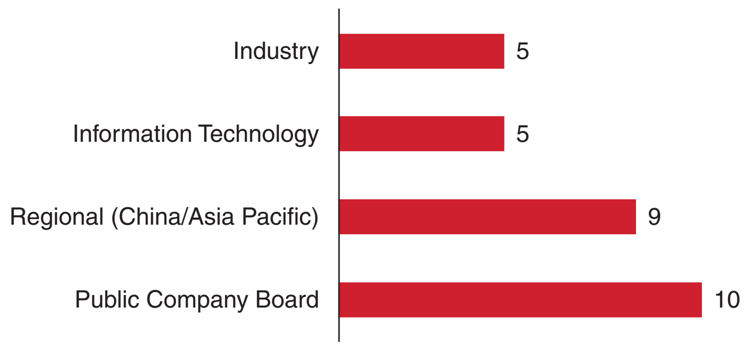
In accordance with the Corporate Governance Principles, our Board seeks members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. Directors should have experience in positions with a high degree of responsibility and be leaders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

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

What are the directors' qualifications and skills?

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

Director Qualifications and Skills (Number of Directors)



How does the composition of our Board reflect diversity?

The Nominating and Governance Committee seeks to recommend nominees that bring a unique perspective to the Board in order to contribute to the collective diversity of the Board. As a part of this process, in connection with director nominations, the Nominating and Governance Committee considers several factors to ensure the entire Board collectively embraces a wide variety of characteristics, including professional background, experience, skills and knowledge. Each director nominee will generally exhibit different and varying degrees of these characteristics. With respect to the Company's current slate of director nominees, the Company also benefits from the diversity inherent from differences in Board member age, gender, race and ethnicity. Thirty percent of director nominees are women.

Can stockholders nominate directors for election to the Board?

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

What is the Board's leadership structure?

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

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

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

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

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

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

What other significant Board governance practices does the Company have?

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

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

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

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

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

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

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

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

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

What is the Board's role in risk oversight?

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

Audit Committee

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

Compensation Committee

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

Food Safety and Sustainability Committee

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

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

How does the Board oversee food safety risk?

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

How does the Board oversee cybersecurity risk?

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

The Company's cybersecurity programs are regularly audited by independent third parties against established regulatory and industry standards. We incorporate regular information security training as part of our employee education and development program. In addition, the Company maintains cybersecurity insurance as part of its overall insurance portfolio.

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

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

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

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

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

How does the Board determine which directors are considered independent?

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

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

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

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

How do stockholders communicate with the Board?

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

How do the Board and management engage with stockholders?

Our Board and management are committed to regular engagement with our stockholders. In 2020, we reached out to our top 25 stockholders, which comprise holders of more than 50% of the outstanding shares of Company common stock, in order to solicit their input on important governance, executive compensation, sustainability and other matters. Additionally, our senior management team, including our Chief Executive Officer and Chief Financial Officer, regularly engage in meaningful dialogue with our stockholders, including through our quarterly earnings calls and investor conferences and meetings. Our senior management team regularly reports to our Board and, as applicable, committees of our Board, regarding stockholder views.

We evaluate and respond to the views voiced by our stockholders. Based on feedback received during the Company's stockholder engagement efforts over the past several years, the Compensation Committee approved certain changes to the Company's executive compensation program in 2020, including expanding the recipients of annual performance stock unit ("***PSU***") grants, and using PSU grants with multiple performance metrics to replace the existing restricted stock unit ("***RSU***") component. For more information on stockholder engagement regarding compensation for executive officers, please see "Executive Compensation—Stockholder Engagement."

With the increasing focus on environmental sustainability issues, the responsibilities of the Food Safety Committee (recently renamed as the Food Safety and Sustainability Committee) have been expanded to also cover the oversight of environmental, supply chain and food nutrition and health issues. In addition, beginning with the 2021 annual incentive program, environmental, social and governance ("***ESG***") measures will be incorporated into the key performance indicators that are used to determine the individual performance factor for each leadership team member.

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

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

What are the Committees of the Board?

The Board of Directors has standing Audit, Compensation, Nominating and Governance and Food Safety and Sustainability Committees. Set forth below is a summary of the functions of each committee, the members of each committee as of April 15, 2021 and the number of meetings each committee held in 2020.

Audit Committee

Christian L. Campbell*, *Chair*
Peter A. Bassi
Ed Yiu-Cheong Chan*
Cyril Han
Louis T. Hsieh

Number of meetings held in 2020: 11

- Possesses sole authority regarding the selection and retention of the independent auditor
- Reviews and has oversight over the Company's internal audit function
- Reviews and approves all auditing services, internal control-related services and permitted non-audit services to be performed for the Company by the independent auditor
- Reviews the independence, qualification and performance of the independent auditor
- Reviews and discusses with management and the independent auditor any major issues as to the adequacy of the Company's internal controls, any special steps adopted in light of material control deficiencies and the adequacy of disclosures about changes in internal control over financial reporting
- Reviews and discusses with management and the independent auditor the annual audited financial statements, results of the review of the Company's quarterly financial statements and significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements
- Review and discuss with the independent auditor any critical audit matter ("***CAM***") addressed in the audit of the Company's financial statements and the relevant financial statement accounts and disclosures that relate to each CAM.
- Reviews the Company's accounting and financial reporting principles and practices, including any significant changes thereto
- Advises the Board with respect to Company policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Conduct
- Discusses with management the Company's major risk exposures and the steps management has taken to monitor and control such exposures; and assists the Board in the oversight of cybersecurity and other technology risks. Further detail about the role of the Audit Committee in risk assessment and risk management is included in the section entitled "What is the Board's role in risk oversight?" and "How does the Board oversee cybersecurity risk?"

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

Compensation Committee Ruby Lu, *Chair* Christian L. Campbell* Edouard Ettedgui William Wang Number of meetings held in 2020: 9	• Oversees the Company's executive compensation plans and programs and reviews and recommends changes to these plans and programs • Monitors the performance of the Chief Executive Officer and other senior executives in light of corporate goals set by the Committee • Reviews and approves the corporate goals and objectives relevant to the Chief Executive Officer's and other senior executives' compensation and evaluates their performance in light of those goals and objectives • Determines and approves the compensation level of the Chief Executive Officer and other senior executive officers based on this evaluation • Reviews the Company's compensation plans, policies and programs to assess the extent to which they encourage excessive or inappropriate risk-taking or earnings manipulation

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

Nominating and Governance Committee Fred Hu, *Chair* Christian L. Campbell* Edouard Ettedgui Ruby Lu Number of meetings held in 2020: 3	• Identifies and proposes to the Board individuals qualified to become Board members and recommends to the Board director nominees for each committee • Advises the Board on matters of corporate governance • Reviews and reassesses from time to time the adequacy of the Company's Corporate Governance Principles and recommends any proposed changes to the Board for approval • Receives comments from all directors and reports annually to the Board with assessment of the Board's performance • Reviews annually and makes recommendations to the Board with respect to the compensation and benefits of directors • Reviews management succession planning and makes recommendations to the Board • Review emerging corporate governance issues and best practices

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

Food Safety and Sustainability Committee Zili Shao, *Chair* Peter A. Bassi Edouard Ettedgui Number of meetings held in 2020: 2	• Reviews, evaluates and advises the Board regarding the practices, procedures, strategies and initiatives to protect food safety • Reviews, evaluates and advises the Board regarding trends, issues and concerns which affect or could affect the Company's food safety practices, and the risks arising therefrom, in light of the Company's overall efforts related to food safety • Reviews and evaluates any corrective action taken by management to address any food safety related risks or incident, if any, and advises the Board regarding any proposed action in relation thereto • Reviews, evaluates and advises the Board regarding the Company's practices, policies, procedures, strategies and initiatives relating to sustainability, including environmental, supply chain and food nutrition and health • Reviews and evaluates the trends, issues and concerns which affect or could affect the Company's sustainability practices, policies, procedures, strategies and initiatives • Reviews and oversees the development and implementation of the goals the Company may establish from time to time with respect to its sustainability initiatives • Oversees the reporting and communication with stakeholders with respect to sustainability

* At the Annual Meeting, Messrs. Campbell and Chan are stepping down from the Board and its committees and are not standing for re-election.

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

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

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

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

There were no transactions considered to be a related person transaction from January 1, 2020 through the date of this proxy statement.

Does the Company require stock ownership by directors?

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

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

Does the Company require stock ownership by executive officers?

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

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

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

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

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

How are directors compensated?

Employee directors do not receive additional compensation for serving on the Board of Directors. The annual compensation for each director who is not an employee of the Company is discussed under "2020 Director Compensation."

MATTERS REQUIRING STOCKHOLDER ACTION

ITEM 1. Election of Directors

Who are the director nominees?

Each of the director nominees, other than Min (Jenny) Zhang, currently serves as a director of the Company. Ms. Zhang is being nominated as a director for election at the Annual Meeting following a search process undertaken by the Nominating and Governance Committee, as described above under "Governance of the Company—How are director nominees selected?"

Each nominee has been nominated by the Board for election at the Annual Meeting to hold office for a one-year term. If elected, the nominees will hold office until the 2022 annual meeting of the Company's stockholders and until their respective successors have been duly elected and qualified or until their earlier death, resignation or removal.

At the Annual Meeting, proxies cannot be voted for a greater number of individuals than the 10 nominees named in this proxy statement.

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

There are no family relationships among any of the directors, director nominees and executive officers of the Company. Ages are as of April 15, 2021.

What if a nominee is unwilling or unable to serve?

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

What vote is required to elect directors?

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

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

Director Nominees

Fred Hu
Age 57
Director Since 2016

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

Joey Wat
Age 49
Director Since 2017

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

Peter A. Bassi
Age 71
Director Since 2016

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

Edouard Ettedgui
Age 69
Director Since 2016

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

Cyril Han
Age 43
Director Since 2019

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

Louis T. Hsieh
Age 56
Director Since 2016

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

Ruby Lu

Age 50

Director Since 2016

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

Zili Shao

Age 61

Director Since 2016

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

William Wang
Age 46
Director Since 2017

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

Min (Jenny) Zhang
Age 47
Director Nominee

Min (Jenny) Zhang has served as the vice-chairlady of Huazhu Group Limited ("***Huazhu***"), a multi-brand hotel group listed on both the Nasdaq Stock Market (NASDAQ: HTHT) and the Hong Kong Stock Exchange (stock code: 1179), since July 20, 2020. Ms. Zhang joined Huazhu in September 2007 and held various leadership positions, including as executive vice-chairlady from November 2019 to July 2020, chief executive officer from May 2015 to November 2019, president from January 2015 to May 2015, chief financial officer from March 2008 to May 2015, chief strategic officer from November 2013 to January 2015 and senior vice president of finance from September 2007 to February 2008. Ms. Zhang also serves as an independent director of LAIX Inc., an artificial intelligence company listed on the New York Stock Exchange (NYSE: LAIX). She served as an independent non-executive director of Genscript Biotech Corporation, a company listed on the Hong Kong Stock Exchange (stock code: 1548), from August 2015 to November 2018, and an independent director of OneSmart Education Group Limited, a company listed on the New York Stock Exchange (NYSE: ONE), from March 2018 to February 2020. Ms. Zhang received a master of business administration degree from Harvard Business School in 2003. Ms. Zhang will bring to our board leadership experience in a consumer-focused industry in China, extensive financial expertise and public company board experience.

ITEM 2. Ratification of Independent Auditor

What am I voting on?

We are asking stockholders to approve a proposal to ratify the appointment of KPMG Huazhen LLP ("***KPMG***") as our independent auditor for 2021. KPMG has served as our independent auditor since 2016.

As part of its audit engagement process, the Audit Committee considers on at least an annual basis the engagement of the independent auditor. In deciding to engage KPMG as the independent auditor for 2021, the Audit Committee considered:

- KPMG's performance in 2020;
- KPMG's independence;
- The depth and expertise of the KPMG's audit team, including its understanding of the Company's industry, business, operations and systems, as well as accounting policies and processes;
- The appropriateness of KPMG's fees;
- A consideration of KPMG's known legal risks and significant proceedings that may impair its ability to perform the audit; and
- KPMG's tenure as the Company's independent auditor.

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

Will a representative of KPMG attend the Annual Meeting?

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

What vote is required to approve this proposal?

Approval of this proposal requires the affirmative vote of a majority of the shares present via webcast or represented by proxy and entitled to vote at the Annual Meeting.

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

What were KPMG's fees for audit and other services for 2020 and 2019?

The following table presents fees for professional services rendered by KPMG for the audit of the Company's annual financial statements, and fees billed for audit-related services, tax services and all other services rendered by KPMG for 2020 and 2019. All KPMG services for 2020 and 2019 were approved in advance by the Audit Committee specifically or pursuant to procedures outlined below.

	2020	2019
Audit fees(1)	$ 3,840,887	$ 2,613,403
Audit-related fees(2)	236,235	12,237
Tax fees(3)	29,253	25,905
All other fees	—	—
TOTAL FEES	$ 4,106,375	$ 2,651,545

(1) Audit fees include fees for the audit of the annual consolidated financial statements included in the Company's annual reports, reviews of the interim condensed consolidated financial statements included in the Company's quarterly reports, and services related to statutory filings or engagements. Audit fees in 2020 also included audit services in connection with our global offering and secondary listing on the HKEX.

(2) Audit-related fees include audits of certain employee benefit plans and agreed-upon procedures. Audit-related fees in 2020 also included the

review of internal controls in connection with our global offering and secondary listing on the HKEX, which are not reported under "Audit fees."

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

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

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

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

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

ITEM 3. Advisory Vote on Named Executive Officer Compensation

What am I voting on?

In accordance with SEC rules, we are asking stockholders to approve, on a non-binding basis, the compensation of the Company's named executive officers as disclosed in this proxy statement. This non-binding advisory vote is also known as the "Say on Pay" vote. This is not a vote on the Company's general compensation policies or the compensation of the Board. At the 2020 annual meeting of the Company's stockholders, approximately 94% of the votes cast by our stockholders were voted in approval of the compensation of our named executive officers as disclosed in the 2020 proxy statement.

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

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

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

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

What vote is required to approve this proposal?

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

What is the recommendation of the Board of Directors?

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

ITEM 4. Approval of an Amendment to the Company's Amended and Restated Certificate of Incorporation to Allow Stockholders Holding 25% of the Company's Outstanding Shares the Right to Call Special Meetings

In connection with the secondary listing of the Company's common stock on the HKEX, the Board agreed to propose an amendment to the Company's Amended and Restated Certificate of Incorporation to allow stockholders holding not less than 25% of the Company's outstanding shares the right to call special meetings of stockholders (the "***Special Meeting Amendment***"), and if the stockholders approve the Special Meeting Amendment, to amend the Company's Bylaws accordingly. The description in this Proposal 4 of the proposed Special Meeting Amendment is qualified in its entirety by and should be read in conjunction with the full text of the Special Meeting Amendment set forth in Article SEVENTH(b) of the proposed Amended and Restated Certificate of Incorporation, which is included as Appendix A to this proxy statement.

If this Proposal 4 is approved by our stockholders, the Board plans to adopt amendments to the Bylaws to implement the special meeting request right. The description in this Proposal 4 of the contemplated amendments to the Bylaws is qualified in its entirety by and should be read in conjunction with the full text of the contemplated amendments, which are set forth in Appendix B to this proxy statement.

Description of the Amendment to the Amended and Restated Certificate of Incorporation

Delaware law does not grant stockholders of a corporation the absolute right to call or to request that the corporation call a special meeting. Rather, it provides that special meetings of stockholders may be called by the board of directors or by such person or persons as may be authorized by the certificate of incorporation or by the bylaws of the corporation. Our Amended and Restated Certificate of Incorporation currently allows special meetings of stockholders to be called only (i) by the Board or (ii) by the Chairman of the Board, the CEO or the Corporate Secretary, in each case with the concurrence of a majority of the Board. If this Proposal 4 is approved by stockholders, special meetings may also be called by the Corporate Secretary upon the written request of stockholders holding at least 25% of our outstanding shares of common stock and who otherwise comply with the requirements set forth in the Bylaws.

The Board believes that a 25% ownership threshold strikes an appropriate balance between giving stockholders the ability to call a special meeting to vote on important matters and protecting the interests of all Yum China stockholders and resources of Yum China. The 25% ownership threshold is also aligned with the interests of stockholders and is consistent with prevailing market practice at large U.S. public companies.

Overview of Related Changes to the Bylaws

If this Proposal 4 is approved by our stockholders, our Board of Directors will adopt amendments to the Bylaws to implement the special meeting request right, which are expected to include provisions setting forth the holding period, procedural and informational requirements described below. Our Board of Directors believes that these requirements are important to protect the long-term interests of the Company and its stockholders by deterring against the abuse of the right to request a special meeting. Among other things, these procedural and informational requirements are designed to ensure that the Company avoids duplicative and unnecessary special meetings addressing matters recently considered by stockholders or that stockholders will soon consider at an upcoming stockholder meeting. In addition, they provide certain protections so that the special meeting right is not abused by short-term stockholders, including those with special interests, and prevent them from triggering the expense and distraction of a special meeting (i) to pursue interests that are not widely shared by our stockholders or (ii) for reasons that may not be in the best interests of Yum China and our stockholders. These provisions are also intended to provide the Company with reasonable information regarding the identity of the requesting stockholders and the matters proposed to be addressed at the special meeting. These requirements include, without limitation:

- The requesting stockholder(s) must have held the requisite amount of the Company's common stock for at least one year prior to requesting the special meeting.

- The requesting stockholder(s) must provide information demonstrating that such stockholders have continuously owned 25% or more of the Company's common stock for at least one year.

- The requesting stockholder(s) must provide information regarding the business proposed to be conducted at the special meeting and information regarding the requesting stockholder(s) that is generally similar to the information required in order for a stockholder to nominate directors or propose business at our annual meetings.

- In order to avoid duplicative or unnecessary special meetings, the provisions provide for certain circumstances where a special meeting request would not be valid. For example, a special meeting cannot be requested beginning 90 days prior to the first anniversary date of the preceding annual meeting of stockholders and ending on the date of the final adjournment of the next annual meeting, or if a substantially similar item was presented at any meeting of stockholders held within 120 days prior to our receipt of the special meeting request or is included in our notice of a stockholder meeting that has been or will be called and will be held within 90 days after receipt of the special meeting request. We are also not required to call a special meeting if the proposed special meeting relates to an item of business that is not a matter on which stockholders are authorized to act under, or that involves a violation of, applicable law.

If the conditions described in the Bylaw amendments are satisfied, we would be required to hold a stockholder-requested special meeting within 90 days after receipt of proper stockholder request for the meeting. Business transacted at the meeting would be limited to the purpose(s) stated in the special meeting request, and any other matters submitted to the meeting by our Board.

After these Bylaw amendments are adopted, these provisions will be subject to further possible amendments or modifications from time to time by the Board in accordance with the amendment provisions of the Bylaws.

What vote is required to approve this proposal?

In order to be approved, this Proposal 4 requires the affirmative vote of the holders of a majority of the shares of our common stock outstanding and entitled to vote on the Special Meeting Amendment. If the Company's stockholders approve this Proposal 4, we intend to promptly file with the Secretary of State of the State of Delaware the Amended and Restated Certificate of Incorporation setting forth the Special Meeting Amendment attached to this proxy statement as Appendix A, and we will adopt amendments to the Bylaws attached to this proxy statement as Appendix B to implement the special meeting request right. If the Company's stockholders do not approve this Proposal 4, stockholders will not have the ability to request that the Company call a special meeting.

What is the recommendation of the Board of Directors?

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

STOCK OWNERSHIP INFORMATION

Who are our largest stockholders?

The following table sets forth the number of shares of Company common stock beneficially owned as of March 29, 2021 by (i) beneficial owners of more than 5% of the outstanding shares of Company common stock, (ii) each of the Company's named executive officers, (iii) each of the Company's directors and director nominees and (iv) all of the Company's directors and executive officers as a group.

In accordance with SEC rules, beneficial ownership includes all shares the stockholder actually owns beneficially or of record, all shares over which the stockholder has or shares voting or dispositive control and all shares the stockholder has the right to acquire within 60 days of March 29, 2021. Except as indicated in the footnotes to the table, the Company believes that the persons named in the table have sole voting and investment power with respect to all shares owned beneficially by them.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Shares[1]
More Than 5% Owners		
Invesco Ltd. 1555 Peachtree Street NE, Suite 1800 Atlanta, GA 30309	41,897,729[2]	10.0%
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	29,685,927[3]	7.1%
Goldman Sachs & Co. LLC 200 West Street New York, NY 10282	23,919,072[4]	5.7%
Named Executive Officers		
Joey Wat	416,251[5]	*
Andy Yeung	7,926[6]	*
Johnson Huang	110,972[7]	*
Danny Tan	108,719[8]	*
Aiken Yuen	32,046[9]	*
Non-Employee Directors and Director Nominees		
Peter A. Bassi	57,588	*
Christian L. Campbell	169,881[10]	*
Ed Yiu-Cheong Chan	27,876	*
Edouard Ettedgui	28,083	*
Cyril Han	12,386	*
Louis T. Hsieh	59,669	*
Fred Hu	33,043	*
Ruby Lu	31,898	*
Zili Shao	27,980	*
William Wang	24,688	*
Min (Jenny) Zhang	—	—
Ownership of all directors and executive officers as a group (20 total)	**1,284,626**[11]	*

Proxy Statement

* Represents less than one percent

(1) Percentage ownership is determined based on a total of 420,467,575 shares of Company common stock outstanding as of March 29, 2021.

(2) Based on Amendment No. 2 to the Schedule 13G filed by Invesco Ltd. on February 12, 2021, which indicated that, as of December 31, 2020, Invesco Ltd. had sole voting power over 41,865,970 shares of Company common stock and sole dispositive power over 41,897,729 shares of Company common stock.

(3) Based on Amendment No. 5 to the Schedule 13G filed by BlackRock, Inc. on March 15, 2021, which indicated that, as of December 31, 2020, BlackRock, Inc. had sole voting power over 25,046,301 shares of Company common stock and sole dispositive power over 29,685,927 shares of Company common stock.

(4) Based on the Schedule 13G filed by The Goldman Sachs Group, Inc. on February 12, 2021, which indicated that, as of December 31, 2020, The Goldman Sachs Group, Inc. had shared voting power over 23,744,213 shares of Company common stock and shared dispositive power over 23,919,072 shares of Company common stock.

(5) Includes 232,021 shares issuable upon the exercise of vested stock appreciation rights ("***SARs***").

(6) Includes 3,016 shares issuable upon the exercise of vested SARs.

(7) Includes 86,688 shares issuable upon the exercise of vested SARs.

(8) Includes 78,264 shares issuable upon the exercise of vested SARs.

(9) Includes 28,388 shares issuable upon the exercise of vested SARs.

(10) Includes 109,924 shares issuable upon the exercise of vested SARs. Also includes 80 shares held by Mr. Campbell's spouse.

(11) Includes 642,409 shares issuable upon the exercise of vested SARs.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis (our "***CD&A***") provides an overview of our executive compensation program for 2020 and our executive compensation philosophies and objectives.

Our named executive officers ("***NEOs***") consist of our Chief Executive Officer, our Chief Financial Officer, and our three other most highly compensated executive officers for 2020.

For 2020, our NEOs were:

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

This CD&A is divided into four sections:

Executive Summary	• Impact of COVID-19 on Our Business • 2020 Business Overview and Performance Highlights • Company Total Shareholder Return Performance • Recent Compensation Highlights • Alignment of Executive Compensation Program with Business Performance • Pay Components • Executive Compensation Practices • Stockholder Engagement
Elements of the Executive Compensation Program	• Base Salary • Annual Performance-Based Cash Bonuses • Long-Term Equity Incentives • 2020 Partner Long-Term Performance-Based Grants • 2021 Chairman Grants • Other Elements of Executive Compensation Program • 2020 NEO Compensation and Performance Summary
How Compensation Decisions Are Made	• Executive Compensation Philosophy • Role of the Compensation Committee • Role of the Independent Consultant • Competitive Market Review

Compensation Policies and Practices	• Compensation Recovery Policy • Equity-Based Awards Grant Policy • Stock Ownership Guidelines • Hedging and Pledging of Company Stock

Executive Summary

Impact of COVID-19 on Our Business

The COVID-19 pandemic has presented unprecedented challenges and has significantly impacted the Company's operations and financial results in 2020. During the 2020 Chinese New Year holiday period, the pandemic led to same-store sales declines of 40-50% compared to the comparable period in 2019. Approximately 35% of stores were closed by mid-February 2020 at the peak of the outbreak, with significant regional differences. For restaurants that remained open, same-store sales declined due to shortened operating hours and reduced traffic, with a significant portion of stores providing only delivery and takeaway services. Operating results improved sequentially in the following three quarters of 2020, although sales continued to be impacted by reduced traffic at transportation and tourist locations, delayed and shortened school holidays, regional resurgences and the other lingering effects of the COVID-19 pandemic.

The management team led the implementation of key actions that we undertook to protect our employees, serve our customers, drive stockholder value-creation and give back to the community in connection with the COVID-19 pandemic, all of which we believe have contributed to our ability to navigate the pandemic to date. These actions included:

- We prioritized the safety and health of our employees and customers. We supported our employees and their families by extending their holiday pay and strengthening their medical insurance coverage. Our Board members and senior executives contributed to a fund to provide additional assistance for frontline employees and their families impacted by COVID-19 as well as other emergency relief.

- A majority of our stores remained open, and our employees and delivery riders continued to provide a critical food service in a time of crisis. For stores that were temporarily closed, we honored our commitments to our employees for scheduled hours, which allowed us to re-open the stores quickly as restrictions eased and when appropriate. Actions such as this allowed us to nimbly respond to changing circumstances and foster goodwill among our employees.

- We leveraged our vast member platform to provide information to, and engage with, members. Our loyalty program continued to grow with over 300 million members at the end of 2020, with member sales accounting for approximately 60% of our system sales in 2020.

- Leveraging our digital pre-order capability and strong value proposition, we captured consumer demand for delivery and takeaway. In late January 2020, we rolled out contactless delivery on our Super App at both KFC and Pizza Hut, which was well received by our customers. Delivery was crucial to driving online orders to our stores, while takeaway offered a safe alternative as dine-in services were limited or closed. Delivery sales grew rapidly and contributed to approximately 30% of Company sales in 2020, compared to approximately 21% in 2019.

- We quickly implemented measures to control costs, including managing inventory in order to reduce write-offs, and dynamically scheduling employees to reflect reduced volumes and increased safety protocols. With the dedication of our employees across dine-in, delivery and takeaway and a strong digital platform, we were quick to adapt and tackle operational challenges, from inventory management to labor productivity improvement.

- We provided over 170,000 free meals to many hospitals and community health centers across China.

- While new store openings were interrupted due to outbreak-related traffic restrictions and reduced availability of construction workers, we overcame many operational challenges to accelerate development schedule in the second half of 2020. The Company opened 1,165 new stores in 2020, marking the highest new store openings in our 33-year history of operating in China.

2020 Business Overview and Performance Highlights

2020 was an unprecedented year that tested our people, systems and capabilities. As noted above, we adjusted our operations and leveraged our digital and delivery resources to capture dine-in and off-premise opportunities. Sales and traffic recovered sequentially since the first quarter of 2020.

Despite the impact of the COVID-19 pandemic on our operations, we had strong execution against our 2020 operating plan and our 2020 performance highlights include the following:

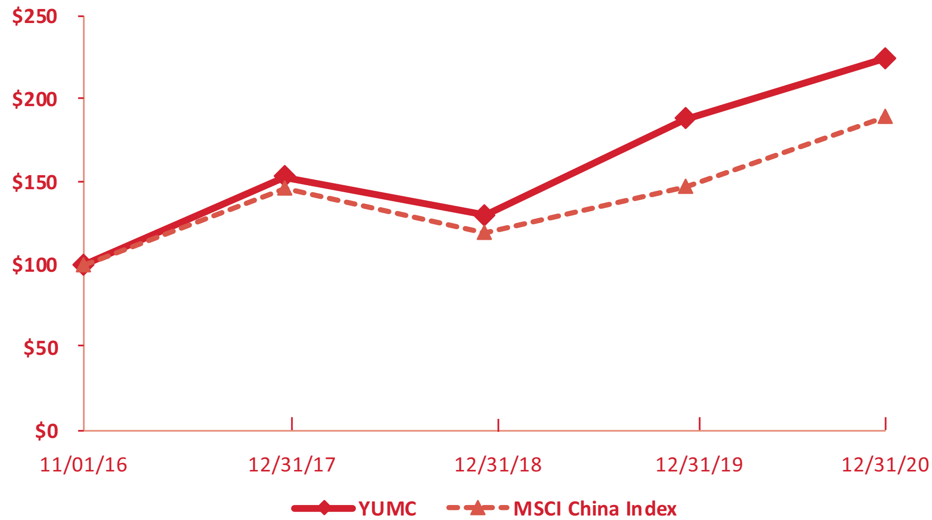
- We delivered a total shareholder return ("***TSR***") in 2020 of 22.74%, calculated based on the 20 trading day average closing price prior to and including the start and end dates of the 2020 calendar year and assuming reinvestment of all dividends;
- Opened 1,165 new stores during the year, bringing total store count to 10,506 across more than 1,500 cities in China;
- Remodeled 939 stores;
- The KFC and Pizza Hut loyalty programs exceeded 300 million members combined, with member sales accounting for approximately 60% of system sales in 2020;
- We completed our secondary listing on the main board of the Hong Kong Stock Exchange and global offering on September 10, 2020, with net proceeds of $2.2 billion and which expanded our stockholder base in China and Asia;
- When responding to the challenges created by the COVID-19 pandemic, our management team undertook immediate and strategic actions to protect our businesses, sales and operations. Despite the significant impact of the COVID-19 pandemic on our operations, we managed to achieve total revenues at a year-over-year decline of 6%, from $8.78 billion in 2019 to $8.26 billion in 2020;
- With the additional measures implemented to control costs, the Company delivered Operating Profit of $961 million, compared to $901 million in 2019, with the year-over-year increase primarily due to the re-measurement gain of the Suzhou KFC acquisition and a year-over-year decline of 20% in Adjusted Operating Profit from $912 million to $732 million;
- Net Income increased 10% to $784 million from $713 million in the prior year, primarily due to the increase in Operating Profit, Adjusted Net Income declined 16% to $615 million from $729 million in the prior year (a 19% decline excluding $75 million and $63 million net gains in 2020 and 2019, respectively, from our equity investment in Meituan); and
- Diluted Earnings Per Common Share increased 6% to $1.95 from $1.84 in the prior year, and Adjusted Diluted Earnings Per Common Share declined 19% to $1.53 from $1.88 in the prior year (a 22% decline excluding the net gains from our equity investment in Meituan in 2020 and 2019).

See the Company's Annual Report on Form 10-K for the year ended December 31, 2020 for a reconciliation of the most directly comparable GAAP financial measures to the non-GAAP adjusted financial measures.

Company Total Shareholder Return Performance

The Board and the Compensation Committee believe that the leadership provided by the Company's management team was key to the Company's execution and strong performance in 2020. In addition, since its spin-off from YUM! Brands, Inc. ("***YUM***") on November 1, 2016, the Company's TSR outperformed that of the MSCI China Index, as shown in the graph below. The graph assumes that the value of the investment in the

Company's common stock and the MSCI China Index on November 1, 2016 was $100 and that all dividends were reinvested, and tracks it each year thereafter on the last day of each calendar year through December 31, 2020. Under such assumption, the Company delivered a TSR of 19.47% in 2020 and 124.55% since its spin-off.



The Company delivered a TSR of 22.74% in 2020, calculated based on the 20 trading day average closing price prior to and including the start and end dates of the 2020 calendar year and assuming reinvestment of all dividends.

Recent Compensation Highlights

As part of its ongoing review of the executive compensation program and after considering market practices, input from the Compensation Committee's compensation consultant and stockholder feedback, the Compensation Committee implemented the changes set forth below to the Company's executive compensation program. Certain of these compensation changes were made in response to the pandemic and its resulting impact.

- ***Voluntary Salary Reductions to Address Impact of COVID-19***—During 2020, our Board members and senior executives, including the NEOs, agreed to voluntarily forgo 10% of their base compensation during the period of April 2020 to December 2020 as contributions to fund additional assistance for frontline employees and their families impacted by COVID-19 as well as other emergency relief.

- ***Supplemented Annual Incentive Program Performance Measures to Address the Impact of COVID-19***—In July 2020, the Compensation Committee considered the impact of the COVID-19 pandemic on the Company's operations and the restaurant industry in general, and the shifting consumer demand from dine-in services to delivery and takeaway services. To further incentivize the capturing of market opportunities in takeaway and delivery, the Compensation Committee evaluated whether any adjustments to the 2020 annual incentive plan were necessary in order to continue to incentivize and reward actions designed to support critical strategies and long-term value creation, including strategies designed to help the Company navigate through the pandemic and emerge as an innovative and strong market leader. On July 16, 2020, the Compensation Committee determined that it was in the best interests of the Company and its stockholders to supplement the annual performance metrics with additional key performance indicators ("***KPIs***") as well as a relative total shareholder return ("***rTSR***") measure. These KPIs were viewed as supportive of the Company's long-term strategy and the creation of stockholder value and the Compensation Committee believed that performance against these measures would reflect the extent of the Company's success in the execution of its operating plan after the outbreak of COVID-19. Specifically, the KPIs measured the Company's ability to grow non-dine-in transactions, capture the market, contain costs, and increase stockholder value.

- ***2021 Chairman Grants***—In February 2021, the Compensation Committee awarded three-year cliff-vesting RSU awards to select Company executive officers and employees. These awards are intended to provide recognition for exemplary individual leadership demonstrated by select executives and employees during 2020, in particular in resolving many novel and complex regulatory issues to execute the Company's secondary listing on the Hong Kong Stock Exchange and navigating the Company through the COVID-19 crisis. While in the midst of the constraints of a global pandemic, we completed the listing on an accelerated timeframe, resulting in the Company being the first Delaware and non-TMT company to qualify as an innovative company and successfully list on the Hong Kong Stock Exchange. The secondary listing on the Hong Kong Stock Exchange raised net proceeds of $2.2 billion and expanded the Company's stockholder base in China and Asia. Among the NEOs, Ms. Wat and Mr. Yeung were selected as recipients of the Chairman long-term equity grant. While these awards were granted in recognition of the significant individual achievements and leadership displayed by recipients during 2020, the Compensation Committee elected to deliver the Chairman grants as RSUs that cliff-vest on the third anniversary of the grant date to incentivize retention over this three-year period.

- ***Incorporate ESG Metrics into 2021 Annual Incentive Program***—Management and the Board have engaged in extensive discussions regarding how to further incentivize and assess performance with respect to specific ESG, Sustainability and Human Capital Management initiatives. Beginning with the 2021 annual incentive program, ESG measures will be incorporated into the KPIs that are used to determine the individual performance factor for each leadership team member. Depending on their roles and responsibilities, leadership team members will be required to reflect ESG in their performance goals, against which the Committee will assess their performance in these areas. As such, the NEOs' performance on ESG-related areas could significantly impact payouts under the Company's 2021 annual incentive program.

- ***Expanded Recipients of Annual PSU Grants***—Since 2018, the CEO's annual equity grant has been delivered in the form of equally weighted PSUs and SARs while the Company's other NEOs generally received an equal mix of SARs and time-based RSUs. Beginning with the 2020 annual equity grants, the PSU program has been expanded to include all of the Company's executive officers, with a 2020 annual equity grant in the form of SARs and PSUs. As a result of this change, the entire portion of the annual equity grant is considered by the Compensation Committee to be performance-based. The 2020 PSUs will vest based only on the Company's achievement of performance goals relating to growth in total revenue adjusted to exclude certain items for the purpose of the Annual PSU Grants ("***Adjusted Total Revenue Growth***") and growth in diluted earnings per common share adjusted to exclude certain items for the purpose of Annual PSU Grants ("***Adjusted Diluted Earnings Per Common Share Growth***"), with a rTSR payout modifier based on our performance against the MSCI China Index. The SARs will realize value only to the extent the Company's stock price increases from the date of grant.

- ***Expanded Performance Metrics Used under the LTI Program***—Beginning with the 2020 PSU grants, vesting will be determined based on three performance measures (Adjusted Total Revenue Growth, Adjusted Diluted Earnings Per Common Share Growth and rTSR) as compared to our prior practice of using rTSR as the sole performance measure under our PSU program. The Compensation Committee believes that this combination of metrics strikes an appropriate balance with respect to incentivizing top-line growth, profitability and stock price performance.

- ***February 2020 Partner PSU Awards***—As further described below in the "2020 Partner Long-Term Performance-Based Grants" section, the Compensation Committee endorsed the design of special PSUs (the "***Partner PSU Awards***"), and approved, on February 7, 2020 a grant of Partner PSU Awards to select employees of the Company and its subsidiaries who were deemed critical to the Company's execution of its strategic operating plan, including each of the NEOs. The Partner PSU Awards will vest only if threshold performance goals relating to stock price, growth in Adjusted Total Revenue Growth, growth in EBITDA adjusted to exclude certain items for the purpose of Partner PSU

Awards ("***Adjusted EBITDA Growth***"), and transformational objectives are achieved over a four-year performance period commencing on January 1, 2020 and ending on December 31, 2023. The Partner PSU Awards also include non-competition and non-solicitation restrictive covenants. The Partner PSU Awards were granted to (i) address increased competition from new retail platform companies in China as well as other startup companies and the existing pay gap between the Company's executive compensation program and the relevant competitive market, (ii) incentivize an entrepreneurial mindset and transformational performance that the Compensation Committee believes will contribute to business growth and exceptional stockholder value creation and (iii) facilitate long-term retention, which has become increasingly important in light of senior leadership changes over the past several years.

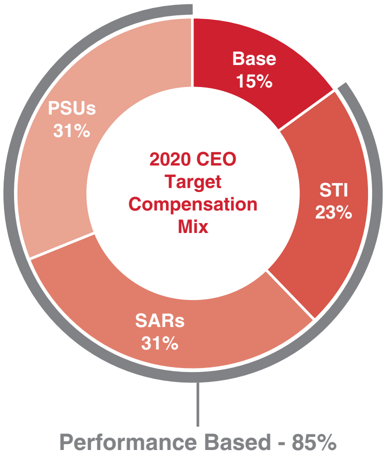
Alignment of Executive Compensation Program with Business Performance

Attracting, motivating and retaining talented executives is critical to our success, and our executive compensation program is designed to support this objective. The Company's executive compensation program is structured to support the long-term sustainable growth of the Company and create value for stockholders by aligning our executives with business performance goals. As such, the Compensation Committee reviews and endorses performance goals that are deemed central to the Company's business performance and stockholder value creation. Specifically, the Compensation Committee has selected performance goals under the Company's 2020 incentive programs that are based on metrics such as operating profit, same store sales, new builds, customer satisfaction, total shareholder return, revenue growth, earnings per share growth, and other key performance indicators described in greater detail below. These performance goals comprise an overall executive compensation program that the Compensation Committee believes appropriately reflects the Company's emphasis on increasing profitability and revenue, enhancing customer experience and creating stockholder value.

While the Compensation Committee's practice has been to establish and communicate goals at the beginning of each year, the Compensation Committee also retains flexibility to modify the Company's executive compensation program when circumstances warrant in order to continue to incentivize actions to drive operational performance and long-term strategies. For 2020, the Compensation Committee incorporated additional performance factors to be considered when determining annual incentive compensation in light of the impact of COVID-19 on the Company and the unprecedented challenging business environment on the economy in general and the restaurant industry in particular that had caused a shifting consumer demand from dine-in services to delivery and takeaway services. To further incentivize the capturing of market opportunities in takeaway and delivery, the Compensation Committee approved additional team performance factors in order to continue to incentivize and reward actions designed to support critical strategies and long-term value creation, including strategies designed to help the Company navigate through the pandemic and emerge as an innovative and strong market leader. The Compensation Committee believes that maintaining this flexibility allows the Company to appropriately reward performance in areas deemed critical to the Company's long-term strategy.

The following chart provides an overview of the 2020 target total direct compensation program applicable to our CEO, consisting of base salary, annual performance-based cash incentives (i.e., short-term incentives, or "***STI***"), and long-term equity incentives ("***LTI***"). As demonstrated by the following chart, 2020 compensation for our CEO was heavily weighted toward variable pay elements, and such elements represented approximately 85% of the 2020 annual target compensation for Ms. Wat (consisting of the target payout opportunity under the cash bonus plan, target annual PSUs and stock-settled SARs). For purposes of this calculation, we have excluded the Partner PSU Awards described below, as such grants do not represent an annual component of the Company's executive compensation program.

2020 CEO Target Compensation Mix



Pay Components

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

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

Executive Compensation Practices

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

Our Executive Compensation Practices

- ✓ We deliver a significant percentage of annual target compensation in the form of variable compensation tied to performance, with 85% of Ms. Wat's 2020 annual target compensation in the form of variable pay elements
- ✓ We deliver a significant portion of total compensation in the form of equity
- ✓ We have multi-year vesting periods for equity awards
- ✓ We perform market comparisons of executive compensation against a relevant peer group, recognizing the different geographic regions where executives are sourced and recruited
- ✓ We use an independent compensation consultant reporting directly to the Compensation Committee
- ✓ We have double-trigger vesting for equity awards in the event of a change in control under our long-term incentive plan
- ✓ We maintain stock ownership guidelines, which includes a retention requirement until the guideline is achieved
- ✓ We maintain a compensation recovery policy
- ✓ We maintain an equity-based awards grant policy specifying pre-determined dates for annual equity grants
- ✓ We hold an annual "say on pay" vote
- ✓ We maintain an annual stockholder engagement process
- ✓ Our Compensation Committee regularly meets in executive session without any members of management present

- X We do not pay dividends or dividend equivalents on PSUs unless and until they vest
- X We do not allow repricing of underwater SARs under our long-term incentive plan without stockholder approval
- X We do not allow hedging, short sales or pledging of our securities
- X We do not allow backdating of SARs

Stockholder Engagement

In its compensation review process, the Compensation Committee focuses on structuring the executive compensation program to serve the interests of our stockholders. In that respect, as part of its ongoing review of our executive compensation program, the Compensation Committee considered the approval by approximately 94% of the votes cast for the Company's "say on pay" vote at our 2020 Annual Meeting of Stockholders. Although the Compensation Committee was pleased with this favorable outcome and interpreted this level of support as an endorsement by our stockholders of our executive compensation program and policies, the Compensation Committee continuously evaluates program design and considers adjustments to the Company's compensation program based on stockholder feedback, market practices and other considerations in order to deliver a program designed to be aligned with our business strategy, the creation of long-term value and our stockholders' interests.

During 2020, the Company reached out to its 25 largest stockholders (which represented more than 50% of the Company's outstanding shares) to solicit feedback on a variety of corporate governance matters (including with respect to executive compensation), and the Company held discussions with all stockholders who accepted an invitation. Management shared this stockholder feedback with the Compensation Committee for its consideration in designing the Company's executive compensation program.

Based on feedback received during the Company's stockholder engagement efforts over the past several years, the Compensation Committee approved the following changes to the Company's executive compensation program:

- ***Expanded Use of PSUs***—Beginning in 2020, the Compensation Committee expanded the PSU program to include all NEOs.

- ***50% of Equity Compensation Delivered as PSUs***—Beginning with the 2020 annual PSU grants, the NEOs' annual equity awards are delivered in the form of PSUs and SARs, each weighted 50%, with the PSUs vesting based on the achievement of pre-established performance goals and the SARs only delivering value if the stock price appreciates from the grant date. By replacing the RSU component with PSUs, the Compensation Committee considers the entire portion of the annual equity grant to be performance-based.

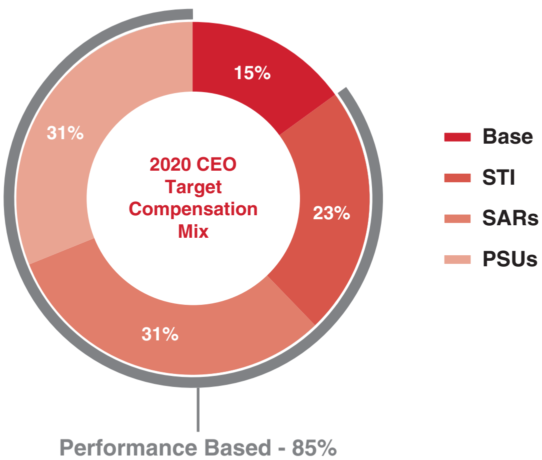
- ***Expanded Performance Metrics Used under the LTI Program***—Beginning with the 2020 PSU grants, vesting will be determined based on three performance measures (Adjusted Total Revenue Growth, Adjusted Diluted Earnings Per Common Share Growth and rTSR) as compared to our prior practice of using rTSR as the sole performance measure under our PSU program.

- ***Incorporate ESG Metrics into 2021 Annual Incentive Program***— As noted above, beginning with the 2021 annual incentive program, ESG measures will be incorporated into the key performance indicators that are used to determine the individual performance factor for each leadership team member.

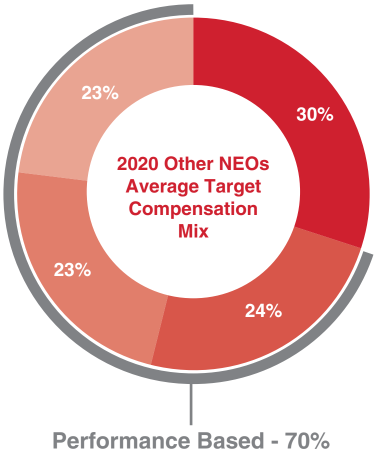
Elements of the Executive Compensation Program

The Company's 2020 executive compensation program consists of three primary pay components: (i) base salary; (ii) annual performance-based cash bonuses (i.e., short-term incentives); and (iii) long-term equity awards. The following charts demonstrate that 2020 annual target compensation for Ms. Wat, our CEO, and our other NEOs was heavily weighted toward variable pay elements. Such elements represented approximately 85% of the 2020 annual target compensation for Ms. Wat and, on average, 70% of the 2020 annual target compensation for our other NEOs (consisting of the target payout opportunity under the cash bonus plan and target annual equity grants and excluding the Partner PSU Awards and all other compensation reported in the 2020 Summary Compensation Table).

2020 CEO Target Compensation Mix



2020 Other NEOs Average Target Compensation Mix



Base Salary

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

As noted above, during 2020, senior executives, including the NEOs, agreed to voluntarily forgo 10% of their base compensation during the period of April 2020 to December 2020 as contributions to fund additional assistance for frontline employees and their families impacted by COVID-19 as well as other emergency relief.

Annual Performance-Based Cash Bonuses

The principal purpose of our cash-based annual incentive program is to motivate and reward short-term team and individual performance. The following is the formula used to calculate 2020 annual performance-based cash bonuses:

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

Team Performance Factors

The Compensation Committee reviewed the performance measures used in the annual incentive plan to assess the program's alignment of the incentive payouts with key performance measures of the Company's overall business and operating segments at the time the measures were set. In reviewing the performance measures used in the annual incentive plan, the Compensation Committee considered the Company's operational plans and strategic priorities, in light of the current and expected future operating environment. The measures described below were selected because they were viewed at the time to be key indicators of the Company's success in executing against its business plans.

The Compensation Committee established the team performance measures, targets and weights for the 2020 bonus program at the beginning of the year after receiving input and recommendations from management and the Compensation Committee's compensation consultant.

The team performance objectives and targets in 2020 were developed through the Company's annual financial planning process, which took into account growth strategies, historical performance, and the existing and expected future operating environment of the Company, including the Company's very strong performance in 2019 which reset the performance baseline to measure 2020 improvement. Because the target setting process begins in late 2019 and is completed in early 2020, these targets were set prior to the full onset of the COVID-19 pandemic.

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

The team performance targets, actual results, weights and overall performance for each measure established at the beginning of 2020 for the Company's NEOs are outlined below. The Company's performance metrics were established as growth rate goals with 2019 as the base line measure. This methodology required performance better than in 2019 in order to receive a target payout. As such, while the Adjusted Operating Profit Growth rate goal was set below last year's growth rate goal, such goal would still require improvement over last year's actual results. This methodology resulted in particularly challenging goals in 2020 given that 2019 was an exceptionally strong performance year and was not impacted by the COVID-19 pandemic.

COMPANY

Team Performance Measures	Target	Actual	Earned As a % of Target	Weighting (at the beginning of 2020)	Final Team Performance
Adjusted Operating Profit Growth*	2.5%	Negative Growth Rate	0	50%	0
Same Store Sales Growth	2.8%	Negative Growth Rate	0	25%	0
System Gross New Builds**	832	1,044	200	15%	30
System Customer Satisfaction***	—	—	198	10%	19.8
FINAL COMPANY TEAM FACTOR					49.8

* Adjusted Operating Profit Growth as a team performance measure is the adjusted operating profit growth, excluding the impact from the acquisition of Huang Ji Huang, the launch of Lavazza and foreign exchange rate. The impact from the acquisition of Huang Ji Huang and the launch of Lavazza were excluded to allow adjusted operating profit growth to be calculated on a comparable basis with 2019. We also excluded the effects of RMB to USD translations (either positive or negative) because we believe that changes in the foreign exchange rate can cause Operating Profit Growth to appear more or less favorable than business results indicate.

** The Compensation Committee excluded Huang Ji Huang and Lavazza, when determining the Company's target and actual results for the System Gross New Builds performance measure because the Lavazza business remains in an initial testing stage, with the Company's annual plans for new builds subject to change, and Huang Ji Huang was acquired after the setting of the performance targets.

*** System Customer Satisfaction is measured based on feedback obtained from customers through online customer surveys. For the Company, this goal is measured on an aggregate basis for all of the Company's brands.

In light of the impact of the COVID-19 pandemic, beginning in May 2020, the Compensation Committee began to re-evaluate the 2020 annual incentive plan and acknowledged that the unprecedented challenging business environment on the economy in general and the restaurant industry in particular had caused a shifting consumer demand from dine-in services to delivery and takeaway services. This shift in services and the impact of the pandemic made the achievement of the team performance targets described above significantly more challenging than was originally intended. To further incentivize the capturing of market opportunities in takeaway and delivery, the Compensation Committee evaluated whether any Team Performance Factor adjustments were necessary to the 2020 annual incentive plan in order to continue to incentivize and reward actions designed to support critical strategies and long-term value creation, including strategies designed to help the Company navigate through the pandemic and emerge as an innovative and strong market leader. Specifically, the Compensation Committee wanted to support the following strategies, which would be critical to the Company's success in successfully responding to the pandemic: implementing end to end digitalization; deepening the B2B ecosystem; accelerating delivery and business-to-business opportunities; and expanding new retail businesses, with the goal of motivating transformative actions to grow the business post-pandemic.

In its review, the Compensation Committee discussed a number of alternatives, including the use of a discretionary year-end adjustment to recognize the strategic achievements and replacing the performance goals entirely. The Compensation Committee determined that it was still appropriate to use the initial goals set at the beginning of the year to determine annual incentive payouts in order to hold management accountable to such goals, but with such goals supplemented with additional KPIs as well as a rTSR measure to help motivate management to focus on critical strategies discussed above that were deemed essential to the Company's ability to operate in the COVID-19 environment and which were deemed supportive of long-term value creation and aligned with stockholder interests. At the time, the Compensation Committee determined to establish a performance framework for evaluating the supplemental KPIs, which included target goals.

After reviewing feedback from management regarding the KPIs as well as input from the Compensation Committee's compensation consultant, in July 2020, the Compensation Committee approved (i) the maintaining of the original KPIs to hold participants accountable to such goals, but with a reduction in the weighting of the team performance factors described above from 100% to 35% of the team factor weighting, (ii) the introduction of six supplemental KPIs, accounting for 35% of the team factor weighting in order to motivate strategic actions designed to help the Company navigate through the pandemic and emerge as an innovative and strong market leader, and (iii) the introduction of a rTSR metric, accounting for the remaining 30% of the team factor weighting, as illustrated in the following graphic:

2020 Adjusted Team Performance Factors and Weighting

A Original Targets

- Adjusted Operating Profit Growth
- Same Store Sales Growth
- System Gross New Builds
- System Customer Satisfaction

Weighted: 35% *

B New KPIs Aligned with New 2020 Strategic Initiatives

- Market penetration
- Digital
- B2B ecosystem
- Year-over-year delivery sales growth of KFC
- Non-dine-in sales contribution of Pizza Hut
- Cost control

Weighted: 35%

C Relative TSR KPI

- Against MSCI China Index
- Target payout at 55th percentile ranking
- Payout capped at target if YUMC's 2020 TSR is negative

Weighted: 30%

* Based on the achievement of the original team performance measures discussed above and the adjusted weighting approved in July 2020, the final team performance factor for the original KPIs was 17.5 (team performance factor of 49.8 multiplied by adjusted weighting).

The Compensation Committee determined that this combination of performance metrics was appropriate to motivate management to focus on the successful execution against the Company's operational plan during this challenging time and, at the same time, were aligned with the Company's strategic priorities in order to position the Company as a strong market leader.

The six new KPIs approved by the Compensation Committee in July 2020 are set forth in the table below. Four of the KPIs (Digital, B2B Ecosystem, KFC Delivery Sales Growth and Pizza Hut Non-Dine-In Transactions) were aligned with the Company's strategy of exploring new growth opportunities given the reduced dine-in traffic during 2020 and were deemed essential to the Company's ability to navigate the COVID-19 pandemic and emerge as a strong market leader. The cost control measure was viewed as a critical measure to protect operating margin and profitability. Finally, the market penetration factor was viewed as a strong factor contributing to the Company's long-term growth. The KPIs were designed to motivate the NEOs to achieve strategically important goals that were also designed to be challenging but attainable with strong management performance.

Key Performance Indicator	Target	Actual	Performance v. Target	Weighting
Market Penetration*	*	*	on target	25%
Digital**	60.0%	60.2%	on target	15%
B2B Ecosystem***	920	1,015	above target	10%
KFC Delivery Sales Growth****	38.0%	41.9%	above target	25%
Pizza Hut Non-Dine-In Transactions*****	42.0%	45.2%	above target	15%
Cost Control******	-10.0%	-12%	above target	10%

* Market Penetration measures the Company's total store count as a percentage of the total store count of the Company and its key peer companies. The Company is not disclosing this goal due to the competitively sensitive nature of such goal. The goal was designed to be challenging but achievable with strong management performance.

** Digital measures digital member sales for the KFC and Pizza Hut brands as a percentage of total system sales.

*** B2B Ecosystem measures the Company's total business-to-business gross merchandising value in millions of U.S. dollars.

**** KFC measures the year-over-year delivery sales growth of our KFC brand.

***** Pizza Hut measures the percentage of sales of our Pizza Hut brand that are attributable to non-dine-in transactions.

****** Cost Control measures actual general and administrative expenses for 2020 compared to the Company's operating plan for the year.

Based on an assessment of performance, the Committee assigned 40 points to the achievement of the six new KPIs. This performance assessment reflected the Company's overall strong performance in these categories in the challenging COVID-19 environment, as evidenced by the on target and above target attainment levels.

In July 2020, the Compensation Committee also determined to include rTSR as a supplemental Team Performance Factor in the adjusted annual incentive program. The Compensation Committee determined that rTSR was viewed as a core measure to evaluate the Company's performance and stockholder value creation. In addition, the use of rTSR was viewed as appropriate in light of the unpredictable operating environment as a result of the COVID-19 pandemic. In making this decision, the Compensation Committee also considered the fact that the rTSR performance measure was in addition to the absolute performance goals, both in terms of the original KPIs and the supplemental business transformation KPIs introduced in July 2020, in order to strike an appropriate balance in 2020 with respect to incentivizing financial, operational, transformational and TSR performance.

The rTSR portion of the annual incentive program was to be paid out based on the Company's 2020 rTSR performance as compared to the constituents of the MSCI China Index as of January 1, 2020 in accordance with the schedule set forth below. Based on the Company's TSR performance of 22.74% and a corresponding percentile ranking at the 57th percentile, the TSR team performance factor was 32 points based on the weighting assigned to the TSR performance metric (TSR vesting level of 106.77% of target multiplied by the TSR weighting).

	YUMC TSR v. Constituents of MSCI CHINA INDEX*				
Percentile Ranking Achieved	<40th	40th	55th	85th	Actual
Proportion of Target Award Vesting	0%	50%	100%	200%	106.77%

* Calculated based on the 20 trading day average closing price prior to and including the start and end dates of the 2020 calendar year and assuming reinvestment of all dividends.

Based on the achievement of the Team Factor performance goals, including the original and supplemental KPIs and the rTSR metric discussed above, the Compensation Committee determined a Team Performance Factor of 90%.

Individual Performance Factors

In February 2020, the Compensation Committee established the performance goals that would be used to determine the Individual Performance Factor for the CEO and provided input on the performance goals set by the CEO for the other NEOs, which would subsequently be used by the CEO to recommend the Individual Performance Factor for each NEO. As part of the Company's annual performance evaluation process, the CEO, after having received input from the Compensation Committee and after consultation with each NEO, establishes that NEO's performance objectives for the coming year, which are ultimately approved by the Compensation Committee. These performance objectives are not intended to be rigid or formulaic, but rather to serve as the framework upon which the CEO evaluates the NEO's overall performance.

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

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

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

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

Based on the foregoing, the Compensation Committee assigned 2020 Individual Performance Factors for the NEOs ranging from 100% to 150%, as described below under "2020 NEO Compensation and Performance Summary."

Long-Term Equity Incentives

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

- Prior year individual and team performance;
- Expected contributions in future years;
- The market value of the executive's role compared with similar roles in the Company's peer group, based on compensation survey data; and
- Achievement of the Company's stock ownership guidelines.

Beginning with the 2020 annual equity grants, the PSU program has been expanded to include each of the NEOs, resulting in 2020 annual equity grants in the form of SARs and PSUs, equally weighted. As a result of this change, the entire portion of the annual equity grant is considered by the Compensation Committee to be performance-based as the PSUs will vest based only on the Company's achievement of performance goals relating to Adjusted Total Revenue Growth and Adjusted Diluted Earnings Per Common Share Growth, with a rTSR payout modifier, and the SARs will realize value only to the extent the Company's stock price increases from the date of grant.

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

The annual PSU grants (the "***Annual PSU Awards***") are designed to incentivize each NEO's performance over the January 1, 2020 to December 31, 2022 performance period and to further align their interests with the interests of our stockholders. The Annual PSU Awards will vest based on the achievement of performance goals relating to Adjusted Total Revenue Growth (with a weighting of 60%), Adjusted Diluted Earnings Per Common Share Growth (with a weighting of 40%), and a rTSR payout modifier. The Adjusted Total Revenue Growth and Adjusted Diluted Earnings Per Share Growth goals use the 2019 results as a baseline from which to measure growth. Given 2019 performance and the Company's operating plan over the three-year performance period, the Adjusted Total Revenue Growth and Adjusted Diluted Earnings Per Share Growth performance goals were designed to be challenging but achievable with strong management performance. If the Company outperformed or underperformed the MCSI China Index by 20%, then the number of PSUs that would vest based on the Company's Adjusted Total Revenue Growth and Adjusted Diluted Earnings Per Common Share Growth performance would be increased or decreased by 20% based on the Company's rTSR. Based on performance, vesting may range from 0% to 240% of the target number of shares subject to the Annual PSU Awards

The PSU program was first used by the Company in 2018 and 2020 represented the final year of the 2018-2020 performance period for Ms. Wat's 2018 PSU award. Ms. Wat served as the Company's CEO for nearly the entire performance period. Under the 2018 PSU program, Ms. Wat's 2018 PSUs would be settled in shares of our common stock based on our rTSR performance over the 2018-2020 performance period relative to the 149 companies in the MSCI International China Index as of January 1, 2018. Under the program, payout would be capped at target if the Company's TSR was negative over the three-year performance period.

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

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

Based on the Company's 44.76% TSR performance during the three-year performance period, the Company ranked at the 79th percentile as compared to the TSR performance of the active constituents of the MSCI International China Index at the end of the performance period, resulting in 181.27% of the target PSUs and dividend equivalents vesting, or 111,489.79 shares of our common stock.

2020 Partner Long-Term Performance-Based Grants

The Compensation Committee supplemented the executive compensation program in 2020 to include an award of PSUs in the form of the Partner PSU Awards to select employees of the Company and its subsidiaries, including the NEOs, who were deemed critical to the Company's execution of its strategic operating plan. The Compensation Committee determined that these Partner PSU Awards were necessary to:

- ***Address Increased Competition and the Existing Pay Gap***—The Company is increasingly competing for executive talent with new food retail platform companies in China as well as other startup companies. The Company, with a proven and successful track record, is prominent in the restaurant and retail industry in China. Competitors in the new retail space, including startups considering United States or overseas listing, are increasingly competing for executive talent with deep knowledge of both the United States and China market practices and regulatory environments. These competitors often offer compensation programs with significant one-time equity grants, which is a common practice in the Chinese executive compensation market. This increased competition and the related new-hire offers of significant one-time equity grants, coupled with an already challenging market for executive talent, has created a pay gap for the Company's leadership team as compared to the competitive market and has posed significant challenges to the Company's ability to retain and motivate the Company's visionary and entrepreneurial leadership team. In 2019, four executive team members left the Company and joined startups or companies with new retail platforms preparing for overseas listing. The Compensation Committee believes that the Partner PSU Awards will help address the existing pay gap, are responsive to the compensation packages offered by this increased competition, including the practice of granting significant one-time equity grants, and are designed to create an entrepreneurial mindset.

- ***Motivate Transformational Performance***—The Compensation Committee determined that the Partner PSU Awards were particularly important as the Company is at a strategic inflection point as it executes on its vision to become the world's most innovative pioneer in the restaurant industry. Specifically, the Partner PSU Awards are designed to support the execution of the Company's multi-year strategic operating plan, focusing on the transformation and reengineering of the Company's strong casual dining businesses and expanding their monetization capabilities by deepening the connections with customers, suppliers, distributors and business partners via the Company's end-to-end digital ecosystem. The Company believes that integrating offline restaurants with online presence and its leadership in digital, data and delivery are crucial to building a transformational business model aimed at meeting the evolving needs of its customers. The Partner PSU Awards have been designed to incentivize an entrepreneurial mindset and transformational performance that the Compensation Committee believes will contribute to business growth and exceptional stockholder value creation.

- ***Encourage Long-Term Retention***—Over the past several years, the Company has experienced a number of senior leadership changes. The Board is committed to building an organization with continuity in its leadership. In designing the award, the Compensation Committee considered, in particular, the challenges associated with attracting and retaining high-quality leadership over the long-term to manage the complexities of the Company's business. The Committee sought to structure an award that would incentivize longer-term retention.

The Compensation Committee evaluated a number of alternatives to structure this special incentive in a way to address the pay gap as compared to the competitive market and to serve as a meaningful incentive for retention and the execution of the Company's strategic operating plan. With advice from the Compensation Committee's independent compensation consultant, the Compensation Committee determined that the best way to retain key leaders for at least the next four years was to provide them with a compelling upside compensation opportunity, beyond the Company's regular long-term incentive programs, that would motivate them to achieve the Company's strategic priorities, including growth of the business and continued execution of innovation and strategy. These grants are intended to provide value to the executive officers only if the Company successfully executes on its strategic operating plan, which the Compensation Committee believes will contribute to a significant increase in stockholder value. Given the unique nature of these grants, the Compensation Committee has committed not to grant similar, special grants of performance units during the performance period, although award recipients will continue to receive equity awards as part of the Company's regular annual program.

Accordingly, in February 2020, the Compensation Committee approved the long-term Partner PSU Awards to the NEOs. On the grant date, Partner PSU Awards with an aggregate grant date fair value, assuming target performance, were granted to the NEOs as follows: Ms. Wat, $12,000,000; Mr. Yeung, $2,000,000; Mr. Huang, $2,000,000; Mr. Tan, $1,500,000; and Mr. Yuen, $1,500,000. With the annualized value of the Partner PSU Awards over their four-year performance period, target total direct compensation for Ms. Wat would be positioned at approximately the median of that of the compensation peers and between approximately the lower quartile and median of the relevant market for the other NEOs.

These long-term Partner PSU Awards will vest only if threshold performance goals relating to stock price (weighted 55%), Adjusted Total Revenue Growth (weighted 20%), Adjusted EBITDA Growth (weighted 15%) and transformational objectives (weighted 10%) are achieved over a four-year performance period, commencing on January 1, 2020 and ending on December 31, 2023. Target vesting with respect to the stock price trigger will not occur unless the Company's stock price is at least $80.00 measured as the trailing 60-day average closing price, with threshold vesting and maximum vesting occurring based on average stock prices equal to $60.00 and $100.00, respectively. The closing stock price on the date of grant was $42.71. The other performance goals were designed to be challenging but achievable with strong execution of the Company's strategic operating plan. Adjusted Total Revenue Growth and Adjusted EBITDA Growth are set at a compound annual growth rate (CAGR) using the 2019 results as the baseline, and are aligned with the Company's long-term growth plan to drive value creation for stockholders. Based on performance, vesting may range from 0% to 200% of the target number of shares subject to the Partner PSU Awards.

In designing the Partner PSU Awards, the Compensation Committee sought to align the interests of the recipients with the Company's stockholders and to incentivize long-term stockholder value creation, resulting in the following features in the Partner PSU Award design:

- *4-Year Performance and Vesting Period*—Even if the performance goals are achieved prior to the expiration of the performance period, the Partner PSU Awards remain subject to service-based vesting through the expiration of the performance period.

- *Challenging Stock Price Targets*—In order to receive target payout for the award, the stock price must almost double from the closing stock price on the date of grant and threshold payout requires a 40% increase in the stock price.
- *Payout Cap to Incentivize Stock Price Performance for Duration of Performance Period*—In order to incentivize stock price performance throughout the entire performance period, payout will be capped at target if the average stock price for the last 60 days of the performance period is below threshold, even if a higher stock price average was attained earlier in the performance period.
- *Termination Provisions*—The awards will generally vest pro rata based on actual performance through the end of the performance period in the event of termination due to death, retirement, or termination without cause. In the event of a termination of employment by the Company without cause or by the award recipient due to good reason within two years following a change in control of the Company, the award will vest based on the greater of actual performance and target.
- *Compensation Recovery Policy*—The Partner PSU Awards are subject to the Company's Compensation Recovery Policy, which allows the Company to recover or cancel performance awards, such as the Partner PSU Awards.
- *Restrictive Covenants*—The Partner PSU Awards also include non-competition and non-solicitation restrictive covenants.

2021 Chairman Grants

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

- *Listing on the Stock Exchange of Hong Kong*—Management assumed a significant amount of additional duties to resolve many novel and complex regulatory issues to execute the Company's secondary listing on the Hong Kong Stock Exchange on an accelerated timeframe in the midst of the global pandemic to become the first Delaware and non-TMT company to qualify as an innovative company and successfully list on the exchange. The secondary listing on the Hong Kong Stock Exchange raised net proceeds of $2.2 billion and expanded the Company's stockholder base in China and Asia.
- *COVID-19 Responsiveness*—The management team led the implementation of key actions that we undertook to protect our employees, serve our customers, drive stockholder value-creation and give back to the community in connection with the COVID-19 pandemic, all of which we believe have contributed to our ability to navigate the pandemic to date. These actions included: implementing stringent health measures at our restaurants and workplaces and providing extended healthcare and other support to employees; keeping majority of our stores open even at the peak of the outbreak; launching contactless delivery, takeaway and corporate catering to support businesses during the time

of reduced dine-in traffic; and addressing operational complexities and challenges in response to changes in regulatory requirements imposed by governmental authorities. Throughout the pandemic, management demonstrated their commitment to our long-term success by taking actions that were key to the Company's ability to effectively navigate the pandemic and emerge even stronger, even if such actions entail certain additional costs. For example, while many of our competitors elected to lay-off employees during the pandemic, we kept employees on our payroll to allow us to recall employees as soon as possible once restrictions eased and it was appropriate to open stores. Actions such as this allowed us to nimbly respond to changing circumstances and foster goodwill among our employees. Sales and traffic recovered sequentially since the first quarter of 2020. The Company also served over 170,000 free meals to 1,450 hospitals and medical centers.

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

The grants to Ms. Wat and Mr. Yeung have a grant date fair value of $2,500,000 and $1,600,000, respectively, and will cliff-vest on the three-year anniversary of the grant date based on continued service through the vesting date. The Compensation Committee elected to deliver the Chairman grants as RSUs rather than as cash bonuses in order to further incentivize the retention of these key contributors over the applicable vesting period and to further align their interests with the interests of our stockholders. While the Compensation Committee considered the strong contributions of these executive officers and employees to the Company's performance during 2020 in determining these awards, these awards are considered 2021 compensation under applicable SEC disclosure rules and will be reflected in the 2021 Summary Compensation Table.

Other Elements of Executive Compensation Program

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

Post-Termination and Change in Control Compensation.

The Company provides certain post-termination and change in control compensation to help accomplish the Company's compensation philosophy of attracting and retaining executive talent. The Compensation Committee believes change in control compensation promotes management independence and helps retain, stabilize, and focus the executive officers in the event of a change in control. Severance benefits are payable only upon a qualifying termination, which is defined as a termination by the Company without cause or by the participant due to good reason, within 24 months following the consummation of a change in control of the Company. In addition, certain post-termination compensation offered by the Company helps protect the Company's interests as such compensation is provided in exchange for the executive officer agreeing to comply with post-termination restrictive covenants. The award agreements with respect to the Company's outstanding equity awards also provide for pro-rata accelerated vesting in the event of certain qualifying terminations of employment. The terms of the Company's post-termination and change in control compensation were determined after considering market data, the input of the compensation consultant and, in some cases, the negotiations of the parties.

Please see the "Potential Payments upon a Termination or a Change in Control" section below for a quantification of the amounts that would be payable to each of the NEOs in connection with a termination of employment or change in control as of December 31, 2020.

Retirement Plans. The Company offers certain executives working in China retirement benefits under the Bai Sheng Restaurants China Holdings Limited Retirement Scheme ("***BSRCHLRS***"). Under the BSRCHLRS, executives may make personal contributions, and the Company provides a company-funded contribution ranging from 5% to 10% of a participating executive's base salary. During 2020, all of our NEOs were participants in the BSRCHLRS, and each NEO received a company-funded contribution.

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

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

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

See the 2020 All Other Compensation Table in this CD&A for details regarding the perquisites received by our NEOs during 2020.

2020 NEO Compensation and Performance Summary

Below is a summary of our NEOs' 2020 compensation—which includes base salary, annual cash bonus, and equity awards—and an overview of our NEOs' 2020 performance relative to the annual performance goals.

Joey Wat
Chief Executive Officer

2020 Performance Summary. The Compensation Committee determined Ms. Wat's performance to be significantly above target with an Individual Performance Factor of 150%. The Compensation Committee recognized that Ms. Wat's foresight and leadership were critical in guiding the Company through the crisis. Ms. Wat directed an immediate strategic response plan to navigate and tackle the emerging challenges of the unprecedented pandemic, such as evolving government regulations, city lockdowns, logistics challenges and potential material write-offs. Ms. Wat demonstrated her strong leadership to transform the Company's business focus to capture new opportunities. With the innovative "contactless delivery" model, she guided KFC and Pizza Hut to drive significant growth from their delivery and non-dine-in businesses. Ms. Wat also supported a flexible operating model to help identify and satisfy customers' unmet needs and fast-tracked the Company's corporate catering business. The Compensation Committee also attached importance to Ms. Wat's building of a B2B ecosystem through collaboration with selected strategic partners, which have demonstrated promising new business opportunities. Under her oversight, the Company's secondary listing on the Hong Kong Stock Exchange was successfully completed in September 2020, raising net proceeds of $2.2 billion and expanding the Company's stockholder base in China and Asia. In the context of a challenging year without precedent, the Company still delivered strong results, including the opening of 1,165 new stores, bringing total store count to over 10,500 across more than 1,500 cities in China, the expansion of the KFC and Pizza Hut loyalty programs, which exceeded 300 million members combined and with member sales accounting for approximately 60% of system sales in 2020, and delivering a total shareholder return for 2020 of 22.74%. Leveraging its digital and delivery capabilities, the Company also continued to capture dine-in and off-premise opportunities. These priorities were aligned with the Company's strategic operating plan in order to position the Company as a strong market leader.

2020 Compensation Decisions. Effective February 1, 2020, the Compensation Committee set Ms. Wat's 2020 compensation levels after considering the advice of its compensation consultant, market practices and Ms. Wat's individual performance.

- *Base Salary*. Ms. Wat's base salary was increased from $1,188,000 to $1,250,000.

- *Annual Incentive Plan Target and Payout Level*. Ms. Wat's annual cash bonus target increased from 130% to 150% of her base salary, resulting in a blended bonus target for the year of $1,853,825. Ms. Wat's 2020 annual cash bonus award payout was $2,502,664, reflecting a total payout of 135% of target based on the Team Performance Factor of 90% and Individual Performance Factor of 150%.

- *Long-Term Incentive Award*. Ms. Wat received an annual long-term incentive award with a grant date fair value of approximately $5,000,000 in 2020, unchanged from 2019 and delivered equally in SARs and PSUs. Ms. Wat also received a Partner PSU Award with an aggregate grant date fair value, assuming target performance, of $12,000,000.

Andy Yeung
Chief Financial Officer

2020 Performance Summary. The Compensation Committee determined Mr. Yeung's performance to be significantly above target with an Individual Performance Factor of 140%. Mr. Yeung was recognized for his significant contribution as the overall leader for the successful completion of Company's secondary listing on the main board of the Hong Kong Stock Exchange in September 2020. He led the team in resolving many novel and complex issues, making Yum China the first Delaware-incorporated company listed in Hong Kong, as well as the first non-TMT company to complete a secondary listing in Hong Kong as an innovative company. This global offering raised net proceeds of $2.2 billion and expanded the Company's stockholder base in China and Asia. Mr. Yeung was instrumental in protecting the Company's liquidity during the peak of the pandemic through a number of proactive measures, including disciplined working capital management as well as thoughtful operating and cash flow models and cash allocation guidelines. To address the sharp drop in sales particularly in the first quarter of 2020, Mr. Yeung quickly developed and orchestrated a Company-wide cost control plan, resulting in 12% in savings in general and administrative expenses for 2020 compared to the Company's operating plan for the year.

2020 Compensation Decisions. Effective February 1, 2020, the Compensation Committee set Mr. Yeung's 2020 compensation levels after considering the advice of its compensation consultant, market practices and Mr. Yeung's strong individual performance since he assumed the role of CFO.

- *Base Salary*. Mr. Yeung's base salary was increased from $650,000 to $700,000.
- *Annual Incentive Plan Target and Payout Level*. Mr. Yeung's annual cash bonus target increased from 75% to 80% of his base salary, resulting in a blended bonus target for the year of $557,036. Mr. Yeung's 2020 annual cash bonus award payout was $701,865, reflecting a total payout of 126% of target based on the Team Performance Factor of 90% and Individual Performance Factor of 140%.
- *Long-Term Incentive Award*. Mr. Yeung received an annual long-term incentive award with a grant date fair value of approximately $1,200,000 in 2020, delivered equally in SARs and PSUs. Mr. Yeung also received a Partner PSU Award with an aggregate grant date fair value, assuming target performance, of $2,000,000.

Johnson Huang
General Manager, KFC

2020 Performance Summary. During 2020, Mr. Huang served as General Manager, KFC. The Compensation Committee determined that Mr. Huang's 2020 performance was on target with an Individual Performance Factor of 100%. As previously disclosed, Mr. Huang took a medical leave of absence during the year and returned from his medical leave in December 2020. Before Mr. Huang's medical leave in 2020, he effectively led the KFC team in keeping most of the stores open even at the peak of the outbreak, while implementing safety measures for employees and customers, and capturing off-premise consumption opportunities leveraging KFC's digital and delivery capabilities. Throughout 2020, Mr. Huang provided direction and guidance to his team in managing various complex issues, including city lockdowns, mandated store closures and potential raw material write-offs.

2020 Compensation Decisions. Effective February 1, 2020, the Compensation Committee set Mr. Huang's 2020 compensation levels after considering the advice of its compensation consultant, market practices, Mr. Huang's individual performance and the strong performance of KFC.

- *Base Salary*. Mr. Huang's base salary was increased from $700,000 to $740,000.

- *Annual Incentive Plan Target and Payout Level.* Mr. Huang's annual cash bonus target was increased from 85% to 90% of his base salary, resulting in a blended bonus target for the year of $662,866. Mr. Huang's 2020 annual cash bonus award payout was $251,021, reflecting a total payout of 38% of target based on the blended Team Performance Factor of 90% and Individual Performance Factor of 100% and pro-rated for his period of service during the year.
- *Long-Term Incentive Award.* Mr. Huang received a long-term incentive award with a grant date fair value of approximately $1,200,000 in 2020, delivered equally in SARs and PSUs, as the compensation review showed that the prior year award size, which had remained unchanged from that of the year before last, was under-competitive. Mr. Huang also received a Partner PSU Award with an aggregate grant date fair value, assuming target performance, of $2,000,000.

Danny Tan
Chief Supply Chain Officer

2020 Performance Summary. The Compensation Committee determined Mr. Tan's performance to be significantly above target with an Individual Performance Factor of 130%. Mr. Tan was recognized for his significant contribution to address the many operational challenges and complexities during the pandemic, and for being a core member of the Company's crisis management team. Under Mr. Tan's leadership, the supply chain team overcame the global shortage at the time to secure adequate protective equipment for employees, and addressed the complex logistics issues due to city lockdowns. Mr. Tan also ensured the continuous compliance with food safety requirements and precautionary measures imposed by different levels of governments across China, both in our stores and with our supply chains. Mr. Tan also successfully led the effort in conjunction of the brand teams in minimizing raw materials write-offs at the outbreak of the pandemic. Mr. Tan led the refinement of the Company's sustainability strategy and roadmap as well as the preparation of its sustainability report. In 2020, Yum China made significant progress on sustainability and was ranked by Dow Jones Sustainability Index (DJSI) as number one out of 30 companies in the global restaurant industry.

2020 Compensation Decisions. Effective February 1, 2020, the Compensation Committee set Mr. Tan's 2020 compensation levels after considering the advice of its compensation consultant, market practices and Mr. Tan's individual performance.

- *Base Salary*. Mr. Tan's base salary was increased from $630,000 to $670,000.
- *Annual Incentive Plan Target and Payout Level.* Mr. Tan's annual cash bonus target was set at 80% of his base salary, unchanged from the prior year, resulting in a bonus target for the year of $536,000. Mr. Tan's 2020 annual cash bonus award payout was $631,166, reflecting a total payout of 118% of target based on the Team Performance Factor of 90% and Individual Performance Factor of 130%.
- *Long-Term Incentive Award.* Mr. Tan received a long-term incentive award with a grant date fair value of approximately $950,000 in 2020, delivered equally in SARs and PSUs, as the compensation review shows that the prior year long-term incentive award, which had remained unchanged from the prior year, was under-competitive. Mr. Tan also received a Partner PSU Award with an aggregate grant date fair value, assuming target performance, of $1,500,000.

Aiken Yuen
Chief People Officer

2020 Performance Summary. The Compensation Committee determined Mr. Yuen's performance to be significantly above target with an Individual Performance Factor of 140%. Mr. Yuen was in charge of coordinating the Company's COVID-19 crisis management team. In such role, Mr. Yuen was responsible for establishing and implementing measures to protect the safety and health of our employees and to comply with the differentiated health tracking and reporting requirements across China. Mr. Yuen also directed timely employee communication to maintain employee morale, engagement and confidence during the unprecedented pandemic. Mr. Yuen helped re-evaluate performance objectives used for eligible employees to establish bonus programs that would serve as a strong incentive device and redirect employees to focus on key performance goals designed to address the particularly challenging environment due to the pandemic and to position the Company as a strong market leader. Mr. Yuen was also a key participant in the Company-wide cost management initiatives and worked with all functions to adjust their people planning, contributing to a 12% savings in general and administrative expenses for 2020 compared to the Company's operating plan for the year.

2020 Compensation Decisions. Effective February 1, 2020, the Compensation Committee set Mr. Yuen's 2020 compensation levels after considering the advice of its compensation consultant, market practices and Mr. Yuen's individual performance.

- *Base Salary*. Mr. Yuen's base salary was increased from $518,000 to $560,000.

- *Annual Incentive Plan Target and Payout Level*. Mr. Yuen's annual cash bonus target remained at 65% of his base salary, resulting in a bonus target for the year of $364,000. Mr. Yuen's 2020 annual cash bonus award payout was $461,599, reflecting a total payout of 127% of target based on the Team Performance Factor of 90% and Individual Performance Factor of 140%.

- *Long-Term Incentive Award*. Mr. Yuen received a long-term incentive award with a grant date fair value of approximately $650,000 in 2020, delivered equally in SARs and PSUs, as the compensation review showed that the prior year annual long-term incentive award was under-competitive. Mr. Yuen also received a Partner PSU Award with an aggregate grant date fair value, assuming target performance, of $1,500,000.

- *Retention Award*. Mr. Yuen received the second of two installment payments of his 2018 cash retention award in the amount of $100,566 in February 2020, based on his continued employment with the Company through the applicable payment date.

How Compensation Decisions Are Made

Executive Compensation Philosophy

A unique feature of the Company is that while it is registered in the U.S. and listed on the NYSE, it operates largely in China. As a result, knowledge and expertise of both U.S. and China regulatory regimes and business practices are required for many of the Company's executive officers.

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

Role of the Compensation Committee

The Compensation Committee reviews and approves goals and objectives relevant to the compensation of the CEO and other executive officers, sets the compensation levels of each of the executive officers, and together with the other independent directors of the Board, approves the compensation of the CEO. The Compensation Committee's responsibilities under its charter are further described in the "Governance of the Company" section of this Proxy Statement. While not members of the Compensation Committee, the CEO, the CFO, the Chief People Officer, and the Chief Legal Officer, when necessary, also attended meetings of the Compensation Committee in 2020 to contribute to and understand the Compensation Committee's oversight of, and decisions relating to, executive compensation. The CEO, the CFO, the Chief People Officer, and the Chief Legal Officer did not attend portions of the meetings relating to their own compensation.

The Compensation Committee regularly conducts executive sessions without management present. The Compensation Committee also engages in an ongoing dialog with its compensation consultant, the CEO, and the Chief People Officer for the evaluation and establishment of the elements of our executive compensation program.

Role of the Independent Consultant

During 2020, the Compensation Committee retained Mercer (Hong Kong) Limited ("***Mercer***") as its independent consultant to advise it on executive compensation matters. Mercer attended Compensation Committee meetings in 2020 and provided advice and guidance to the Compensation Committee on (i) the market competitiveness of the Company's executive pay practices and levels; (ii) the Partner PSU Awards; (iii) trends in the restaurant sector affecting executive compensation, due to the impact of COVID-19, regulatory changes, and institutional shareholder views; (iv) the incorporation of additional performance factors into the 2020 annual incentive plan in light of the impact of COVID-19 on the Company; (v) the 2021 compensation peer group; (vi) the results of equity compensation analytics and award valuations; (vii) 2021 Chairman equity awards for select Company officers; (viii) the Company's stock ownership guidelines and retention policies; and (ix) pay disclosures, including this CD&A. The Compensation Committee has assessed the independence of Mercer pursuant to NYSE rules and conflicts of interest specifically enumerated by the SEC's six factors, and the Company has concluded that Mercer's work for the Compensation Committee does not raise any conflicts of interest. The Compensation Committee annually reviews its relationship with Mercer and determines whether to renew the engagement. Only the Compensation Committee has the right to approve the services to be provided by, or to terminate the services of, its compensation consultant.

Competitive Market Review

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

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

After considering the advice of Mercer, the Compensation Committee approved a revised peer group for evaluating 2020 compensation decisions for the NEOs, which consisted of the companies below. As part of these revisions, the Compensation Committee added Haidilao International Holding Ltd. and McDonald's Corporation to the revised peer group because these companies operate in the same industry and are direct competitors, and removed The Gap, Inc. because it considered specialty retail to be a less relevant industry. Our peer group reflects a median market capitalization of $12.6 billion and median annual revenues of $7.9 billion, both as of June 30, 2020, and consists of 13 U.S. and 14 non-U.S. companies.

Peer Group	
Aramark Corporation	Sodexo S.A.
Chipotle Mexican Grill, Inc.	Starbucks Corporation
Compass Group PLC	Techtronic Industries Company Limited
Conagra Brands, Inc.	The Hershey Company
Darden Restaurants, Inc.	Tingyi (Cayman Islands) Holding Corp.
Domino's Pizza, Inc.	US Foods Holding Corp.
Haidilao International Holdings Ltd.	Want Want China Holdings Limited
Hilton Worldwide Holdings Inc.	WH Group Limited
Hyatt Hotels Corporation	Whitbread PLC
Lenovo Group Limited	Wm Morrison Supermarkets PLC
Link Real Estate Investment Trust	Wynn Macau, Limited
McDonald's Corporation	X5 Retail Group N.V.
Melco International Development	YUM! Brands, Inc.
Restaurant Brands International Inc.	

Data from our 2020 peer group was supplemented by data from companies included in three executive compensation surveys conducted by Mercer in China, Hong Kong, and the U.S., size adjusted to reflect the Company's revenue. During 2020, the Compensation Committee reviewed a report summarizing compensation levels at the 25th, 50th and 75th percentiles of the peer group and, as applicable, of the survey data for positions comparable to our NEOs. The report compared target and actual total cash compensation (base salary and annual incentives) and total direct compensation (base salary plus annual incentives plus long-term incentives) for each of the NEOs against these benchmarks. The Compensation Committee also reviewed detailed tally sheets that captured comprehensive compensation, benefits and stock ownership details.

In December 2020, the Compensation Committee revised the Company's compensation peer group and decided to remove seven (7) companies and add seven (7) companies so as to eliminate casino and gaming as well as food retail companies and to place greater emphasis on internet- and direct marketing retail and packaged food sectors. The Compensation Committee added Beyond Meat, Inc., China Mengniu Dairy, eBay Inc., Expedia Group, Inc., Kellogg Company, Marriott International, Inc., and McCormick & Co. and removed Hyatt Hotels Corporation, Melco International Development Limited, US Foods Holding Corp., Whitbread PLC, Wm Morrison Supermarkets PLC, Wynn Macau, Limited and X5 Retail Group N.V. The new compensation peer group consists of 17 U.S. and 10 non-U.S. peers. These changes were made in order to further align the peer group with the Company's size and operations. This revised peer group will be used to evaluate 2021 compensation decisions. Founder CEOs at Beyond Meat, Inc., Haidilao International Holdings Ltd., and Want Want China Holdings Limited are expected to be excluded from the competitive market review.

Compensation Policies and Practices

Compensation Recovery Policy

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

Equity-Based Awards Grant Policy

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

Stock Ownership Guidelines

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

The chart below shows stock ownership requirements as a multiple of annual base salary for our NEOs. As of the Record Date, each NEO is in compliance with the Company's stock ownership requirements.

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

Hedging and Pledging of Company Stock

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

COMPENSATION COMMITTEE REPORT

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

Based on such review and discussion with management, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Compensation Committee:
Ruby Lu (Chair)
Christian L. Campbell
Edouard Ettedgui
William Wang

2020 SUMMARY COMPENSATION TABLE

The following table and footnotes summarize the total compensation awarded to, earned by or paid to the NEOs for fiscal year 2020 and, to the extent required by SEC executive compensation disclosure rules, fiscal years 2019 and 2018. The Company's NEOs for the 2020 fiscal year are its Chief Executive Officer, Chief Financial Officer, and the three other most highly compensated executive officers.

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)(2)	Stock Awards ($)(3)	Option/ SAR Awards ($)(4)	Non-Equity Incentive Plan Compensation ($)(5)	All Other Compensation ($)(6)	Total ($)(7)
Joey Wat	2020	1,151,083	—	14,500,084	2,500,003	2,502,664	517,744	21,171,578
Chief Executive Officer	2019	1,180,667	—	2,500,031	2,500,012	4,355,208	1,634,083	12,170,001
	2018	1,041,667	—	2,500,032	2,516,929	1,635,469	2,792,279	10,486,376
Andy Yeung	2020	643,333	—	2,600,068	600,013	701,865	149,144	4,694,423
Chief Financial Officer	2019	189,895	—	1,000,030	—	322,407	29,638	1,541,970
Johnson Huang(8)	2020	516,814	—	2,600,068	600,013	251,021	209,701	4,177,617
General Manager, KFC	2019	695,833	—	440,013	440,007	1,682,635	386,480	3,644,968
	2018	644,583	—	440,007	440,011	866,775	453,540	2,844,916
Danny Tan	2020	618,431	—	1,975,039	475,001	631,166	602,913	4,302,550
Chief Supply Chain Officer	2019	624,689	—	380,023	380,013	1,313,575	666,369	3,364,669
	2018	592,990	—	380,015	380,005	554,218	1,338,085	3,245,313
Aiken Yuen	2020	517,413	100,566	1,825,078	325,011	461,599	542,754	3,772,421
Chief People Officer	2019	512,527	99,552	228,005	228,010	882,224	193,251	2,143,569

(1) During 2020, our senior executives, including the NEOs, agreed to voluntarily forgo 10% of their base compensation during the period of April 2020 to December 2020 as contributions to fund additional assistance for front-line employees and their families impacted by COVID-19 as well as other emergency relief. The amounts reported in this column for 2020 reflect the 10% salary reduction.

(2) The amount reported in this column for 2020 represents the second installment of a 2018 cash retention award paid to Mr. Yuen.

(3) The amounts reported in this column for 2020 represent the grant date fair value of the Annual PSU Awards and the Partner PSU Awards granted to each of the NEOs, calculated in accordance with Accounting Standards Codification Topic 718 ("***ASC 718***"), Compensation—Stock Compensation. The aggregate fair value of PSU awards with performance-based conditions are based on the closing price of our Common Stock on the date of grant and the probable satisfaction of the performance conditions for such awards as of the date of grant. The fair value of PSU awards with market–based conditions has been determined based on the outcome of a Monte-Carlo simulation model. The maximum value of the 2020 PSU awards at the grant date assuming that the highest level of performance conditions will be achieved is as follows: Ms. Wat, Annual PSU Award—$5,000,037 and Partner PSU Award—$17,400,104; Mr. Yeung, Annual PSU Award—$1,200,036 and Partner PSU Award—$2,900,078; Mr. Huang, Annual PSU Award—$1,200,036 and Partner PSU Award—$2,900,078; Mr. Tan, Annual PSU Award—$950,000 and Partner PSU Award—$2,175,071; and Mr. Yuen, Annual PSU Award—$650,077 and Partner PSU Award—$2,175,071. See Note 14 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2020 (the "***Audited Financial Statements***") for further discussion of the relevant assumptions used in calculating these amounts.

(4) The amounts reported in this column for 2020 represent the grant date fair value of the annual SAR awards granted to each of the NEOs, calculated in accordance with ASC 718. To compute the grant date fair value of SAR

awards, the Company uses the Black-Scholes model with the following assumptions: risk-free interest rate of 1.5%, expected term based on historical experience of 6.5 years, expected volatility of 33.2%, and expected dividend yield of 1.1%. See Note 14 to the Company's Audited Financial Statements for further discussion of the relevant assumptions used in calculating these amounts.

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

(6) The amounts in this column for 2020 are detailed in the 2020 All Other Compensation Table and footnotes to that table, which follow.

(7) Certain compensation included in the All Other Compensation column was denominated in Chinese Renminbi. Messrs. Tan and Yuen's salaries and 2020 annual incentive and bonus awards were denominated in Hong Kong dollars. Compensation paid in Chinese Renminbi or Hong Kong dollars was converted to U.S. dollars using an exchange rate of 6.8946 and 7.7561, respectively, for disclosure purposes.

(8) During 2020, Mr. Huang took a medical leave of absence from the Company and returned from such leave in December 2020. Mr. Huang's 2020 base salary and annual incentive award compensation is reduced as compared to 2019 due to such medical leave.

2020 ALL OTHER COMPENSATION TABLE

The following table and footnotes summarize the compensation and benefits included under the "All Other Compensation" column in the 2020 Summary Compensation Table that were awarded to, earned by or paid to the Company's NEOs for the fiscal year ended December 31, 2020.

Name	Perquisites and Other Personal Benefits ($)(1)	Tax Reimbursements ($)(2)	Retirement Scheme Contributions ($)(3)	Other ($)(4)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)
Ms. Wat	148,474	176,100	124,608	68,562	517,744
Mr. Yeung	92,004	—	34,826	22,314	149,144
Mr. Huang	113,131	—	73,740	22,830	209,701
Mr. Tan	167,277	333,677	67,044	34,915	602,913
Mr. Yuen	83,679	383,907	55,965	19,203	542,754

(1) Amounts in this column represent: for Ms. Wat, an education reimbursement ($34,340) and housing cost subsidy ($114,134); for Messrs. Yeung, Huang and Yuen, a housing cost subsidy; and for Mr. Tan, an education reimbursement ($43,703) and housing cost subsidy ($123,574). Such amounts are valued based on the amounts paid directly to the NEOs or the service providers, as applicable.

(2) Amounts in this column for Messrs. Tan and Yuen represent legacy tax reimbursements for gains realized in 2020 on equity awards granted before 2018. For Ms. Wat, the amount consists of legacy tax reimbursements for the exercise of Yum! Brands, Inc. SARs.

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

(4) This column reports the total amount of other benefits provided. Such amounts, which are reflective of market practice for similarly situated global executives working in international companies based in mainland China, are paid directly to the NEOs or service providers, as applicable. Other than for certain benefits described below, none of the other benefits individually exceeded the greater of $25,000 or 10% of the total amount of these other benefits and the perquisites and other personal benefits shown in column (b) for the NEO. These other benefits consist of amounts paid for utilities, home leave expenses, transportation allowances, repatriation expense reimbursement and executive physicals. In 2020, Ms. Wat received home leave reimbursement of $29,566.

2020 GRANTS OF PLAN-BASED AWARDS

The following table provides information on the annual incentive program that the Company's NEOs participated in during 2020 and the SARs, Annual PSU Awards and Partner PSU Awards granted under the Company's Long Term Incentive Plan in 2020 to the Company's NEOs.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts Under Equity Incentive Plan Awards						
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option/ SAR Awards: Number of Securities Underlying Options (#)[2]	Exercise or Base Price of Option/ SAR Awards ($/Sh)[3]	Grant Date Fair Value of Stock, Option and SAR Awards ($)[4]
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Ms. Wat . . .	—	—	1,853,825	5,561,475	—	—	—	—	—	—	—
	2/7/2020	—	—	—	—	—	—	—	187,063	$42.71	2,500,003
	2/7/2020[5]	—	—	—	23,213	58,032	139,277	—	—	—	2,500,019
	2/7/2020[6]	—	—	—	156,333	312,666	625,332	—	—	—	12,000,065
Mr. Yeung . .	—	—	557,036	1,671,108	—	—	—	—	—	—	—
	2/7/2020	—	—	—	—	—	—	—	44,896	$42.71	600,013
	2/7/2020[5]	—	—	—	5,571	13,928	33,427	—	—	—	600,018
	2/7/2020[6]	—	—	—	26,056	52,112	104,224	—	—	—	2,000,050
Mr. Huang .	—	—	662,866	1,988,598	—	—	—	—	—	—	—
	2/7/2020	—	—	—	—	—	—	—	44,896	$42.71	600,013
	2/7/2020[5]	—	—	—	5,571	13,928	33,427	—	—	—	600,018
	2/7/2020[6]	—	—	—	26,056	52,112	104,224	—	—	—	2,000,050
Mr. Tan	—	—	536,000	1,608,000	—	—	—	—	—	—	—
	2/7/2020	—	—	—	—	—	—	—	35,542	$42.71	475,001
	2/7/2020[5]	—	—	—	4,410	11,026	26,462	—	—	—	475,000
	2/7/2020[6]	—	—	—	19,542	39,084	78,168	—	—	—	1,500,039
Mr. Yuen . . .	—	—	364,000	1,092,000	—	—	—	—	—	—	—
	2/7/2020	—	—	—	—	—	—	—	24,319	$42.71	325,011
	2/7/2020[5]	—	—	—	3,018	7,545	18,108	—	—	—	325,039
	2/7/2020[6]	—	—	—	19,542	39,084	78,168	—	—	—	1,500,039

(1) Amounts in columns (c), (d) and (e) provide the minimum, target and maximum amounts payable as annual incentive compensation to each NEO based on team and individual performance during 2020. The actual amounts of annual incentive compensation awards paid for 2020 performance are shown in the "Non-Equity Incentive Plan Compensation" column of the 2020 Summary Compensation Table. The performance measurements, performance targets and target bonus percentages are described in the CD&A, beginning under the heading "Annual Performance-Based Cash Bonuses."

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

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

(4) The amounts reported in this column for 2020 represent the grant date fair value of the annual SAR awards, the Annual PSU awards and the Partner PSU Awards granted to each of the NEOs, calculated in accordance with

ASC 718. The aggregate fair value of PSU awards with performance-based conditions are based on the closing price of our Common Stock on the date of grant and the probable satisfaction of the performance conditions as of the date of grant. The fair value of PSU awards with market –based conditions has been determined based on the outcome of a Monte-Carlo simulation model. To compute the grant date fair value of SAR awards, the Company uses the Black-Scholes model with the following assumptions: risk-free interest rate of 1.5%, expected term based on historical experience of 6.5 years, expected volatility of 33.2%, and expected dividend yield of 1.1%. See Note 14 to the Company's Audited Financial Statements for further discussion of the relevant assumptions used in calculating the grant date fair value for the SARs and PSU awards.

(5) Amounts reported in this row and associated with columns (f), (g) and (h) provide the threshold, target and maximum numbers of shares of common stock that may be received by the grantee upon vesting of the Annual PSU Awards. The Annual PSU Awards granted to each of the NEOs on February 7, 2020 will be settled in shares of common stock, subject to the achievement of performance goals relating to Adjusted Total Revenue Growth and Adjusted Diluted Earnings Per Common Share Growth, with a rTSR payout modifier, during a performance period beginning on January 1, 2020 and extending through December 31, 2022, and the NEO's continued employment through the last day of the performance period. Amounts reported in the "Threshold" column represent payout of 40% of target PSUs awarded, and amounts reported in the "Maximum" column represent payout of 240% of the target PSUs awarded.

(6) Amounts reported in this row and associated with columns (f), (g) and (h) provide the threshold, target and maximum numbers of shares of common stock that may be received by the grantee upon vesting of the Partner PSU Awards. The Partner PSU Awards granted to each of the NEOs on February 7, 2020 will be settled in shares of common stock, subject to the achievement of performance goals relating to absolute stock price hurdles, Adjusted Total Revenue Growth, Adjusted EBITDA Growth and transformational objectives during a four-year performance period beginning on January 1, 2020 and ending on December 31, 2023, and the NEO's continued employment through the last day of the performance period. Amounts reported in the "Threshold" column represent payout of 50% of target PSUs awarded, and amounts reported in the "Maximum" column represent payout of 200% of the target PSUs awarded.

OUTSTANDING EQUITY AWARDS AT 2020 YEAR-END

The following table shows the number of Company shares covered by exercisable and unexercisable SARs, unvested RSUs and unvested PSUs held by the Company's NEOs on December 31, 2020. This table excludes any YUM shares received by the NEOs upon conversion of their outstanding YUM equity awards in connection with the spin-off.

		Option/SAR Awards				Stock Awards			
Name	Grant Date	Number of Securities Underlying Unexercised Options/ SARs (#) Exercisable	Number of Securities Underlying Unexercised Options/ SARs (#) Unexercisable[1]	Option/ SAR Exercise Price ($)	Option/ SAR Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)[2]	Market Value of Shares or Units of Stock That Have Not Vested ($)[3]	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)[4]	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)[3]
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Ms. Wat	2/6/2015	27,063	—	22.32	2/6/2025	—	—	—	—
	3/25/2015	32,309	—	23.90	3/25/2025	—	—	—	—
	2/5/2016	41,316	—	21.06	2/5/2026	—	—	—	—
	11/11/2016	48,846	—	26.98	11/11/2026	—	—	—	—
	2/10/2017	83,830	27,944[i]	26.56	2/10/2027	77,532[i]	4,426,314	—	—
	2/9/2018	93,075	93,076[ii]	40.29	2/9/2028	—	—	—	—
	2/7/2019	46,525	139,575[iii]	41.66	2/7/2029	—	—	83,950[i]	4,792,706
	2/7/2020	—	187,063[iv]	42.71	2/7/2030	—	—	23,213[ii]	1,325,219
	2/7/2020	—	—	—	—	—	—	156,333[iii]	8,925,051
Mr. Yeung	11/1/2019	—	—	—	—	16,287[ii]	929,809	—	—
	2/7/2020	—	44,896[iv]	42.71	2/7/2030	—	—	5,571[ii]	318,060
	2/7/2020	—	—	—	—	—	—	26,056[iii]	1,487,537
Mr. Huang	2/8/2012	8,994	—	19.46	2/8/2022	—	—	—	—
	2/6/2013	9,652	—	19.00	2/6/2023	—	—	—	—
	2/5/2014	6,797	—	21.30	2/5/2024	—	—	—	—
	2/5/2014	9,516	—	21.30	2/5/2024	—	—	—	—
	2/6/2015	10,149	—	22.32	2/6/2025	—	—	—	—
	2/5/2016	13,772	—	21.06	2/5/2026	—	—	—	—
	11/11/2016	24,423	—	26.98	11/11/2026	—	—	—	—
	2/10/2017	27,943	9,315[i]	26.56	2/10/2027	—	—	—	—
	11/1/2017	—	—	—	—	20,801[iii]	1,187,549	—	—
	2/9/2018	16,271	16,272[ii]	40.29	2/9/2028	11,217[iv]	640,387	—	—
	2/7/2019	8,188	24,566[iii]	41.66	2/7/2029	10,728[v]	612,436	—	—
	2/7/2020	—	44,896[iv]	42.71	2/7/2030	—	—	5,571[ii]	318,060
	2/7/2020	—	—	—	—	—	—	26,056[iii]	1,487,537
Mr. Tan	2/8/2012	3,679	—	19.46	2/8/2022	—	—	—	—
	2/6/2013	7,556	—	19.00	2/6/2023	—	—	—	—
	2/5/2014	6,797	—	21.30	2/5/2024	—	—	—	—
	2/5/2014	7,681	—	21.30	2/5/2024	—	—	—	—
	2/6/2015	10,149	—	22.32	2/6/2025	—	—	—	—
	2/5/2016	13,772	—	21.06	2/5/2026	—	—	—	—
	11/11/2016	24,423	—	26.98	11/11/2026	—	—	—	—
	2/10/2017	27,943	9,315[i]	26.56	2/10/2027	—	—	—	—
	2/9/2018	14,052	14,053[ii]	40.29	2/9/2028	9,688[iv]	553,075	—	—
	2/7/2019	7,072	21,216[iii]	41.66	2/7/2029	9,265[v]	528,938	—	—
	2/7/2020	—	35,542[iv]	42.71	2/7/2030	—	—	4,410[ii]	251,790
	2/7/2020	—	—	—	—	—	—	19,542[iii]	1,115,653

Name	Grant Date	Option/SAR Awards: Number of Securities Underlying Unexercised Options/ SARs (#) Exercisable	Number of Securities Underlying Unexercised Options/ SARs (#) Unexercisable(1)	Option/ SAR Exercise Price ($)	Option/ SAR Expiration Date	Stock Awards: Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(4)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(3)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Mr. Yuen	2/8/2012	2,290	—	19.46	2/8/2022	—	—	—	—
	2/6/2013	3,591	—	19.00	2/6/2023	—	—	—	—
	2/5/2014	3,602	—	21.30	2/5/2024	—	—	—	—
	2/6/2015	4,060	—	22.32	2/6/2025	—	—	—	—
	2/6/2015	4,060	—	22.32	2/6/2025	—	—	—	—
	2/5/2016	4,614	—	21.06	2/5/2026	—	—	—	—
	2/10/2017	8,523	2,841(i)	26.56	2/10/2027	—	—	—	—
	2/9/2018	8,431	8,432(ii)	40.29	2/9/2028	5,812(iv)	331,833	—	—
	2/7/2019	4,243	12,730(iii)	41.66	2/7/2029	5,559(v)	317,350	—	—
	2/7/2020	—	24,319(iv)	42.71	2/7/2030	—	—	3,018(ii)	172,298
	2/7/2020	—	—	—	—	—	—	19,542(iii)	1,115,653

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

(i) Remainder of the unexercisable award vested on February 10, 2021.

(ii) One-half of the unexercisable award vested or will vest on each of February 9, 2021 and 2022.

(iii) One-third of the unexercisable award vested or will vest on each of February 7, 2021, 2022 and 2023.

(iv) One-fourth of the unexercisable award vested or will vest on each of February 7, 2021, 2022, 2023 and 2024.

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

(i) The RSUs vested in full on February 10, 2021.

(ii) One-half of the RSUs will vest on each of November 1, 2021 and 2022.

(iii) The RSUs will vest in full on November 1, 2021.

(iv) The RSUs vested in full on February 9, 2021.

(v) The RSUs will vest in full on February 7, 2022.

(3) The market value of each award is calculated by multiplying the number of shares covered by the award by $57.09, the closing price of the Company's stock on the NYSE on December 31, 2020.

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

(i) PSU award scheduled to vest based on the Company's rTSR performance against constituents of the MSCI International China Index over the January 1, 2019 through December 31, 2021 performance period, subject to Ms. Wat's continued employment through the last day of the performance period except as otherwise provided for in the underlying equity award agreement upon a qualifying termination of employment. In accordance with SEC disclosure rules, the amount reported for this award is reported assuming maximum payout. Based on performance, these PSUs will vest in full on December 31, 2021.

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

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

2020 OPTION/SAR EXERCISES AND STOCK VESTED

The table below shows the number of Company shares acquired during 2020 upon the exercise of Company SAR awards and the vesting of Company stock awards and before payment of applicable withholding taxes and broker commissions. This table does not include any shares acquired upon the exercise or vesting of outstanding YUM equity awards.

	Option/SAR Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
(a)	(b)	(c)	(d)	(e)
Ms. Wat	—	—	111,489[(1)]	6,364,952[(1)]
Mr. Yeung	—	—	8,005	426,103
Mr. Huang	—	—	—	—
Mr. Tan	5,238	305,584	—	—
Mr. Yuen	2,015	116,713	—	—

(1) This amount includes the number of shares acquired upon the vesting of the 2018 PSU award based on performance during the 2018-2020 performance period, with the value realized on vesting determined based on the closing stock price of our common stock on December 31, 2020.

Nonqualified Deferred Compensation

The Company offers certain executives working in China retirement benefits under the BSRCHLRS. Under this program, executives may make personal contributions and the Company provides a company-funded contribution ranging from 5% to 10% of an executive's base salary. In 2020, Mr. Tan made a personal contribution to the BSRCHLRS equal to 5% of base salary. The Company's contribution for 2020 was equal to 5% of salary for Mr. Yeung and 10% of salary for each of Ms. Wat and Messrs. Huang, Tan and Yuen. Participants may elect a variety of mutual funds in which to invest their account balances under the plan. Additionally, upon termination, participants receive a lump sum equal to a percentage of the Company's contributions, including investment returns. This percentage is based on a vesting schedule that provides participants with a vested 30% interest upon completion of a minimum of three years of service, and an additional 10% vested interest for each additional completed year, up to a maximum of 100%.

2020 NONQUALIFIED DEFERRED COMPENSATION TABLE

Name	Executive Contributions in Last Fiscal Year ($)(1)	Registrant Contributions in Last Fiscal Year ($)(2)	Aggregate Earnings in Last Fiscal Year ($)(3)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year End ($)(4)
	(a)	(b)	(c)	(d)	(e)
Ms. Wat	—	124,608	—	—	444,920(5)
Mr. Yeung	—	34,826	—	—	43,972(5)
Mr. Huang	—	73,740	—	—	422,252(5)
Mr. Tan	33,522	67,044	—	—	392,809(5)
Mr. Yuen	—	55,965	—	—	286,095(5)

(1) Amounts in this column reflect Mr. Tan's personal contributions to the BSRCHLRS with respect to 2020.

(2) Amounts in this column reflect registrant contributions to the BSRCHLRS for the NEOs and which are reflected in the 2020 Summary Compensation Table.

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

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

(5) This amount represents the aggregate amount of Company contributions, excluding investment returns. See note (3) to this table for further information regarding investment returns with respect to the BSRCHLRS. This amount was denominated in Hong Kong dollars and was converted to U.S. dollars using an exchange rate of 7.7561 Hong Kong dollars to U.S. dollars for disclosure purposes.

Potential Payments upon a Termination or a Change in Control

Termination of Employment without a Change in Control. The Company is party to Restrictive Covenant Letter Agreements with each NEO. The Restrictive Covenant Letter Agreements include restrictive covenants relating to non-disclosure, non-competition, non-solicitation and non-disparagement, as well as cooperation in investigations and litigation clauses. As consideration for the restrictive covenants, the Company is obligated to pay an amount equivalent to five times the NEO's average monthly salary upon a termination of employment, other than in the case of a change-in-control-related termination or the NEO's death. Such amount is offset by amounts otherwise owed under any other termination-related agreement between the employee and the Company (including the agreements described below for Ms. Wat and Mr. Yeung) so that there is no duplication of payments.

As of December 31, 2020, Ms. Wat was party to an individual agreement with the Company, which provided that if Ms. Wat's employment had been terminated by the Company without "cause" prior to March 1, 2021, then Ms. Wat would have been entitled to a severance payment ($6,250,000), payable in monthly installments, equal to two times her annual base salary and annual bonus target, subject to Ms. Wat's execution of a post-termination agreement that includes restrictive covenants relating to non-solicitation, non-competition and non-disclosure. The amount payable under Mr. Wat's letter agreement would be offset by the amount paid pursuant to the

Proxy Statement

Restrictive Covenant Letter Agreement. In addition, in the event Ms. Wat became eligible for benefits under the Change in Control Severance Plan, such benefits would be paid in lieu of any amounts under her letter agreement.

As of December 31, 2020, Mr. Yeung was party to a letter agreement with the Company, which provided that if Mr. Yeung's employment is terminated by the Company without "cause," the Company will pay Mr. Yeung a lump sum payment ($289,930) equal to five times his average monthly base salary during the 12-month period prior to termination. In return for this payment, Mr. Yeung must comply with certain non-competition restrictive covenants for one year following his termination of employment. The amount payable under Mr. Yeung's letter agreement would be offset by the amount paid pursuant to the Restrictive Covenant Letter Agreement.

The Company's equity awards provide for pro-rata vesting for terminations due to death, retirement (age 55 and ten years of service or age 65 and five years of service) or involuntary termination by the Company without cause, with PSUs determined based on actual performance. Outstanding equity awards are forfeited upon a termination for cause. If the NEOs' employment had terminated as of December 31, 2020 without cause or due to death, they would have been entitled to pro-rata vesting of their outstanding RSUs, SARs and PSUs as follows: Ms. Wat, $14,323,412; Mr. Yeung, $1,237,918; Mr. Huang, $3,617,420; Mr. Tan, $2,233,000; and Mr. Yuen, $1,514,707, assuming target performance for purposes of this disclosure. As of December 31, 2020, Messrs. Huang and Yuen were retirement eligible.

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

- An amount equal to the "***Severance Multiple***" multiplied by the sum of (x) such NEO's monthly base salary in effect immediately prior to a Qualifying Termination (or prior to any reduction for purposes of good reason) and (y) 1/12 of the greater of such NEO's annual target cash bonus for the calendar year in which the Qualifying Termination occurs and the most recent annual cash bonus paid to the NEO, with such amounts payable over the 12-month period following the NEO's termination of employment. The Severance Multiple is 30 for the CEO and 24 for each of the other participating NEOs. For purposes of the 2020 calculation, the severance calculation for each NEO other than Mr. Yeung was determined based on 2019 actual bonus, while Mr. Yeung's severance calculation was determined based on 2020 target bonus.

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

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

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

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

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

The below table shows the maximum amount of payments and other benefits that each NEO would have received upon a change in control and qualifying termination on December 31, 2020 under the terms of the Change in Control Severance Plan and the Company's equity award agreements, assuming target performance of the PSUs for purposes of this disclosure.

	Wat $	Yeung $	Huang $	Tan $	Yuen $
Cash Severance	14,013,020	2,520,000	4,845,270	3,967,150	2,884,448
Continued Health Insurance Coverage	17,664	10,773	10,773	16,621	12,615
Outplacement Services	25,000	25,000	25,000	25,000	25,000
Accelerated Vesting of SARs	7,260,415	645,604	1,582,414	1,358,934	774,524
Accelerated Vesting of RSUs	4,426,314	929,809	2,440,371	1,082,012	649,184
Accelerated Vesting of PSUs	22,886,919	3,788,245	3,788,245	2,874,455	2,674,774
TOTAL	48,629,332	7,919,432	12,692,074	9,324,172	7,020,545

PAY RATIO DISCLOSURE

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

Identification of Median Pay Employee

The Company employed over 400,000 persons as of year-end 2020, and substantially all of them are based in China. Given the nature of its operations, approximately 90% of the Company's employees were restaurant crewmembers. Approximately 74% of the 366,000 crewmembers worked part-time, approximately 42% of whom attended university at the same time, and were paid on an hourly basis. Our wage rates for crewmembers are determined based on a number of factors, including but not limited to cost of living, labor supply and demand, and competitive market pay rates in the city in which the crewmember works.

We selected December 31, 2020, as the date on which to determine our median employee. For purposes of identifying the median employee from the employee population base (excluding Ms. Wat), we considered the total compensation of all of our employees, as compiled from our payroll records. In addition, we measured compensation for purposes of determining the median employee using December 2020 payroll records. Compensation paid in foreign currencies was converted to U.S. dollars based on a weighted average exchange rate for the relevant period.

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

Ratio

For 2020:

- The annual total compensation of the median employee, as identified above, was $5,507.
- Ms. Wat's annual total compensation, as reported in the Total column of the 2020 Summary Compensation Table, was $21,171,578.
- Based on this information, the ratio of the annual total compensation of Ms. Wat to the median of the annual total compensation of all employees is approximately 3,844 to 1.

Our pay ratio is significantly impacted by the fact that substantially all of our employees are based in China, approximately 74% of our 366,000 crewmembers are employed on a part-time and hourly basis, and typical wages vary between the cities in which our restaurants are located.

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

Alternative Ratio Annualizing Partner PSU Awards

As discussed above in the CD&A during 2020, each of the NEOs, including Ms. Wat, received a Partner PSU Award to address increased competition and the Company's existing pay gap, motivate transformational performance, and encourage long-term retention over the four-year performance period. Under SEC disclosure rules, the entire grant date fair value of the Partner PSU Award is required to be reported in the Summary Compensation Table in the year of grant rather than over the performance period. Accordingly, when calculating the pay ratio disclosed above, Ms. Wat's 2020 Partner PSU Award was included in the calculation at its full grant date fair value.

When determining grant levels, however, the Compensation Committee considers the long-term performance period of the Partner PSU Awards and reviews executive pay on an annualized basis rather than on a grant date basis. The Compensation Committee believes that annualizing Ms. Wat's 2020 Partner PSU Award over the performance period is more representative of how the awards are earned and provides a better comparison to market levels that are reported on an annualized basis. In addition to the required pay ratio calculation above, the Company has calculated an alternative pay ratio using an adjusted amount of compensation for Ms. Wat that annualizes Ms. Wat's 2020 Partner PSU Award by (i) deducting the grant date fair value of the 2020 Partner PSU Award from 2020 compensation and (ii) instead including as 2020 compensation one-fourth of the grant date fair value of the 2020 Partner PSU Award granted to Ms. Wat to reflect the four-year performance period. When calculated in this manner, Ms. Wat's adjusted compensation is $12,171,529 and the ratio of the annual total compensation of Ms. Wat to the median of the annual total compensation of all of the Company's employees other than Ms. Wat is estimated to be 2,210 to 1.

This alternative pay ratio is not a substitute for the pay ratio calculated in accordance with the SEC disclosure rules, but the Company believes it is helpful in fully evaluating the ratio of Ms. Wat's annual total compensation to the median of the annual total compensation of all of the Company's employees.

2020 DIRECTOR COMPENSATION

The Company primarily uses stock-based compensation to attract and retain qualified candidates to serve on the Board. In setting director compensation, the Board considers the significant amount of time that directors expend in fulfilling their duties to the Company as well as the skill level required by the Company of members of the Board. The Nominating and Governance Committee of the Board considers advice from the compensation consultant and reviews and makes recommendations to the Board with respect to the compensation and benefits of directors on an annual basis. The Company's director compensation structure for 2020 is discussed below.

Employee Directors. Employee directors do not receive additional compensation for serving on the Board of Directors. Please see the 2020 Summary Compensation Table for the compensation received by Ms. Wat during 2020 for her role as CEO of the Company.

Non-Employee Directors Retainer. Our non-employee directors were each compensated with an annual retainer equal to $275,000, payable in Company common stock or, if requested by a director, up to one-half in cash. The annual retainers were paid in June 2020 to compensate the directors for their services from June 1, 2020 to May 31, 2021. During 2020, members of our Board agreed to voluntarily forgo 10% of their retainers during the period of June 2020 to December 2020 as contributions to fund additional assistance for frontline employees and their families impacted by COVID-19 as well as other emergency relief, which are reflected in the table disclosing the retainers to non-employee directors during 2020.

Chairman and Committee Chairperson Retainer. In addition to the annual retainer paid to all non-employee directors, the Chairman of the Board (Dr. Hu) received an additional annual cash retainer of $225,000. The Chairperson of the Audit Committee (Mr. Campbell) received an additional $30,000 stock retainer, the Chairperson of the Compensation Committee (Ms. Lu) received an additional $20,000 stock retainer, the Chairperson of the Nominating and Governance Committee (Dr. Hu) received an additional $15,000 stock retainer, and the Chairperson of the Food Safety and Sustainability Committee (Mr. Shao) received an additional $15,000 stock retainer. All such retainers were paid in June 2020 to compensate the directors for their services from June 1, 2020 to May 31, 2021.

The table below summarizes cash compensation earned by and stock retainers granted to each non-employee director during 2020.

Name	Fees Earned or Paid in Cash($)[(1)]	Stock Awards ($)[(2)]	Total ($)
(a)	(b)	(c)	(d)
Peter A. Bassi	129,479	129,479	258,958
Christian L. Campbell	—	288,958	288,958
Ed Yiu-Cheong Chan	—	275,000	275,000
Edouard Ettedgui	—	258,958	258,958
Cyril Han	—	258,958	258,958
Louis T. Hsieh	—	275,000	275,000
Fred Hu	225,000	273,958	498,958
Ruby Lu	—	278,958	278,958
Zili Shao	—	273,958	273,958
William Wang	—	258,958	258,958

Proxy Statement

(1) Represents the portion of the annual retainer that Mr. Bassi elected to receive in cash rather than equity and the annual cash retainer paid to Dr. Hu as Chairman of the Board.

(2) Represents the grant date fair value for annual stock retainer awards granted in 2020. Each director received shares of Company common stock determined by dividing the applicable annual retainer by the closing market price of a share of Company common stock on the date of grant, with any fractional shares paid in cash rather than equity.

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

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes, as of December 31, 2020, the equity compensation we may issue to our directors, officers, employees and other persons under the Company's Long Term Incentive Plan (the "***LTIP***"), which was approved by YUM as the Company's sole stockholder prior to the Company's spin-off from YUM.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	13,627,981[1]	27.49[2]	11,640,269[3]
Equity compensation plans not approved by security holders	—	—	—
TOTAL	13,627,981	27.49	11,640,269

(1) Includes 1,778,057 shares issuable in respect of restricted stock units and performance share units.

(2) Restricted stock units and performance share units do not have an exercise price. Accordingly, this amount represents the weighted-average exercise price of outstanding stock appreciation rights and stock options.

(3) After the spin-off, full value awards granted to the Company's employees under the LTIP, including restricted stock units and performance share units, will reduce the number of shares available for issuance by two shares. Stock appreciation rights granted to the Company's employees under the LTIP will reduce the number of shares available for issuance only by one share.

AUDIT COMMITTEE REPORT

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

The members of the Audit Committee are Christian L. Campbell (Chair), Peter A. Bassi, Ed Yiu-Cheong Chan, Cyril Han and Louis T. Hsieh, each of whom are independent within the meaning of applicable SEC regulations and the listing standards of the NYSE. For additional information about the members of the Audit Committee, see "Governance of the Company—What are the Committees of the Board?"

What document governs the activities of the Audit Committee?

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

What are the responsibilities of the Audit Committee?

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

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

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

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

As part of its oversight of the Company's financial statements, the Audit Committee reviews and discusses with both management and the Company's independent auditor all annual and quarterly financial statements prior to their issuance. During 2020, management advised the Audit Committee that each set of financial statements reviewed had been prepared in accordance with accounting principles generally accepted in the U.S. and reviewed significant accounting and disclosure issues with the Audit Committee. These reviews included discussions with the independent auditor of matters required to be discussed pursuant to applicable requirements of the PCAOB and the SEC, including the quality (not merely the acceptability) of the Company's accounting principles, the reasonableness of significant judgments, the clarity of disclosures in the financial statements, disclosures related to critical accounting practices, and critical audit matters during the course of the audit. The Audit Committee has also discussed with KPMG matters relating to its independence, including a review of audit and non-audit fees and the written disclosures and letter received from KPMG required by applicable requirements of the PCAOB regarding KPMG's communications with the Audit Committee concerning independence. The Audit Committee also considered whether non-audit services provided by the independent auditor are compatible with the independent auditor's independence. The Audit Committee also received regular updates, and written summaries as required by the PCAOB rules (for tax and other services), on the amount of fees and scope of audit, audit-related, tax and other services provided.

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

Has the Audit Committee made a recommendation regarding the audited financial statements for fiscal 2020?

Based on the Audit Committee's discussions with management and the independent auditor and the Audit Committee's review of the representations of management and the report of the independent auditor to the Board of Directors, and subject to the limitations on the Audit Committee's role and responsibilities referred to above and in the Audit Committee Charter, the Audit Committee recommended to the Board of Directors that it include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020 for filing with the SEC.

Who prepared this report?

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

Christian L. Campbell, *Chair*
Peter A. Bassi
Ed Yiu-Cheong Chan
Cyril Han
Louis T. Hsieh

ADDITIONAL INFORMATION

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

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

How may I elect to receive stockholder materials?

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

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

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

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

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

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

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

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

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

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

Under the rules of the SEC, if a stockholder wants us to include a proposal in our proxy statement and proxy card for presentation at the 2022 annual meeting of the Company's stockholders, the proposal must be received by our Corporate Secretary at our principal executive offices, Yum China Holdings, Inc., 7100 Corporate Drive, Plano, Texas 75024, or Yum China Holdings, Inc., Yum China Building, 20 Tian Yao Qiao Road, Shanghai 200030, People's Republic of China, by December 16, 2021. We strongly encourage any stockholder interested in submitting a proposal to contact our Chief Legal Officer in advance of this deadline to discuss the proposal. Stockholders may want to consult knowledgeable counsel with regard to the detailed requirements of applicable securities laws. Submitting a proposal does not guarantee that we will include it in our proxy statement.

In addition, our Bylaws include provisions permitting, subject to certain terms and conditions, stockholders owning at least 3% of the outstanding shares of Company common stock for at least three consecutive years to use our annual meeting proxy statement to nominate a number of director candidates not to exceed 20% of the number of directors in office, subject to reduction in certain circumstances (the "***Proxy Access***"). Pursuant to our Proxy Access bylaw, stockholder nomination of directors to be included in our proxy statement and proxy card for the 2022 annual meeting of the Company's stockholders must be received by our Corporate Secretary no earlier than November 16, 2021 and no later than December 16, 2021. Stockholders must also satisfy the other requirements specified in our Bylaws. You may contact the Company's Corporate Secretary at the addresses mentioned above for a copy of the relevant bylaw provisions regarding the requirements for nominating director candidates pursuant to Proxy Access.

Under our Bylaws, stockholders may also nominate persons for election as directors at an annual meeting or introduce an item of business that is not included in our proxy statement. These procedures provide that nominations for director nominees and/or an item of business to be introduced at an annual meeting must be submitted in writing to our Corporate Secretary at our principal executive offices, and the stockholder submitting any such nomination or item of business must include information set forth in our Bylaws. For the 2022 annual meeting of the Company's stockholders, we must receive the notice of your intention to introduce a nomination or to propose an item of business no earlier than January 28, 2022 and no later than February 27, 2022, unless we hold the 2022 annual meeting before April 28, 2022 or after June 27, 2022, in which case notice must be received no later than 10 days after notice of the date of the annual meeting is mailed or public disclosure of the date of the annual meeting is made, whichever first occurs. Stockholders must also satisfy the other requirements specified in our Bylaws. You may contact the Company's Corporate Secretary at the addresses mentioned above for a copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

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

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

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

APPENDIX A

PROPOSED AMENDMENTS TO ARTICLE SEVENTH(b) OF YUM CHINA'S AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

For the text of the proposed amendments, deletions are indicated by strikeouts and additions are indicated by underlining.

(b) Special meetings of the Stockholders may be called exclusively: (i) by the Board of Directors; ~~or~~ (ii) by the Chairman of the Board of Directors, the Corporation's Chief Executive Officer or the Corporation's Secretary, in each case with the concurrence of a majority of the Board of Directors; or (iii) by the Corporation's Secretary upon written request by Stockholders owning at least twenty five (25) percent of all outstanding shares of common stock of the Corporation as determined pursuant to the Bylaws and who otherwise comply with such other requirements and procedures set forth in the Bylaws, as now or hereinafter in effect. Special meetings of Stockholders shall be held at such places and times as determined by the Board of Directors in its discretion. Advance notice of stockholder nominations for the election of Directors and of business to be brought before any meeting of the Stockholders shall be given in the manner provided in the Bylaws.

APPENDIX B

PROPOSED AMENDMENTS TO YUM CHINA'S AMENDED AND RESTATED BYLAWS

If the stockholders approve Proposal 4 at the Annual Meeting, the Board of Directors currently intends to amend Section 3 and 4 of Article 2 of the Company's Bylaws as follows:

For the text of the proposed amendments, deletions are indicated by strikeouts and additions are indicated by underlining.

Section 3. Special Meetings.

(a) General. Special meetings of the Stockholders may be called exclusively: (~~a~~i) by the Board of Directors; ~~or~~(~~b~~ii) by the Chairman of the Board of Directors, the Corporation's Chief Executive Officer or the Corporation's Secretary, in each case with the concurrence of a majority of the Board of Directors; ~~Special meetings of the Stockholders shall be held at such places, if any, and times as:~~ or (iii) by the Corporation's Secretary upon the written request (each such request, a "Special Meeting Request" and such meeting, a "Stockholder Requested Special Meeting") of Stockholders of record representing not less than 25% of all outstanding shares of common stock, par value $0.01 per share, of the Corporation ("Common Stock") entitled to vote on the matter or matters to be brought before the Stockholder Requested Special Meeting (such percentage, the "Requisite Percentage") that have complied in full with the requirements set forth in this Section 3 and related provisions of these Bylaws; provided, that each such Stockholder of record, or beneficial owner directing such Stockholder of record, must have continuously held all of his, her or its shares included in such aggregate amount constituting the Requisite Percentage for at least one (1) year prior to the date such Special Meeting Request is delivered to the Corporation. Whether the Stockholders have submitted valid Special Meeting Requests representing the Requisite Percentage and complying with the requirements of this Section 3 and related provisions of these Bylaws (a "Valid Special Meeting Request") shall be determined in good faith by the Board of Directors, ~~in its discretion~~which determination shall be conclusive and binding on the Corporation and the Stockholders.

(b) Calling a Stockholder Requested Special Meeting. In order for a Stockholder Requested Special Meeting to be called, the Special Meeting Requests must be signed by Stockholders of record (or their duly authorized agents) representing in the aggregate not less than the Requisite Percentage, and be dated and delivered personally or by registered mail to the Corporation's Secretary at the principal executive offices of the Corporation. Such Special Meeting Requests shall comply with Section 3 and shall include with particularity as to the Stockholders of record submitting the Special Meeting Requests and any Stockholder Associated Persons (as defined below)(collectively, the "Requesting Stockholders"): (i) a statement of the specific purpose or purposes of the Stockholder Requested Special Meeting, including a description of all intended proposals; (ii) except with respect to any Solicited Stockholders (as defined below), all information required to be set forth in a notice under Section 9(a)–(d) of this Article 2; (iii) documentary evidence that the Requisite Percentage of shares have been owned continuously for the one-year period by each Stockholder of record who signed a Special Meeting Request; provided, however, that if any Stockholders of record making a Special Meeting Request are not the beneficial owner of the shares of Common Stock representing the Requisite Percentage, then to be valid, each such Special Meeting Request must also include documentary evidence that the beneficial owners on whose behalf such Special Meeting Request is made beneficially owned, together with the Stockholders of record who are beneficial owners, the Requisite Percentage as of the date on which such Special Meeting Request is delivered to the Corporation's Secretary and for a minimum of one full year prior to the date of such delivery; (iv) an acknowledgment by each Requesting Stockholder and the beneficial owners, if any, on whose behalf a Special Meeting Request is being made (or their respective duly authorized agents) that any reduction in the number of shares owned by such Stockholders as of the date of delivery of the Special Meeting Request and prior to the record date for the proposed Stockholder Requested Special Meeting shall constitute a revocation of the Special Meeting Request to the extent of such reduction, and a commitment to promptly notify the Corporation of any such decrease; and (v) a representation that at least one Requesting Stockholder, or a qualified representative of at least one Requesting Stockholder, intends to appear in person to present each item of business to be brought before the Stockholder Requested Special Meeting. In addition, each Requesting Stockholder that is not a Solicited Stockholder shall promptly provide any other information reasonably requested by the Corporation in connection with the Special Meeting Request. If the Board of Directors determines that the Special Meeting Request complies with the provisions of these Bylaws and that the proposal to be considered or business to be conducted is a proper subject for Stockholder action under applicable law, the Board of Directors shall call and send notice of a Stockholder Requested Special Meeting for the purpose set forth in the Special Meeting Request in accordance with Section 4 of this Article 2.

In addition, to be considered timely, proper and valid, a Special Meeting Request shall further be updated, if necessary, so that the information provided or required to be provided in such Special Meeting Request shall be true and correct (x) as of the record date for the Stockholder Requested Special Meeting and (y) as of the date that is ten (10) business days prior to such meeting or any adjournment or postponement thereof (provided that such update shall be delivered to the Corporation's Secretary at the principal executive offices of the Corporation not later than five (5) business days after the record date for the meeting in the case of the update required to be made pursuant to the foregoing clause (x), and not later than eight (8) business days prior to the date for the meeting or any adjournment or postponement thereof in the case of the update required to be made pursuant to the foregoing clause (y)). For the avoidance of doubt, the obligation to update as set forth in this Section 3 or any other section of these Bylaws shall not limit the Corporation's rights with respect to any deficiencies in any Special Meeting Request or other notice provided by a Stockholder, extend any applicable deadlines hereunder to amend or update any proposal or nomination (or notice thereof) or to submit any new proposal or nomination (or notice thereof), including, without limitation, by changing or adding nominees, matters, business and/or resolutions proposed to be brought before a meeting of the Stockholders.

For the purposes of this Section 3, "Solicited Stockholder" shall mean any Stockholder that has provided a request to call a special meeting in response to a solicitation made pursuant to, and in accordance with, Section 14 of the Exchange Act; and "Stockholder Associated Person" shall mean (A) any person who is a member of a "group" (as such term is used in Rule 13d-5 under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (as so amended and inclusive of such rules and regulations, the "Exchange Act") (or any successor provision at law)) with or otherwise acting in concert with such Stockholder providing notice, (B) any beneficial owner of Common Stock owned of record by such Stockholder (other than a Stockholder that is a depositary), (C) any affiliate or associate of such Stockholder or such Stockholder Associated Person, (D) any participant (as defined in paragraphs (a)(ii)-(vi) of Instruction 3 to Item 4 of Schedule 14A, or any successor instructions) with such Stockholder or other Stockholder Associated Person in respect of any proposals or nominations, as applicable and (E) any person whom the Stockholder proposes to nominate for election or reelection as a director of the Corporation; provided, however, that in no case shall it mean a Solicited Stockholder.

(c) Multiple Special Meeting Requests. In determining whether Special Meeting Requests have met the requirements of this Section 3, multiple Special Meeting Requests will be considered together only if (i) each Special Meeting Request identifies the same or substantially the same purpose or purposes of the Stockholder Requested Special Meeting and the same or substantially the same items of business proposed to be brought before the Stockholder Requested Special Meeting (which, if such purpose is the nominating of a person or persons for election to the Board of Directors, will mean that the exact same person or persons are nominated in each relevant Special Meeting Request), and (ii) such Special Meeting Requests have been dated and delivered to the Corporation's Secretary within sixty (60) days of the delivery to the Corporation's Secretary of the earliest dated Special Meeting Request relating to such item(s) of business. A Requesting Stockholder may revoke a Special Meeting Request at any time by written revocation delivered to the Corporation's Secretary and if, following such revocation, there are outstanding un-revoked requests from Requesting Stockholders holding less than the Requisite Percentage, the Board of Directors may, in its discretion, cancel the Stockholder Requested Special Meeting.

(d) Valid Items of Business for a Stockholder Requested Special Meeting. Notwithstanding the foregoing provisions of this Section 3, a Stockholder Requested Special Meeting shall not be held if (i) the Special Meeting Request does not comply with these Bylaws; (ii) the Special Meeting Request relates to an item of business that is not a proper subject for Stockholder action under applicable law; (iii) the Special Meeting Request is received by the Corporation's Secretary during the period commencing ninety (90) days prior to the anniversary date of the prior year's annual meeting of Stockholders and ending on the date of the final adjournment of the next annual meeting of Stockholders; (iv) an identical or substantially similar item (a "Similar Item") was presented at any meeting of Stockholders held not more than one hundred twenty (120) days prior to receipt by the Corporation's Secretary of the Special Meeting Request; (v) the Board of Directors has called or calls for an annual or special meeting of Stockholders to be held within ninety (90) days after the Corporation's Secretary receives the Special Meeting Request and the Board of Directors determines that the business of such meeting includes (among any other matters properly brought before the annual or special meeting) a Similar Item; or (vi) the Special Meeting Request was made in a manner that involved a violation of Regulation 14A under the Exchange Act, would violate an applicable law or regulation, or would cause the company to violate the law or other applicable law. For purposes of this Section 3(d), the nomination, election or removal of directors shall be deemed a "Similar Item" with respect to all items of business involving the nomination, election or removal of directors, the changing of the size of the Board of Directors and the filling of vacancies and/or newly created directorships resulting from any increase in the authorized number of Directors. If none of the Requesting Stockholders appears or sends a qualified representative to present the item of business submitted by the Stockholder(s) for consideration at the Stockholder Requested Special Meeting, such item of business shall not be submitted for a vote of the Stockholders at such Stockholder Requested Special Meeting, notwithstanding that proxies in respect of such vote may have been received by the Corporation or such Stockholder(s). Whether the Requesting Stockholders have complied with the requirements of this Section 3 and related provisions of these Bylaws shall be determined in good faith by the Board of Directors, which determination shall be exclusive and binding on the Corporation and the Stockholders. Nothing contained in this Section 3 shall prohibit the Board of Directors from submitting matters to Stockholders at any Stockholder Requested Special Meeting.

(e) Holding a Special Meeting. Special meetings of Stockholders shall be held at such date, time and place as may be fixed by the Board of Directors; provided, however, that the date of any Stockholder Requested Special Meeting requested pursuant to a Valid Special Meeting Request shall be not more than ninety (90) days after the date on which a Valid Special Meeting Request has been delivered to the Corporation's Secretary.

Section 4. Notice of Meetings. At least ten (10) and no more than sixty (60) days prior to any annual or special meeting of the Stockholders, the Corporation shall notify the Stockholders of the date, time and place, if any, and means of remote communication, if any, of the meeting and, in the case of a special meeting or where otherwise required by the Corporation's Amended and Restated Certificate of Incorporation (the "Certificate") or by statute, shall briefly describe the purpose or purposes of the meeting. Without limiting the manner by which notice otherwise may be given effectively to Stockholders, notice of meetings may be given to Stockholders by means of electronic transmission in accordance with applicable law. Only business within the purpose or purposes described in the notice may be conducted at a special meeting. Nothing contained herein shall prohibit the Board of Directors from submitting matters to the Stockholders at any Stockholder Requested Special Meeting. Unless otherwise required by the Certificate or by statute, the Corporation shall be required to give notice only to the Stockholders entitled to vote at the meeting. If an annual or special Stockholders' meeting is adjourned to a different date, time or place, notice thereof need not be given if the new date, time or place, if any, and means of remote communication, if any, is announced at the meeting before adjournment. If a new record date for the adjourned meeting is fixed pursuant to Article 7, Section 5 hereof, notice of the adjourned meeting shall be given to persons who are Stockholders as of the new record date. If mailed, notice shall be deemed to be effective when deposited in the United States mail with postage thereon prepaid, correctly addressed to the Stockholder's address shown in the Corporation's current record of Stockholders.

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

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2020**

OR

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

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

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

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ✓ No __
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes __ No ✓
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No __
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ✓ No __
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

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

The aggregate market value of the voting stock (which consists solely of shares of common stock) held by non-affiliates of the registrant as of June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $18.1 billion. Solely for purposes of this disclosure, shares of common stock held by executive officers and directors of the registrant as of such date have been excluded because such persons may be deemed to be affiliates. The number of shares of the registrant's common stock outstanding as of February 22, 2021 was 420,407,023 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the registrant's 2021 annual meeting of stockholders (the "2021 Proxy Statement"), to be filed not later than 120 days after the end of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

PART I

PART II

PART III

PART IV

FORWARD-LOOKING STATEMENTS

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

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements often include words such as "may," "will," "estimate," "intend," "seek," "expect," "project," "anticipate," "believe," "plan," "could," "target," "predict," "likely," "should," "forecast," "outlook," "model," "continue," "ongoing" or other similar terminology. Forward-looking statements are based on our current expectations, estimates, assumptions or projections concerning future results or events, including, without limitation, statements regarding our strategies to expand our restaurant network and restaurant portfolio, our strategies to improve store performance and develop new sources of revenue, plans to invest in technology and high-quality assets, plans to enhance digital and delivery capabilities, franchise development, logistics and supply chain management, anticipated effects of population and macroeconomic trends and the expected impact of the novel coronavirus (COVID-19) outbreaks. Forward-looking statements are neither predictions nor guarantees of future events, circumstances or performance and are inherently subject to known and unknown risks, uncertainties and assumptions that could cause our actual results and events to differ materially from those indicated by those forward-looking statements. We cannot assure you that any of our expectations, estimates, assumptions or projections will be achieved. Factors that could cause actual results and events to differ materially from our expectations, estimates, assumptions or projections include (i) the risks and uncertainties described in the Risk Factors included in Part I, Item 1A of this Form 10-K and (ii) the factors described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this Form 10-K. You should not place undue reliance on forward-looking statements, which speak only as of the date hereof. We disclaim any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances, except as required by law.

PART I

ITEM 1. Business.

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

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

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

General

Yum China is the largest restaurant company in China in terms of 2020 system sales. We had $8.3 billion of revenue in 2020 and over 10,500 restaurants as of December 31, 2020. Our growing restaurant network consists of our flagship KFC and Pizza Hut brands, as well as emerging brands such as Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell and Lavazza.

We have the exclusive right to operate and sublicense the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China, excluding Hong Kong, Macau and Taiwan. We own the intellectual property of the Little Sheep, Huang Ji Huang, COFFii & JOY and East Dawning concepts outright. KFC was the first major global restaurant brand to enter China in 1987. With more than 30 years of operations, we have developed extensive operating experience in the China market. We have since grown to become the largest restaurant company in China in terms of 2020 system sales, with 10,506 restaurants covering over 1,500 cities primarily in China as of December 31, 2020. We believe that there is significant opportunity to expand within China, and we intend to focus our efforts on increasing our geographic footprint in both existing and new cities.

As of December 31, 2020, we owned and operated approximately 84% of our restaurants. Franchisees contribute to our revenues on an ongoing basis through the payment of royalties based on a percentage of sales.

Restaurant Concepts

KFC

KFC is the leading and the largest quick-service restaurant ("QSR") brand in China in terms of 2020 system sales. Founded in Corbin, Kentucky by Colonel Harland D. Sanders in 1939, KFC opened its first restaurant in Beijing, China in 1987. As of December 31, 2020, there were over 7,100 KFC restaurants in over 1,500 cities across China. In addition to Original Recipe® chicken, KFC in China has an extensive menu featuring pork, seafood, rice dishes, fresh vegetables, soups, congee, desserts and many other products, including fresh ground coffee. KFC also seeks to increase revenue from different categories and channels, including delivery, breakfast, coffee, dessert kiosks and ready meals. KFC primarily competes with western QSR brands in China, such as McDonald's, Dicos and Burger King, among which we believe KFC had an approximate two-to-one lead over its nearest competitor in terms of store count as of the end of 2020.

Form 10-K

Pizza Hut

Pizza Hut is the leading and the largest casual dining restaurant ("CDR") brand in China in terms of 2020 system sales and number of restaurants as of December 31, 2020, offering multiple dayparts, including breakfast, lunch, afternoon tea and dinner. Since opening its first China restaurant unit in Beijing in 1990, Pizza Hut has grown rapidly and, as of year-end 2020, there were over 2,300 Pizza Hut restaurants in over 500 cities across China. Pizza Hut has an extensive menu offering a broad variety of pizzas, steaks, pasta, rice dishes and other entrees, appetizers, beverages and desserts. Measured by number of restaurants, we believe Pizza Hut has an approximate six-to-one lead over its nearest CDR competitor in China as of the end of 2020.

Other Concepts

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

Little Sheep. Little Sheep, with its roots in Inner Mongolia, China, specializes in "Hot Pot" cooking, which is very popular in China, particularly during the winter months. Little Sheep had 270 units in both China and international markets as of December 31, 2020. Of these, over 240 units were franchise restaurants.

Huang Ji Huang. In April 2020, we completed the acquisition of a controlling interest in Huang Ji Huang. Founded in 2004, Huang Ji Huang had over 640 units in China and internationally as of December 31, 2020. Huang Ji Huang primarily operates a franchise model and is an industry-leading simmer pot brand.

COFFii & JOY. COFFii & JOY is a coffee concept that we developed in 2018, featuring specialty coffee. As of December 31, 2020, there were 42 COFFii & JOY units in China.

East Dawning. East Dawning is a Chinese food QSR brand located predominantly in transportation hubs. As of December 31, 2020, there were eight East Dawning units across China.

Taco Bell. Taco Bell is the world's leading western QSR brand specializing in Mexican-style food, including tacos, burritos, quesadillas, salads, nachos and similar items. We opened our first Taco Bell restaurant in Shanghai, China, in December 2016. As of December 31, 2020, there were 12 Taco Bell units in China.

Lavazza. In April 2020, we partnered with Lavazza Group, the world-renowned family-owned Italian coffee company, and established a joint venture, to explore and develop the Lavazza coffee shop concept in China. As the first step, we opened our first Lavazza flagship store in Shanghai, China. As of December 31, 2020, there were four Lavazza units in China.

Our Strategies

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

Continue to strategically expand our restaurant network

We are confident in the long-term market opportunities in China. We believe we have the potential to grow to 20,000 restaurants or more in the future and we are currently tracking over 700 cities that do not have a KFC or Pizza Hut restaurant.

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

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

Franchise opportunity. While we continue to focus on the operation of our Company-owned restaurant units, we will also continue to seek franchise opportunities for both our core and emerging brands. As of December 31, 2020, approximately 16% of our restaurants were operated by franchisees. We anticipate high franchisee demand for our brands, supported by strong unit economics, operational consistency and multiple store formats to drive restaurant growth. While the franchise market in China is still in an early stage compared to developed markets, we plan to continue to develop our franchisee-owned store portfolio over time, especially in select channels such as gas stations.

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

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

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

Daypart opportunities. We believe there are significant daypart opportunities across our brands. For example, KFC expanded its freshly ground coffee (“K-coffee”) offerings in the breakfast and afternoon dayparts, and Pizza Hut continued its focus on breakfast and business lunch to further grow same-store sales.

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

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

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

Digital. As of December 31, 2020, our loyalty programs had over 275 million members and over 85 million members for KFC and Pizza Hut, respectively. The programs have been effective in increasing order frequency and enhancing guest loyalty. Digital orders accounted for approximately 80% of KFC and Pizza Hut Company sales in 2020. Going forward, we will continue to leverage our powerful digital ecosystem to drive sales, improve the guest experience and increase operational efficiency.

We plan to increase our investment in end-to-end digitalization, automation and artificial intelligence ("AI"), to more effectively connect online traffic with our offline assets. To improve our operational efficiency, we will focus on connecting our front-end, guest facing systems to back-end systems such as operations and supply chain.

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

Strategically expand our restaurant portfolio

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

We are also building a coffee portfolio to capture today's underserved coffee market in China across different customer segments, including K-Coffee, which offers convenience and value, balanced by our newly incubated concept COFFii & JOY, which offers specialty coffee for coffee lovers while utilizing an asset-light model. In 2020, we sold 140 million cups of coffee at KFC. We have also partnered with a global coffee brand, Lavazza, to explore and develop the Lavazza coffee shop concept in China, which offers premium coffee in an indulgent atmosphere.

Prudently pursue investments in high-quality assets

Our investment strategy primarily focuses on two areas, our brands and the enablers that empower our brands (e.g. ecosystem, technology). We continue to identify and evaluate investment opportunities in high-quality brands to capture growth opportunities. Also, we look for potential opportunities for enabler investments, to build our strategic moat and further enhance our competitiveness. We will prudently assess investment targets based on each candidate's strategic value, brand equity, business scale and financial performance, among other factors.

Operational Management

Restaurant Unit Management

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

Franchise Restaurant Management

As of December 31, 2020, approximately 16% of our restaurants were franchise restaurants. Our franchise program is designed to promote consistency and quality, and we are selective in granting franchises. Franchisees supply capital—initially by paying a franchise fee to us and by purchasing or leasing the land use rights, building, equipment, signs, seating, inventories and supplies; and, over the longer term, by reinvesting in the business through expansion. Franchisees contribute to our revenue through the payment of upfront franchise fees and on-going royalties based on a percentage of sales, and payments for other transactions with us, such as purchases of food and paper products, advertising services and other services.

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

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

Expansion Management

We believe that there are significant opportunities to expand within China and we intend to focus our efforts on increasing our geographic footprint in both existing and new cities. We expanded our restaurant count from 7,176 at the end of 2015 to 10,506 at the end of 2020, representing a CAGR of approximately 8%. We expect to expand our business through organic growth, growth of franchise units and development of new restaurant brands.

Our expansion strategy has been systematically focused on high potential locations across city tiers, including entering new commercial areas within existing cities and new cities. Each potential restaurant site is assessed and evaluated individually based on its site potential, potential financial return and potential impact to nearby stores. We take into account factors such as economic and demographic conditions and prospects, consumption patterns, GDP per capita and population density of the local community, presence of activity centers such as shopping complexes, schools and residential areas that generate guest traffic, and the presence of other restaurants in the vicinity during our site selection process. We also consider the guest traffic and distance from the existing restaurants under the same brand to reduce sales transfer that may occur from existing restaurant units. The average capital spending for each new KFC and Pizza Hut restaurant unit in 2020 was relatively stable at approximately RMB2 to 3 million.

Supply Chain Management

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

The Company partners with over 800 independent suppliers, which are mostly China-based. We implement a strict supplier qualification process that includes supplier compliance checks and on-site audits to ensure the supplier meets our food safety and quality control standards. We have formulated detailed specifications for food ingredients and consumables we procure. We believe supply chain management is crucial to the sustainability of our business and we are dedicated to applying digitalization and automation technologies in our supply chain management system. Our in-house and integrated supply chain management system employs more than 1,300 staff in food safety, quality assurance, procurement management, logistics, engineering and supply chain system.

In addition, we operate a tailor-made, world-class logistics management system, which is capable of accommodating large scale, wide coverage and advanced information dissemination as well as fast store expansions. The Company, along with multiple independently owned and operated distributors, utilizes 25 logistics centers and seven consolidation centers to distribute supplies to Company-owned and franchised stores, as well as to third-party customers. In addition, the Company owns seasoning facilities for its Chinese dining business unit, which manufacture and sell seasoning products to Huang Ji Huang and Little Sheep franchisees. The Company's supply chain strategy of working with multiple suppliers, as well as building a vast logistics network, allows for continuous supply of products in the event that supply from an individual supplier or logistics center becomes unfeasible.

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

Food Safety and Quality Control

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

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

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

Innovation and Digitalization

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

We believe we are a pioneer and first-mover among restaurant brands in China in utilizing and investing in emerging digital technologies to modernize our business operations and accelerate our growth, which is critical to empower and maintain our competitive advantage in China. In recent years, we have stepped up our investment in digitalization, embarking on end-to-end digitalization of our business operations.

Dining Experience

Menu Innovations

Offering appealing, tasty and convenient food at great prices is our value proposition. We had a dedicated food innovation team primarily focus on the development and innovation of new recipes and improvement of existing products. In 2020, we launched around 500 new and improved products across all of our restaurant brands. Leveraging our local know-how and the wealth of consumer taste preference data accumulated, we have become a pioneer in food innovation, pushing the boundaries of QSR and CDR dining in China.

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

Ordering

KFC rolled out mobile pre-ordering service on a nationwide basis in December 2016, which allows guests to order online and pick up in store. Pizza Hut launched table-side mobile ordering in 2018, which enables guests to order by scanning a QR code with their mobile phone. Now mobile ordering is a standard feature of our super Apps including the KFC Super App and the Pizza Hut Super App. Guests can also order through our proprietary mini programs embedded in WeChat. In addition, in certain commercial districts, in-store kiosks provide guests with convenient and fast digital ordering options. In January 2019, KFC introduced AI-enabled menus to recommend personalized menu items and discounts to guests based on their ordering patterns and taste preferences. In 2020, digital orders accounted for approximately 80% of KFC and Pizza Hut Company sales, which we believe was partially influenced by the COVID-19 pandemic.

Payment

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

Through collaboration with Alipay, we were the first in the world to commercially implement facial recognition technologies for payment by introducing "Smile to Pay" in Hangzhou's KFC restaurant in September 2017. "Smile to Pay" enables our guests to make payments for their orders at digital kiosks without having to reach for their wallets. Following positive feedback, we have since implemented "Smile to Pay" in approximately 1,000 KFC restaurants across China as of December 31, 2020.

Guest loyalty and interaction

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

Member engagement is fostered through our Super Apps and WeChat mini programs, as these form the primary platform for consumers to sign up for our membership programs. Additionally, we continue to monetize our membership base by introducing privilege membership subscription programs that increase frequency and spend at our brands. These monetization opportunities rely heavily on our ability to engage with our users through our Super Apps. As of December 31, 2020, KFC and Pizza Hut loyalty programs exceeded 300 million members combined. Member sales increased to approximately 60% of system sales in 2020. We believe that creative and engaging interactions with our guests can help us enhance the guest experience and guest loyalty, which will ultimately lead to increased sales.

Delivery

We believe that food delivery is a significant growth driver in China. We were one of the first restaurant businesses in China to offer delivery services. As early as 2010, KFC established its own delivery platform and started to accept delivery orders placed on its mobile applications. Starting from 2015, we were also one of the first to partner with O2O aggregators to further generate delivery traffic. In addition to ordering through aggregators' platforms, guests may also place delivery orders through the KFC and Pizza Hut Super Apps. The ability to generate orders from our own channels allows us to be well-positioned in commercial collaborations with aggregators, and manage costs and commissions in a more competitive manner. In 2020, approximately 40% of KFC delivery sales, and approximately 20% of Pizza Hut delivery sales, were generated from our own channels.

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

Restaurant Format Innovation

To supplement our growth, we are focusing on developing new restaurant formats and upgrading existing restaurants. We have developed multiple restaurant formats for KFC and Pizza Hut to meet different guest needs. For example, we are opening more small-format restaurant units which will provide us the flexibility for further market penetration. We are also reshaping certain restaurants by providing fewer seats and focusing more on delivery orders. In addition, we continuously look for ways to improve the guest experience. We have accelerated restaurant upgrades and remodeling to implement the latest technology, equipment and infrastructure and improve the dining experience. Over 75% of KFC restaurant units as of December 31, 2020 were remodeled or built in the past five years. Pizza Hut is also well-regarded for offering consumers a contemporary casual dining setting. In 2020, over 15% of Pizza Hut units were remodeled. Our brands also look to improve efficiency to drive sales growth. For example, we have simplified our menu items and fine-tuned our digital menu boards and in-store self-service order kiosks.

Operational Efficiency

We have made significant investments to establish an efficient technological infrastructure, which serves as the foundation of our intelligent restaurant network management and facilitates efficient and innovative restaurant operation for all restaurants across our brands. We have adopted AI-enabled technology to analyze and forecast transaction volume so that we can improve labor scheduling and inventory management. Moreover, managers and staff are also equipped with self-designed "smart watches", and in some pilot stores, "smart glasses", to closely monitor the real-time ordering and serving procedures of the restaurants and make timely staffing adjustments, which substantially improves management efficiency and guest satisfaction. Our in-house and integrated supply chain management system and logistics management system are driven by innovative digitalization and automation technologies.

Unconsolidated Affiliates

As of year-end 2020, approximately 6% of our system wide restaurants were operated by unconsolidated affiliates. These restaurants were primarily KFC restaurants. We hold a 47% noncontrolling ownership in Hangzhou KFC, which operated approximately 9% of the total KFC restaurants as of year-end 2020. In addition, all of our four Lavazza units as of year-end 2020 were operated by a joint venture.

Intellectual Property

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

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

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

Competition

Data from the National Bureau of Statistics of China indicates that sales in the consumer food service market in China totaled approximately $606 billion in 2020. Industry conditions vary by region, with local Chinese restaurants and western chains present, but we possess the largest market share (as measured by system sales). While branded QSR units per million population in China are well below that of the United States, competition in China is increasing. We compete with respect to food taste, quality, value, service, convenience, restaurant location and concept, including delivery and shared kitchens. The restaurant business is often affected by changes in consumer tastes; national, regional or local economic conditions; demographic trends; traffic patterns; the type, number and location of competing restaurants; and disposable income. We compete not only for consumers but also for management and hourly personnel and suitable restaurant sites. KFC's competitors in China are primarily western QSR brands such as McDonald's, Dicos and Burger King, and to a lesser extent, domestic QSR brands in China. Pizza Hut primarily competes with western CDR brands, including Domino's and Papa John's, as well as other domestic CDR brands in China.

Seasonality

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

Human Capital Management

As of December 31, 2020, the Company employed over 400,000 employees, including approximately 136,000 full-time employees and approximately 270,000 part-time restaurant crew members. Our full-time employees primarily included 33,600 restaurant management team members and 96,000 restaurant crew members.

The Company is committed to the "People First" philosophy by creating a "Fair, Care and Pride" workplace for its employees. With this philosophy, the Company offers a safe, inclusive working environment, equal pay for equal work and flexible working hours, systematic training and development programs and competitive compensation and benefits to its employees.

Diversity and Equal Opportunity

We are committed to creating an inclusive and non-discriminatory working environment to provide equal opportunities for employees, where differences are understood, appreciated and encouraged. Every employee, without regard to race, religion, color, age, gender or gender identity, disability, military or veteran status, sexual orientation, citizenship or national origin, is offered the opportunity to unleash their full potential on the Company's diverse platform.

The Company is committed to gender equality by providing fair recruitment, training and promotion opportunities for all employees. By the end of 2020, Yum China employed over 260,000 women, representing 64% of its total workforce. The Company continues to make progress in nurturing talented leaders across all management levels. By the end of 2020, women holding director and above positions represented 54% of the senior management workforce. In January 2021, the Company was named to the Bloomberg Gender Equality Index for the third consecutive year, and was the only company from mainland China included in this index in 2021.

The Company also strives to create a barrier-free and friendly workplace for people with disabilities. In 2012, KFC launched the "Angel Restaurant" project to provide equal employment opportunities for people with disabilities. Operations processes, restaurant equipment and training programs are modified to best assist the employees at these "Angel Restaurants". By the end of 2020, KFC had 24 Angel Restaurants, bringing in more than 200 employees with special needs.

Training, Development and Employability

The Company actively invests in employee training and development and continuously nurtures top talent through a systematic training program. New employees joining the Company every year are required to complete structured training programs tailored to their roles and responsibilities. For example, KFC Business School and Pizza Hut Management Institute provide systematic development programs for new college graduates, allowing them to advance from entry-level jobs to RGMs in less than two years. These programs enable new employees to acquire the operational, financial and managerial knowledge required for operating a restaurant and, in the long run, lay a solid foundation for their future success. In addition, the Company offers comprehensive training programs with diversified courses for employees at every stage of their professional development. In 2020, the number of total training hours exceeded 8.6 million.

Our training programs have tapped into the digitalization trends through the mobile learning platform, with the goal of equipping employees with the knowledge and skills necessary in the digital era and enabling their sustainable career development. The Company encourages continuous education by rolling out a continuing education program to help employees obtain college degrees.

The Company provides a clear career path and plan for development, which are further supported by the promotion-from-within policy for operational roles. The Company also encourages every manager to coach their subordinates to succeed.

Total Rewards

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

The Company has launched equity incentive schemes such as CEO Awards and RGM Restricted Stock Units (RSUs). The Company believes that its RGMs serve as the most important leaders and are key contributors to its long-term success. In 2016, Yum China announced the grant of RSUs valued at $2,000 to each qualified RGM. As of the end of 2020, this program has allowed around 9,700 RGMs to become stockholders of Yum China. In addition, the Company granted RSUs valued at $3,000 to all eligible RGMs starting in February 2021, and has granted such RSU awards to approximately 3,500 RGMs. The turnover rate of RGMs was 9% in 2020.

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

The Company is also committed to helping employees and protecting their families when facing crisis such as the COVID-19 pandemic. Therefore, in addition to social security insurance, the Company provides additional insurance coverage for RGMs and restaurant management teams. The program is designed to provide additional health protection for their family members, covering critical illness and accidents. As of the end of 2020, more than 18,000 employees and 40,000 family members were covered under this program.

For office staff, the Company has rolled out a flexible benefit platform, allowing employees to select benefits based on their individual needs, including family medical insurance, medical examination and recreational activities. Both office staff and RGMs are covered by the Company's housing subsidy scheme.

Health and Safety

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

In addition, Yum China has launched an employee assistance program to provide professional counseling and educational sessions to protect their physical and mental health.

During the COVID-19 pandemic, the Company leveraged technologies and digital platforms to create "contactless" work processes such as online meetings, live streaming town-hall meetings and mobile learning. It also offered flexible work arrangements and conducted emergency drills to secure business continuity and employees' health and safety.

Engagement and Communication

The Company was certified as a Top Employer China 2021 for the third consecutive year by the Top Employers Institute, a testament to the Company's commitment to putting people first in the workplace, especially in light of the challenges presented by 2020.

The Company maintains multiple communication channels with employees, including organizational forums, such as RGM Convention and Founders' Day, and various digital platforms such as corporate WeChat, Apps and intranet portals, to help ensure effective communication of our business strategies and corporate messages. In addition, the Company regularly conducts employee engagement surveys to understand employees' expectations and concerns. During the COVID-19 pandemic, the Company has been keeping timely and transparent communication with employees to maintain a high-morale in this challenging time.

The Company engages and connects employees, located in 1,500 cities, through wellbeing activities known as the "Family Systems." The system is built to provide a platform for employees with common interests to collaborate and develop camaraderie through events such as national badminton competitions and KFC-sponsored marathon events.

The Company complies with the Universal Declaration of Human Rights and the international conventions signed by the Chinese government to protect legitimate rights and interests of its employees. The Company strictly prohibits the use of child labor and forced labor.

Information about our Executive Officers

The executive officers of the Company as of February 22, 2021, and their ages and current positions as of that date, are as follows:

Name	Age	Title
Joey Wat	49	Chief Executive Officer
Andy Yeung	48	Chief Financial Officer
Johnson Huang	58	General Manager, KFC
Jeff Kuai	40	General Manager, Pizza Hut
Danny Tan	51	Chief Supply Chain Officer
Leila Zhang	52	Chief Technology Officer
Joseph Chan	52	Chief Legal Officer
Aiken Yuen	61	Chief People Officer
Alice Wang	51	Chief Public Affairs Officer
Xueling Lu	47	Controller and Principal Accounting Officer

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

Andy Yeung has served as our Chief Financial Officer since October 2019. Prior to joining Yum China, Mr. Yeung served as the chief financial officer of Smart Finance International Limited, a financial technology company, from April 2017 to August 2019. Between January 2014 and March 2017, he served as the chief financial officer of Cheetah Mobile Inc., a NYSE-listed mobile internet company (NYSE: CMCM) where he led its successful IPO and built its finance, internal control and investor relations functions. From 2009 to 2013, Mr. Yeung worked at Oppenheimer & Co. Inc. as director, executive director and then managing director, responsible for research coverage of the internet and media sectors in China. From 2004 to 2009, Mr. Yeung was an associate in equity research at Thomas Weisel Partners. He has been a Chartered Financial Analyst charterholder since 2001.

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

Form 10-K

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

Danny Tan has served as the Chief Supply Chain Officer of Yum China since October 2016, a position he held at Yum! Restaurants China from January 2015 to October 2016. His responsibilities include overseeing quality assurance, food safety, engineering, procurement, logistics, sourcing planning and general management of Taco Bell. Mr. Tan joined YUM in November 1997 as Finance Manager. He was transferred to the logistics department in January 2004 and served as Director of Logistics Operations from January 2006 to December 2007. Mr. Tan subsequently led supply chain management from January 2008 to December 2014. Prior to joining YUM, Mr. Tan was a senior analyst with Walt Disney, Hong Kong and a senior auditor with Deloitte & Touche, Singapore.

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

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

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

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

Xueling Lu has served as Controller and Principal Accounting Officer of Yum China since January 2018. Ms. Lu previously served as Senior Director, Finance of Yum China, a position she held since she joined the Company in November 2016.

Prior to joining the Company, Ms. Lu was the Asia Pacific Controller of Lear Corporation from 2013 to 2016. Before joining Lear Corporation, Ms. Lu spent 10 years in public accounting with Ernst & Young, specializing in audits and initial public offerings of companies listed in the U.S., SEC reporting and Sarbanes-Oxley compliance. Ms. Lu is a certified public accountant in California and a member of the American Institute of Certified Public Accountants.

Our History

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

Government Regulation

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

Regulations Relating to Dividend Distribution

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

Regulations Relating to Taxation

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

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

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

Value-Added Tax / Business Tax and Local Surcharges. Effective on May 1, 2016, a 6% value-added tax ("VAT") on output replaced the 5% business tax ("BT") that has historically been applied to certain restaurant sales under the China Provisional Regulations on Business Tax. Pursuant to Circular Caishui [2016] No. 36 jointly issued by the Ministry of Finance and the Chinese State Taxation Administration ("STA"), beginning May 1, 2016, any entity engaged in the provision of catering services in China is generally required to pay VAT at the rate of 6% on revenues generated from the provision of such services, less any creditable VAT already paid or borne by such entity upon purchase of materials and services. The latest VAT rates imposed on our purchase of materials and services included 13%, 9% and 6%, which were gradually changed from 17%, 13%, 11% and 6% since 2017. These rate changes impact our input VAT on all materials and certain services, primarily construction, transportation and leasing. However, the impact on our operating results is not expected to be significant. Local surcharges generally ranging from 7% to 13%, varying with the location of the relevant China subsidiary, are imposed on the amount of VAT payable.

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

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

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

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

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

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

In December 2017, the U.S. Securities and Exchange Commission (the "SEC") staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which allows us to record provisional amounts during a measurement period not exceeding one year from the enactment date. The Tax Act requires complex computations with significant estimates to be performed, significant judgments to be made in interpretation of the provisions, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the U.S. Internal Revenue Service (the "IRS"), SEC and other standard-setting bodies could interpret or issue guidance on how provisions of the Tax Act will be applied or otherwise administered that is different from our current interpretation. We completed our analysis of the Tax Act in the fourth quarter of 2018 according to guidance released by the U.S. Treasury Department and the IRS as of December 2018 and made an adjustment to the provisional amount of the transition tax accordingly.

The U.S. Treasury Department and the IRS released the final transition tax regulations in the first quarter of 2019. We completed the evaluation of the impact on our transition tax computation based on the final regulations released in the first quarter of 2019 and recorded additional income tax expense for the transition tax accordingly.

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

Available Information

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

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

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

ITEM 1A. Risk Factors.

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

Summary of Risk Factors

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

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

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

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

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

- General risk factors.

Risks Related to Our Business and Industry

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

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

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

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

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

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

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

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

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

For example, the COVID-19 pandemic has adversely affected our results of operations, cash flows and financial condition for full-year 2020. At the peak of the COVID-19 outbreak in China, we closed approximately 35% of our restaurants. For restaurants that remained open, same-store sales declined due to shortened operating hours and reduced traffic, with a significant portion of stores providing only delivery and takeaway services. We expect that our operations will continue to be impacted by the lingering effects of COVID-19, including resurgences and the corresponding actions taken by governmental authorities, such as measures restricting travel and large gatherings, and recommendations against dining out. It remains difficult to predict the full impact of the COVID-19 pandemic on the broader economy and how consumer behavior may change, and whether such change is temporary or permanent. Social distancing, telecommunicating and reductions in travel may become the new normal. These conditions could fundamentally impact the way we work and the services we provide, and could have continuing adverse effects on our results of operations, cash flows and financial condition beyond 2020. The extent to which our operations continue to be impacted by the pandemic will depend largely on future developments, which are highly uncertain and cannot be accurately predicted, including the resurgences and further spread of COVID-19, the actions by the government authorities to contain the pandemic or treat its impact, the effectiveness of those efforts, and the availability and effectiveness of vaccines, among other things. Our insurance policy does not cover any losses we incur as a result of the pandemic. The COVID-19 pandemic also may have the effect of heightening other risks disclosed in the "Risk Factors" section of this report, such as, but not limited to, those related to supply chain management, labor shortage and cost, cybersecurity threats, as well as consumer perceptions of our brands.

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

With respect to the avian flu, public concern over an outbreak may cause fear about the consumption of chicken, eggs and other products derived from poultry, which could cause customers to consume less poultry and related products. This would likely result in lower revenues and profits. Avian flu outbreaks could also adversely affect the price and availability of poultry, which could negatively impact our profit margins and revenues.

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

Under the master license agreement with YUM, we are required to meet a Sales Growth Metric, which requires the average annual Gross Revenue (as defined in the master license agreement) for each of the KFC, Pizza Hut and Taco Bell brands for each rolling five (5) calendar year period throughout the term of the master license agreement ("Measurement Period"), beginning January 1, 2017, to exceed the annual Gross Revenue of the calendar year immediately preceding the corresponding Measurement Period ("Benchmark Year"). To illustrate, the first Measurement Period is January 1, 2017 through December 31, 2021 (corresponding to the first Benchmark Year of January 1, 2016 through December 31, 2016) and the second Measurement Period is January 1, 2018 through December 31, 2022 (corresponding to the second Benchmark Year of January 1, 2017 through December 31, 2017).

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

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

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

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

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

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

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

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

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

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

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

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

Our growth strategy depends on our ability to build new restaurants in China. The successful development of new units depends in large part on our ability to open new restaurants and to operate these restaurants profitably. We cannot guarantee that we, or our franchisees, will be able to achieve our expansion goals or that new restaurants will be operated profitably. Further, there is no assurance that any new restaurant will produce operating results similar to those of our existing restaurants. Other risks which could impact our ability to increase the number of our restaurants include prevailing economic conditions and our or our franchisees' ability to obtain suitable restaurant locations, negotiate acceptable lease or purchase terms for the locations, obtain required permits and approvals in a timely manner, hire and train qualified restaurant crews and meet construction schedules.

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

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

- our ability to obtain or self-fund adequate development financing;

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

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

As a significant number of our restaurants are operating on leased properties, we are exposed to the market conditions of the retail rental market. As of year-end 2020, we leased the land and/or building for over 8,100 restaurants in China. For information regarding our leased properties, please refer to Item 2. "Properties." Accordingly, we are subject to all of the risks generally associated with leasing real estate, including changes in the investment climate for real estate, demographic trends, trade zone shifts, central business district relocations, and supply or demand for the use of the restaurants, as well as potential liability for environmental contamination.

We generally enter into lease agreements with initial terms of 10 to 20 years. Approximately 8% of our existing lease agreements expire before the end of 2021. Most of our lease agreements contain an early termination clause that permits us to terminate the lease agreement early if the restaurant's unit contribution is negative for a specified period of time. We generally do not have renewal options for our leases and need to negotiate the terms of renewal with the lessor, who may insist on a significant modification to the terms and conditions of the lease agreement.

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

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

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

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

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

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

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

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

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

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

Technology systems, including our mobile or online platforms, mobile payment and ordering systems, loyalty programs and various other online processes and functions, are critical to our business and operations. For example, as of year-end 2020, KFC had over 275 million loyalty program members and Pizza Hut had over 85 million. KFC member sales represented approximately 60% of KFC's system sales and Pizza Hut member sales represented approximately 53% of Pizza Hut's system sales in the fourth quarter of 2020. Digital orders accounted for 80% of KFC and Pizza Hut Company sales in 2020. As we continue to expand our digital initiatives, the risks relating to security breaches and cyber-attacks against our systems, both internal and those we have outsourced, may increase.

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

Unauthorized access to, or improper use, disclosure, theft or destruction of, our customer or employee personal, financial or other data or our proprietary or confidential information that is stored in our information systems or by third parties on our behalf could result in substantial costs, expose us to litigation and damage our reputation.

We have been using, and plan to continue to use, digital technologies to improve the customer experience and drive sales growth. We, directly or indirectly, receive and maintain certain personal, financial and other information about our customers in various information systems that we maintain and in those maintained by third-party service providers when, for example, receiving orders through mobile or online platforms, accepting digital payments, operating loyalty programs and conducting digital marketing programs. Our information technology systems, such as those we use for administrative functions, including human resources, payroll, accounting and internal and external communications, can contain personal, financial or other information of our over 400,000 employees. We also maintain important proprietary and other confidential information related to our operations and identifiable information about our franchisees. As a result, we face risks inherent in handling and protecting large volumes of information.

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

In addition, the use and handling of this information is regulated by evolving and increasingly demanding laws and regulations. The Chinese government has focused increasingly on regulation in the areas of information security and protection, including by implementing a new cybersecurity law effective June 1, 2017, which imposes tightened requirements on data privacy and cybersecurity practices. There are uncertainties with respect to the application of the cybersecurity law in certain circumstances. Compliance with the cybersecurity law, as well as additional laws, regulations and standards regarding data privacy, data collection and information security that PRC regulatory bodies may enact in the future, may result in additional expenses to us as we may be required to upgrade our current information technology systems. Furthermore, as a result of legislative and regulatory rules, we may be required to notify the owners of personal information of any breach, theft or loss of their personal information, which could harm our reputation, as well as subject us to litigation or actions by regulatory bodies and adversely affect our financial results.

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

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

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

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

- additional computer and information security and systems development costs;
- diversion of technical and other resources;
- loss of customers and sales;
- loss or theft of customer, employee or other data;
- negative publicity;
- harm to our business and reputation;

- negative impact on the availability and the efficiency of our restaurant operations; and
- exposure to litigation claims, government investigations and enforcement actions, fraud losses or other liabilities.

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

Our business depends on the performance of, and our long-term relationships with, third-party mobile payment processors, internet infrastructure operators, internet service providers and delivery aggregators.

Digital payments, including mobile payments, accounted for approximately 97% of Yum China Company sales in 2020. The ability to accept mobile payments is critical to our business. We accept payments through third-party mobile payment processors, such as WeChat Pay, Alipay and Union Pay. We also developed and launched YUMC Pay in the first quarter of 2019, in partnership with Union Pay, which offers a convenient payment option for users within a single App. If we fail to extend or renew the agreements with these mobile payment processors on acceptable terms or if these mobile payment processors are unwilling or unable to provide us with payment processing service or impose onerous requirements on us in order to access their services, or if they increase the fees they charge us for these services, our business and results of operations could be harmed.

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

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

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

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

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

As of year-end 2020, over 7,600 KFC and Pizza Hut restaurants offer delivery services. Delivery contributed to approximately 30% of KFC and Pizza Hut Company sales for 2020. Customers may order delivery service through KFC and Pizza Hut's websites and Apps. KFC and Pizza Hut have also partnered with third-party delivery aggregators, allowing our products to be listed on and ordered through their mobile or online platforms.

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

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

As part of our strategy to tap into the growing China coffee market, we started to develop COFFii & JOY as our standalone specialty coffee concept in 2018. As of year-end 2020, we opened 42 COFFii & JOY coffee stores in eight cities in China using different store formats. In April 2020, we established a joint venture with Lavazza Group to explore and develop the Lavazza coffee shop concept in China. As of December 31, 2020, there were four Lavazza units in China. We plan to continue to scale up the operations of COFFii & JOY and Lavazza in the near future, which may require significant capital and management attention.

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

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

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

In May 2017, we acquired a controlling interest in Daojia with the expectation that the acquisition will further enhance our digital and delivery capabilities, and accelerate growth by building know-how and expertise in the expanding delivery market. In the fourth quarter of 2018, due to declining sales as a result of intensified competition among delivery aggregators, we recorded an impairment charge of $12 million on intangible assets acquired from the Daojia business primarily attributable to the Daojia platform. In the fourth quarter of 2019, due to continuing declining sales and margin, we further wrote down the Daojia reporting unit goodwill and intangible assets to zero, and recorded an additional impairment charge of $11 million. In April 2020, we completed the acquisition of a 93.3% interest in Huang Ji Huang, a leading Chinese-style casual dining franchise business, for cash consideration of $185 million. As of December 31, 2020, the carrying amounts of intangible assets and goodwill attributable to Huang Ji Huang reporting unit was $104 million and $64 million, respectively. With this acquisition, we aim to gain a stronger foothold and enhanced know-how in the Chinese dining space and create synergies. Achieving those anticipated benefits is subject to a number of uncertainties.

The operation of the acquired businesses could also involve further unanticipated costs and divert management's attention away from day-to-day business concerns. We cannot assure you that we will be able to achieve the anticipated benefits of any business acquisitions.

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, we are directly and indirectly affected by new tax legislation and regulation and the interpretation of tax laws and regulations worldwide. For example, the U.S.

Tax Act implemented broad reforms to the U.S. corporate income tax system and significantly altered how U.S. multinational corporations are taxed on foreign earnings. In addition, the new U.S. Presidential Administration has indicated support for proposals to increase the U.S. corporate income tax rate. Any increases in tax rates or changes in tax laws or the interpretations thereof could have a material adverse impact on our results of operations and financial condition.

Moreover, the tax regime in China is rapidly evolving and there can be significant uncertainty for taxpayers in China as Chinese tax laws may change significantly or be subject to uncertain interpretations. Since 2012, the Chinese government launched a VAT pilot reform to replace BT to make reform to its retail tax structure by ending the co-existence of BT and VAT where BT would be gradually phased out and replaced by VAT. The retail tax structure reform is intended to be a progressive and positive shift to more closely align with a more modern service-based economy. Effective May 1, 2016, the retail tax structure reform has been rolled out to cover all business sectors nationwide where the BT has been completely replaced by VAT. The interpretation and application of the new VAT regime are not settled at some local governmental levels. In addition, the timetable for enacting the prevailing VAT regulations into national VAT law, including ultimate enacted VAT rates, is not clear. Changes in legislation, regulation or interpretation of existing laws and regulations in the U.S., China, and other jurisdictions where we are subject to taxation could increase our taxes and have an adverse effect on our results of operations and financial condition.

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

Purchases at our restaurants are discretionary for consumers and, therefore, our results of operations are susceptible to economic slowdowns and recessions. Our results of operations are dependent upon discretionary spending by consumers, which may be affected by general economic conditions in China. Some of the factors that impact discretionary consumer spending include unemployment rates, fluctuations in the level of disposable income, the price of gasoline, stock market performance and changes in the level of consumer confidence. These and other macroeconomic factors could have an adverse effect on our sales, profitability or development plans, which could harm our results of operations and financial condition.

The restaurant industry in which we operate is highly competitive.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our success depends on the continuing efforts of our key management and experienced and capable personnel as well as our ability to recruit new talent.

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

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

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

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

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

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

We may invest in equity securities and short-term investments, such as time deposits, from time to time. In September 2018, we invested in the equity securities of Meituan, the fair value of which is determined based on the closing market price for the shares at the end of each reporting period, with subsequent fair value changes recorded in our consolidated statements of income. We recorded related gains of $104 million and $63 million for 2020 and 2019, respectively. Our short-term investments as of December 31, 2020 and December 31, 2019 amounted to $3,105 million and $611 million, respectively. We cannot guarantee that our investment in equity securities will not experience fair value losses, which may adversely affect our period-to-period earnings, financial condition and results of operations. In addition, our short-term investments may earn yields lower than anticipated, and any failure to realize the benefits we expected from these investments may adversely affect our financial results.

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

As of December 31, 2020, approximately 6% of our restaurants were held by unconsolidated affiliates. These unconsolidated affiliates are joint venture entities partially owned by us. We apply the equity method to account for the investments in unconsolidated affiliates over which we have significant influence but do not control. Our share of the earnings or losses of these unconsolidated affiliates are included in other income in our consolidated statements of income. Even if there is no cash flow from unconsolidated affiliates until dividends are received, the performance of unconsolidated affiliates may affect our results of operations through our equity method accounting. In addition, we evaluate our investments in unconsolidated affiliates for impairment whenever events or circumstances indicate that a decrease in the fair value of an investment has occurred which is other than temporary and when they have experienced two consecutive years of operating losses. In addition, when we acquire additional equity interest in the unconsolidated affiliates to obtain control, it may result in gain or loss from re-measurement of our previously held equity interest and thus have a significant impact on our operating results. As a result of the acquisition of Suzhou KFC, a former unconsolidated affiliate, in the third quarter of 2020, we recognized a gain of $239 million from the re-measurement of our previously held 47% equity interest at fair value.

Risks Related to Doing Business in China

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

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

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

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

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

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

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

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

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

We cannot predict the possible changes in policies and the economic, regulatory, social and political conditions in the United States and China, nor can we predict their potential impact on political, business, economic and trade relations between the United States and China and on our business. In 2019, the United States and China imposed new or higher tariffs on goods imported from each other. If the United States or China continues imposing such tariffs, or if additional tariffs or trade restrictions are implemented by the United States or by China, the resulting trade barriers could have a significant adverse impact on our business. The adoption and expansion of trade restrictions and tariffs, quotas and embargoes, sanctions, the occurrence of a trade war, or other governmental action related to tariffs or trade agreements or policies, has the potential to adversely impact costs, our suppliers and the world economy in general, which in turn could have a material adverse effect on our business, results of operations and financial condition.

During 2020, political tensions between the United States and China escalated, with a number of actions taken by the U.S. government, such as the Clean Network program announced on August 5, 2020 to protect U.S. telecommunication and technology infrastructure, and the two executive orders issued by former President Trump on August 6, 2020 to ban any person or property subject to the jurisdiction of the United States from any transaction with ByteDance and from any transaction related to WeChat by any person or with respect to any property subject to the jurisdiction of the United States, to the extent that any such transaction is identified by the Secretary of Commerce as being subject to the prohibitions stated in the executive orders. The directives issued on September 19, 2020 by the Secretary of Commerce to implement the WeChat executive order only identified prohibited transactions that are limited to the territory of the United States. The Secretary of Commerce withdrew the directive from publication on September 21, 2020 after a U.S. federal district court issued a preliminary injunction in a challenge to the directive, but even as issued, the directive was not expected to have any impact on our operations in China. On January 5, 2021, former President Trump signed an executive order banning transactions by any person, or with respect to any property, subject to the jurisdiction of the U.S. with persons that develop or control the following Chinese-connected software applications or with their subsidiaries: Alipay, CamScanner, QQ Wallet, SHAREit, Tencent QQ, VMate, WeChat Pay, and WPS Office, some of which we use in our business. On or after February 19, 2021, the Secretary of Commerce is required to identify the transactions and persons that develop or control the Chinese-connected software applications. It is unclear whether the Biden Administration will amend or reverse this executive order. The implementation of this executive order could adversely affect our business in a material way. We cannot foresee whether and how developments in similar policy actions or any other policy actions taken by the U.S. or Chinese government will impact our business and financial performance. In addition, changes in political, business, economic and trade relations between the United States and China may trigger negative customer sentiment towards western brands in China, potentially resulting in a negative impact on our results of operations and financial condition.

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

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

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

On December 18, 2020, the Holding Foreign Companies Accountable Act (the "Act") was signed into law. The Act requires the SEC to prohibit the securities of any "covered issuer," including the Company, from being traded on any of the U.S. securities exchanges, including the New York Stock Exchange, or traded "over-the-counter," if the auditor of the covered issuer's financial statements is not subject to PCAOB inspection for three consecutive years, beginning in 2021. In the event that the PCAOB is unable to conduct full inspections in China or review audit documentation located within China for three consecutive years, which is subject to a variety of factors outside our control including the approval of Chinese authorities, our common stock will be delisted from the New York Stock Exchange, which will limit the liquidity of our common stock and our access to U.S. capital markets. The Act, and any additional rulemaking efforts to increase U.S. regulatory access to audit information in China, could cause investor uncertainty for affected companies, including us, and the market price of our common stock could be materially adversely affected.

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

The conversion of the Renminbi ("RMB") into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China ("PBOC"). RMB appreciated by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, the exchange rate between RMB and the U.S. dollar remained within a narrow range and, after June 2010, RMB appreciated slowly against the U.S. dollar again. On August 11, 2015, however, RMB depreciated by approximately 2% against the U.S. dollar, and exchange rate change of RMB against the U.S. dollar occurred relatively suddenly. In 2018 and 2019, RMB fell approximately 6% and 1%, respectively, against the U.S. dollar, while in 2020, RMB appreciated 6% against the U.S. dollar. It is difficult to predict how market forces or Chinese or U.S. government policy may impact the exchange rate between RMB and the U.S. dollar in the future.

Substantially all of our revenues and costs are denominated in RMB. As a Delaware holding company, we may rely on dividends and other fees paid to us by our subsidiaries in China. Any significant revaluation of RMB may materially affect our cash flows, net revenues, earnings and financial position, and the value of, and any dividends payable on, our common stock in U.S. dollars. For example, an appreciation of RMB against the U.S. dollar would make any new RMB-denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into RMB for such purposes. Conversely, a significant depreciation of RMB against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our common stock. If we decide to convert RMB into U.S. dollars for the purpose of making payments for dividends on our common stock, strategic acquisitions or investments or other business purposes, the appreciation of the U.S. dollar against RMB would have a negative effect on U.S. dollar amounts available to us.

Few hedging options are available in China to reduce our exposure to exchange rate fluctuations. In addition, our currency exchange loss may be magnified by Chinese exchange control regulations that restrict our ability to convert RMB into foreign currency. As a result, fluctuations in exchange rates and restrictions on exchange may have a material adverse effect on your investment.

The increasing focus on environmental sustainability issues may create operational challenges for us and increase our costs.

There has been increasing public focus by governmental and non-governmental organizations on environmental sustainability matters, including climate change and deforestation. In line with the national standards and local requirements to reduce plastic waste in China, we have launched a series of plastic reduction and environmentally friendly packaging initiatives across our brands. We are committed to gradually replacing existing plastic packaging with paper straws, wooden cutleries, paper bags, and biodegradable plastic bags, and working towards a 30% reduction on non-degradable plastic packaging weight by 2025. We may face operational challenges in sourcing suitable alternative packaging materials. In addition, we may incur significant costs for using alternative packaging materials, which in turn may have an adverse impact on our profit margins. We also face related risks including the increased pressure to make sustainability commitments, set targets and take actions to meet them, which could expose us to additional operational challenges, execution costs and reputational risks.

Governmental control of currency conversion and payments of foreign currency and RMB out of mainland China may limit our ability to utilize our cash balances effectively and affect the value of your investment.

The Chinese government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of both foreign currency and RMB out of mainland China. Under our current corporate structure as a Delaware holding company, our income is primarily derived from the earnings from our Chinese subsidiaries. Substantially all revenues of our Chinese subsidiaries are denominated in RMB. Shortages in the availability of foreign currency and control on payments out of mainland China may restrict the ability of our Chinese subsidiaries to remit sufficient foreign currency and/or RMB to pay dividends or to make other payments to us, or otherwise to satisfy their obligations. Under existing Chinese foreign exchange regulations, payments of current account items, including profit distributions, license fee payments and expenditures from trade-related transactions, can be made in foreign currencies or RMB without prior approval from China's State Administration of Foreign Exchange ("SAFE") and the PBOC by complying with certain procedural requirements. However, for any Chinese company, dividends can be declared and paid only out of the retained earnings of that company under Chinese law. Furthermore, approval from SAFE or its local branch may be required where RMB are to be converted into foreign currencies, and approval from SAFE and the PBOC or their branches may be required where foreign currency and/or RMB are to be remitted out of mainland China. Specifically, under the existing restrictions, without a prior approval from SAFE and the PBOC, cash generated from the operations of our subsidiaries in China may not be used to pay dividends to Yum China, pay the license fee to YUM, pay employees who are located outside mainland China, pay off debt owed by our subsidiaries to entities outside mainland China, or make capital expenditures outside mainland China.

The Chinese government may also at its discretion restrict access in the future to foreign currencies or further restrict payments of foreign currency and RMB out of mainland China. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands or restricts us from paying the license fee to YUM, we may not be able to pay dividends to our stockholders, fulfill our license fee payment obligation, pay out service fees to vendors and repay our indebtedness when due.

Furthermore, because repatriation of funds and payment of license fees require the prior approval of SAFE and PBOC, such repatriation and payment could be delayed, restricted or limited. There can be no assurance that the rules and regulations pursuant to which SAFE and PBOC grant or deny approvals will not change in a way that adversely affects the ability of our Chinese subsidiaries to repatriate funds out of mainland China or pay license fees. Any such limitation could materially and adversely affect our ability to pay dividends or otherwise fund and conduct our business.

Changes in the laws and regulations of China or noncompliance with applicable laws and regulations may have a significant impact on our business, results of operations and financial condition.

Our business and operations are subject to the laws and regulations of China, which continue to evolve. For example, on January 9, 2021, China's Ministry of Commerce ("MOFCOM") issued the Rules on Blocking Improper Extraterritorial Application of Foreign Legislation and Other Measures (the "Blocking Rules"), which established a blocking regime in China to counter the impact of foreign sanctions on Chinese persons. The Blocking Rules have become effective upon issuance, but have only established a framework of implementation, and the rules' effects will remain unclear until the Chinese government provides clarity on the specific types of extraterritorial measures to which the rules will apply. At this time, we do not know the extent to which the Blocking Rules will impact our operations. There is no assurance that we will be able to comply fully with applicable laws and regulations should there be any amendment to the existing regulatory regime or implementation of any new laws and regulations. In addition, the interpretations of many laws and regulations are not always uniform and enforcement of these laws and regulations involve uncertainties.

The continuance of our operations depends upon compliance with, among other things, applicable Chinese environmental, health, safety, labor, social security, pension and other laws and regulations. Failure to comply with such laws and regulations could result in fines, penalties or lawsuits.

Furthermore, our business and operations in China entail the procurement of licenses and permits from the relevant authorities. Rapidly evolving laws and regulations and inconsistent interpretations and enforcements thereof could impede our ability to obtain or maintain the required permits, licenses and certificates required to conduct our businesses in China. Difficulties or failure in obtaining the required permits, licenses and certificates could result in our inability to continue our business in China in a manner consistent with past practice. In such an event, our business, results of operations and financial condition may be adversely affected.

We rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries in China to fund offshore cash requirements.

We are a holding company and conduct all of our business through our operating subsidiaries. We rely to a significant extent on dividends and other distributions on equity paid by our principal operating subsidiaries for our cash requirements. As noted above, distributions to us from our subsidiaries may result in incremental tax costs.

The laws, rules and regulations applicable to our Chinese subsidiaries permit payments of dividends only out of their accumulated profits, if any, determined in accordance with applicable Chinese accounting standards and regulations. In addition, under Chinese law, an enterprise incorporated in China is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. As a result, our Chinese subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends. At the discretion of the board of directors, as an enterprise incorporated in China, each of our Chinese subsidiaries may allocate a portion of its after-tax profits based on Chinese accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. Any limitation on the ability of our Chinese subsidiaries to pay dividends or make other distributions to us could limit our ability to make investments or acquisitions outside of China that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

In addition, the EIT Law and its implementation rules provide that a withholding tax at a rate of 10% will be applicable to dividends payable by Chinese companies to companies that are not China resident enterprises unless otherwise reduced according to treaties or arrangements between the Chinese central government and the governments of other countries or regions where the non-China resident enterprises are incorporated. Hong Kong has a tax arrangement with mainland China that provides for a 5% withholding tax on dividends distributed to a Hong Kong resident enterprise, upon meeting certain conditions and requirements, including, among others, that the Hong Kong resident enterprise directly owns at least 25% equity interests of the Chinese enterprise and is a "beneficial owner" of the dividends. We believe that our Hong Kong subsidiary, which is the equity holder of our Chinese subsidiaries, met the relevant requirements pursuant to the tax arrangement between the mainland China and Hong Kong in 2018 and is expected to meet the requirements in subsequent years, thus, it is more likely than not that our dividends declared or earnings expected to be repatriated since 2018 are subject to the reduced withholding tax of 5%. However, if our Hong Kong subsidiary is not considered to be the "beneficial owner" of the dividends by the Chinese local tax authority, any dividend paid to it by our Chinese subsidiaries would be subject to a withholding tax rate of 10% with retrospective effect, which would increase our tax liability and reduce the amount of cash available to our company.

Restrictive covenants in bank credit facilities, joint venture agreements or other arrangements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to pay dividends or make distributions or remittances to us. These restrictions could reduce the amount of dividends or other distributions we receive from our subsidiaries, which in turn could restrict our ability to return capital to our stockholders in the future.

Under the EIT Law, if we are classified as a China resident enterprise for Chinese enterprise income tax purposes, such classification would likely result in unfavorable tax consequences to us and our non-Chinese stockholders.

Under the EIT Law and its implementation rules, an enterprise established outside China with a "de facto management body" within China is considered a China resident enterprise for Chinese enterprise income tax purposes. A China resident enterprise is generally subject to certain Chinese tax reporting obligations and a uniform 25% enterprise income tax rate on its worldwide income. Furthermore, under the EIT Law, if we are a China resident enterprise (i) dividends paid by us to our non-Chinese stockholders would be subject to a 10% dividend withholding tax or a 20% individual income tax if the stockholder is an individual and (ii) such non-Chinese stockholders may become subject to Chinese tax and filing obligations as well as withholding with respect to any disposition of our stock, subject to certain treaty or other exemptions or reductions.

Yum China and each subsidiary of Yum China that is organized outside of China intends to conduct its management functions in a manner that does not cause it to be a China resident enterprise, including by carrying on its day-to-day management activities and maintaining its key records, such as resolutions of its board of directors and resolutions of stockholders, outside of China. As such, we do not believe that Yum China or any of its non-Chinese subsidiaries should be considered a China resident enterprise for purposes of the EIT Law. However, given the uncertainty regarding the application of the EIT Law to us and our future operations, there can be no assurance that we or any of our non-Chinese subsidiaries will not be treated as a China resident enterprise now or in the future for Chinese tax law purposes.

We and our stockholders face uncertainty with respect to indirect transfers of equity interests in China resident enterprises through transfer of non-Chinese-holding companies. Enhanced scrutiny by the Chinese tax authorities may have a negative impact on potential acquisitions and dispositions we may pursue in the future.

In February 2015, the STA issued Bulletin 7, pursuant to which an “indirect transfer” of Chinese taxable assets, including equity interests in a Chinese resident enterprise, by a non-resident enterprise may be re-characterized and treated as a direct transfer of Chinese taxable assets, if such arrangement does not have reasonable commercial purpose and the transferor avoids payment of Chinese enterprise income tax. Where a non-resident enterprise conducts an “indirect transfer” of Chinese interests by disposing of equity interests in an offshore holding company that directly or indirectly owns Chinese interests, the transferor, transferee and/or the China resident enterprise may report such indirect transfer to the relevant Chinese tax authority, which may in turn report upward to the STA. Using general anti-tax avoidance provisions, the STA may treat such indirect transfer as a direct transfer of Chinese interests if the transfer avoids Chinese tax by way of an arrangement without reasonable commercial purpose. As a result, gains derived from such indirect transfer may be subject to Chinese enterprise income tax, and the transferee or other person who is obligated to pay for the transfer would be obligated to withhold the applicable taxes, currently at a rate of up to 10% of the capital gain in the case of an indirect transfer of equity interests in a China resident enterprise. Both the transferor and the party obligated to withhold the applicable taxes may be subject to penalties under Chinese tax laws if the transferor fails to pay the taxes and the party obligated to withhold the applicable taxes fails to withhold the taxes. However, the above regulations do not apply if either (i) the selling non-resident enterprise recognizes the relevant gain by purchasing and selling equity of the same listed enterprise in the open market (the “listed enterprise exception”); or (ii) the selling non-resident enterprise would have been exempted from enterprise income tax in China pursuant to applicable tax treaties or tax arrangements, if it had directly held and transferred such Chinese interests that were indirectly transferred. The China indirect transfer rules do not apply to gains recognized by individual stockholders. However, in practice, there have been a few reported cases of individuals being taxed on the indirect transfer of Chinese interests and the law could be changed so as to apply to individual stockholders, possibly with retroactive effect. In addition, the PRC Individual Income Tax Law and relevant regulations (“IITL”), revised effective January 1, 2019, impose general anti-avoidance tax rules (“GAAR”) on transactions conducted by individuals. As a result, if the China tax authority invokes the GAAR and deems that indirect transfers made by individual stockholders lack reasonable commercial purposes, any gains recognized on such transfers might be subject to individual income tax in China at the standard rate of 20%.

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

In addition, we may be subject to these indirect transfer rules in the event of any future sale of a China resident enterprise through the sale of a non-Chinese holding company, or the purchase of a China resident enterprise through the purchase of a non-Chinese holding company. Our company and other non-resident enterprises in our group may be subject to filing obligations or taxation if our company and other non-resident enterprises in our group are transferors in such transactions, and may be subject to withholding obligations if our company and other non-resident enterprises in our group are transferees in such transactions.

There may be difficulties in effecting service of legal process, conducting investigations, collecting evidence, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us and our management.

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

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

Through the acquisition of Daojia, we also acquired a variable interest entity ("VIE") and subsidiaries of the VIE in China effectively controlled by Daojia.

Chinese laws and regulations restrict and impose conditions on foreign investment in certain internet business, such as internet content services. For example, foreign investors are generally not permitted to own more than 50% of the equity interests in an internet content provider or other value-added telecommunication service provider. Accordingly, a VIE structure has been adopted by many China-based companies, including Daojia, to obtain necessary licenses and permits in such industries that are currently subject to foreign investment restrictions in China. Daojia operates these businesses in China through its consolidated affiliated entities. Daojia has entered into a series of contractual arrangements with its consolidated affiliated entities and the nominee shareholders of its consolidated affiliated entities. These contractual arrangements allow Daojia to:

- receive substantially all of the economic benefits and absorb all of the expected losses from its consolidated affiliated entities;
- exercise effective control over its consolidated affiliated entities; and
- hold an exclusive option to purchase all or part of the equity interests in its consolidated affiliated entities when and to the extent permitted by Chinese law.

However, the VIE structure and contractual arrangements described above may not be as effective in providing control over Daojia's consolidated affiliated entities as direct ownership. The VIE structure may result in unauthorized use of indicia of corporate power or authority, such as chops and seals. Control over Daojia's consolidated affiliated entities may also be jeopardized if the shareholders holding equity interest in the consolidated affiliated entities breach the terms of the contractual agreements.

In addition, there are substantial uncertainties regarding the interpretation and application of current Chinese laws, rules and regulations related to VIE structure. It is also uncertain whether any new Chinese laws, rules or regulations relating to VIE structure will be adopted, or if adopted, what their implications would be on Daojia. If the VIE structure is found to be in violation of any existing or future Chinese laws, rules or regulations, the relevant PRC regulatory bodies would have broad discretion to take action in dealing with these violations, including revoking the business and operating licenses of Daojia's consolidated affiliated entities, requiring Daojia to restructure its operations or taking other regulatory or enforcement actions against Daojia. The contractual arrangements may also be (i) disregarded by the PRC tax authorities and result in increased tax liabilities; or (ii) found by Chinese government authorities, courts or arbitral tribunals to be unenforceable. Any of the foregoing could result in a material adverse effect on Daojia's business operations.

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

As of December 31, 2020, we leased over 8,100 properties in China, and to our knowledge, the lessors of most properties leased by us, most of which are used as premises for our restaurants, had not registered the lease agreements with government authorities in China.

According to Chinese laws, a lease agreement is generally required to be registered with the relevant land and real estate administration bureau. However, the enforcement of this legal requirement varies depending on the local regulations and practices and, in cities where we operate a significant number of restaurants, the local land and real estate administration bureaus no longer require registration or no longer impose fines for failure to register the lease agreements. In addition, our standard lease agreements require the lessors to make such registration and, although we have proactively requested that the applicable lessors complete or cooperate with us to complete the registration in a timely manner, we are unable to control whether and when such lessors will do so.

A failure to register a lease agreement will not invalidate the lease agreement but may subject the parties to a fine. Depending on the local regulations, the lessor alone or both the lessor and lessee are under the obligation to register a lease agreement with the relevant land and real estate administration bureau. In the event that a fine is imposed on both the lessor and lessee, and if we are unable to recover from the lessor any fine paid by us based on the terms of the lease agreement, such fine will be borne by us.

To date, the operation of our restaurants has not been materially disrupted due to the non-registration of our lease agreements. No fines, actions or claims have been instituted against us or, to our knowledge, the lessors with respect to the non-registration of our lease agreements. However, we cannot assure you that our lease agreements relating to, and our right to use and occupy, our premises will not be challenged in the future.

Our restaurants are susceptible to risks in relation to unexpected land acquisitions, building closures or demolitions.

The Chinese government has the statutory power to acquire any land use rights of land plots and the buildings thereon in China in the public interest subject to certain legal procedures. Under the Regulations for the Expropriation of and Compensation for Housing on State-owned Land, issued by the State Council, which became effective as of January 21, 2011, there is no legal provision that the tenant of an expropriated property is entitled to compensation. Generally speaking, only the owner of such property is entitled to compensation from the government. The claims of the tenant against the landlord will be subject to the terms of the lease agreement. In the event of any compulsory acquisition, closure or demolition of any of the properties at which our restaurants or facilities are situated, we may not receive any compensation from the government or the landlord. In such event, we may be forced to close the affected restaurant(s) or relocate to other locations, which may have an adverse effect on our business and results of operations.

Any failure to comply with Chinese regulations regarding our employee equity incentive plans may subject Chinese plan participants or us to fines and other legal or administrative sanctions.

Pursuant to SAFE Circular 37, China residents who participate in share incentive plans in overseas non-publicly listed companies may submit applications to SAFE or its local branches for foreign exchange registration with respect to offshore special purpose companies. We and our directors, executive officers and other employees who are Chinese citizens or who have resided in China for a continuous period of not less than one year and who have been granted restricted shares, restricted stock units ("RSUs"), performance share units ("PSUs"), stock appreciation rights ("SARs"), or stock options (collectively, the "share-based awards") are subject to the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly Listed Company, issued by SAFE in February 2012, according to which, employees, directors, supervisors and other management members participating in any stock incentive plan of an overseas publicly-listed company who are Chinese citizens or who are non-Chinese citizens residing in China for a continuous period of not less than one year, subject to limited exceptions, are required to register with SAFE through a domestic qualified agent, which could be a Chinese subsidiary of such overseas listed company, and complete certain other procedures. Failure to complete SAFE registrations may result in fines and legal sanctions and may also limit our ability to make payments under our equity incentive plans or receive dividends or sales proceeds related thereto, or our ability to contribute additional capital into our wholly-foreign owned enterprises in China and limit our wholly-foreign owned enterprises' ability to distribute dividends to us. We also face regulatory uncertainties that could restrict our ability to adopt additional equity incentive plans for our directors and employees under Chinese law.

In addition, the STA has issued circulars concerning employees' share-based awards. Under these circulars, employees working in China who exercise share options and SARs, or whose restricted shares, RSUs or PSUs vest, will be subject to Chinese individual income tax. The Chinese subsidiaries of an overseas listed company have obligations to file documents related to employees' share-based awards with relevant tax authorities and to withhold individual income taxes of those employees related to their share-based awards. Although we currently intend to withhold income tax from our Chinese employees in connection with their exercise of options and SARs and the vesting of their restricted shares, RSUs and PSUs, if the employees fail to pay, or our Chinese subsidiaries fail to withhold, their income taxes according to relevant laws, rules and regulations, our Chinese subsidiaries may face sanctions imposed by the tax authorities or other Chinese government authorities.

Failure to make adequate contributions to various employee benefit plans as required by Chinese regulations may subject us to penalties.

Companies operating in China are required to participate in various government-sponsored employee benefit plans, including certain social insurance, housing funds and other welfare-oriented payment obligations, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their businesses. While we believe we comply with all material aspects of relevant regulations, the requirements governing employee benefit plans have not been implemented consistently by the local governments in China given the different levels of economic development in different locations. If we are subject to late fees or fines in relation to the underpaid employee benefits, our results of operations and financial condition may be adversely affected.

Proceedings instituted by the SEC against certain China-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Exchange Act.

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese member firms of the "big four" accounting firms, including our independent registered public accounting firm. The Rule 102(e) proceedings initiated by the SEC relate to the failure of these firms to produce certain documents, including audit work papers, in response to a request from the SEC pursuant to Section 106 of the Sarbanes-Oxley Act of 2002. The auditors located in China claim they are not in a position lawfully to produce such documents directly to the SEC because of restrictions under Chinese law and specific directives issued by the China Securities Regulatory Commission ("CSRC"). The issues raised by the proceedings are not specific to our auditor or to us, but potentially affect equally all PCAOB-registered audit firms based in China and all businesses based in China (or with substantial operations in China) with securities listed in the United States. In addition, auditors based outside of China are subject to similar restrictions under Chinese law and CSRC directives in respect of audit work that is carried out in China which supports the audit opinions issued on financial statements of entities with substantial China operations.

In January 2014, the administrative judge reached an initial decision that the Chinese member firms of the "big four" accounting firms should be barred from practicing before the SEC for a period of six months. In February 2015, the Chinese member firms of the "big four" accounting firms reached a settlement with the SEC. As part of the settlement, each of the "big four" accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute with the SEC and stay the proceedings for four years; under the terms of the settlement, the proceedings were deemed dismissed with prejudice in February 2019. It remains unclear whether the SEC will commence new administrative proceedings against all four firms.

If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC, and we are unable to timely find another independent registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to delisting of our common stock from the New York Stock Exchange. Moreover, any negative news about the proceedings against these audit firms may adversely affect investor confidence in companies with substantial China-based operations listed on securities exchanges in the United States. All of these factors could materially and adversely affect the market price of our common stock and our ability to access the capital markets.

Chinese regulation of loans to, and direct investment in, Chinese entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from making loans or additional capital contributions to our Chinese subsidiaries, which may materially and adversely affect our liquidity and our ability to fund and expand our business.

We are a Delaware holding company conducting our operations in China through our Chinese subsidiaries. We may make loans to our Chinese subsidiaries, or we may make additional capital contributions to our Chinese subsidiaries, or we may establish new Chinese subsidiaries and make capital contributions to these new Chinese subsidiaries, or we may acquire offshore entities with business operations in China in an offshore transaction.

Most of these uses are subject to Chinese regulations and approvals. For example, loans by us to our wholly-owned Chinese subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterparts of SAFE. If we decide to finance our wholly-owned Chinese subsidiaries by means of capital contributions, in practice, we might be still required to obtain approval from the China Ministry of Commerce ("MOFCOM") or its local counterparts.

On August 29, 2008, SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or SAFE Circular 142, regulating the conversion by a foreign-invested enterprise of foreign currency registered capital into RMB by restricting how the converted RMB may be used. SAFE Circular 142 provides that RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within China with limited exceptions (*e.g.*, by holding companies, venture capital or private equity firms). In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from the foreign currency registered capital of a foreign-invested company. The use of such RMB capital may not be altered without SAFE approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Such requirements are also known as the "payment-based foreign currency settlement system" established under SAFE Circular 142. Violations of SAFE Circular 142 could result in monetary or other penalties. Furthermore, SAFE promulgated a circular on November 9, 2010, known as Circular 59, and another supplemental circular on July 18, 2011, known as Circular 88, which both tightened the examination of the authenticity of settlement of foreign currency capital or net proceeds from overseas listings. SAFE further promulgated the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses, or Circular 45, on November 9, 2011, which expressly prohibited foreign-invested enterprises from using registered capital settled in RMB converted from foreign currencies to grant loans through entrustment arrangements with a bank, repay intercompany loans or repay bank loans that have been transferred to a third party. Circular 142, Circular 59, Circular 88 and Circular 45 may significantly limit our ability to make loans or capital contributions to our Chinese subsidiaries and to convert such proceeds into RMB, which may adversely affect our liquidity and our ability to fund and expand our business in China.

Furthermore, on April 8, 2015, SAFE promulgated the Circular on the Reform of the Administrative Method of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or Circular 19, which became effective as of June 1, 2015. This Circular 19 is to implement the so-called "conversion-at-will" of foreign currency in capital account, which was established under a circular issued by SAFE on August 4, 2014, or Circular 36, and was implemented in 16 designated industrial parks as a reform pilot. The Circular 19 now implements the conversion-at-will of foreign currency settlement system nationally, and it abolishes the application of Circular 59 and Circular 45 on March 19, 2015 as well as Circular 142, Circular 88 and Circular 36 starting from June 1, 2015. Among other things, under Circular 19, foreign-invested enterprises may either continue to follow the payment-based foreign currency settlement system or elect to follow the conversion-at-will of foreign currency settlement system. Where a foreign-invested enterprise follows the conversion-at-will of foreign currency settlement system, it may convert any or 100% of the amount of the foreign currency in its capital account into RMB at any time. The converted RMB will be kept in a designated account known as "Settled but Pending Payment Account," and if the foreign-invested enterprise needs to make further payment from such designated account, it still needs to provide supporting documents and go through the review process with its bank. If under special circumstances the foreign-invested enterprise cannot provide supporting documents in time, Circular 19 grants the banks the power to provide a grace period to the enterprise and make the payment before receiving the supporting documents. The foreign-invested enterprise will then need to submit the supporting documents within 20 working days after payment. In addition, foreign-invested enterprises are now allowed to use their converted RMB to make equity investments in China under Circular 19. However, foreign-invested enterprises are still required to use the converted RMB in the designated account within their approved business scope under the principle of authenticity and self-use. It remains unclear whether a common foreign-invested enterprise, other than such special types of enterprises as holding companies, venture capital or private equity firms, can use the converted RMB in the designated account to make equity investments if equity investment or similar activities are not within their approved business scope.

In light of the various requirements imposed by Chinese regulations on loans to and direct investment in Chinese entities by offshore holding companies as discussed above, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, or at all, with respect to future loans by us to our Chinese subsidiaries or with respect to future capital contributions by us to our Chinese subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to capitalize or otherwise fund our Chinese operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

Regulations regarding acquisitions may impose significant regulatory approval and review requirements, which could make it more difficult for us to pursue growth through acquisitions.

Under the PRC Anti-monopoly Law, companies undertaking certain investments and acquisitions relating to businesses in China must notify the anti-monopoly enforcement agency in advance of any transactions which are deemed a concentration and where the parties' revenues in the China market exceed certain thresholds as stipulated in the Provisions of the State Council on the Thresholds for Declaring Concentration of Business Operators. In addition, on August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State-Owned Assets Supervision and Administration Commission, the STA, the State Administration for Industry and Commerce of the People's Republic of China, the CSRC and the SAFE, jointly adopted the Provisions of the Ministry of Commerce on M&A of a Domestic Enterprise by Foreign Investors ("M&A Rules"), which came into effect on September 8, 2006 and was amended on June 22, 2009. Under the M&A Rules, the approval of MOFCOM must be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire domestic companies affiliated with PRC enterprises or residents. Applicable PRC laws, rules and regulations also require certain merger and acquisition transactions to be subject to security review.

Due to the level of our revenues, our proposed acquisition of control of, or decisive influence over, any company with revenues within China of more than RMB400 million in the year prior to any proposed acquisition would be subject to the State Administration for Market Regulation ("SAMR") merger control review. As a result of our size, many of the transactions we may undertake could be subject to SAMR merger review. Complying with the requirements of the relevant regulations to complete these transactions could be time-consuming, and any required approval processes, including approval from SAMR, may be uncertain and could delay or inhibit our ability to complete these transactions, which could affect our ability to expand our business maintain our market share or otherwise achieve the goals of our acquisition strategy.

Our ability to carry out our investment and acquisition strategy may be materially and adversely affected by the regulatory authorities' current practice, which creates significant uncertainty as to the timing of receipt of relevant approvals and whether transactions that we may undertake would subject us to fines or other administrative penalties and negative publicity and whether we will be able to complete investments and acquisitions in the future in a timely manner or at all.

Risks Related to the Separation and Related Transactions

If the distribution does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes, the Company could be subject to significant tax liabilities, and, in certain circumstances, the Company could be required to indemnify YUM for material taxes and other related amounts pursuant to indemnification obligations under the tax matters agreement.

The distribution was conditioned on YUM's receipt of opinions of outside advisors regarding the tax-free treatment of the distribution for U.S. federal income tax purposes. The opinions relied on various assumptions and representations as to factual matters made by YUM and us which, if inaccurate or incomplete in any material respect, would jeopardize the conclusions reached by such advisors in their opinions. The opinions are not binding on the IRS or the courts, and there can be no assurance that the IRS or the courts will not challenge the conclusions stated in the opinions or that any such challenge would not prevail.

If, notwithstanding receipt of the opinions, the distribution were determined to be a taxable transaction, YUM would be treated as having sold shares of the Company in a taxable transaction, likely resulting in a significant taxable gain. Pursuant to the tax matters agreement, the Company and YCCL agreed to indemnify YUM for any taxes and related losses resulting from any breach of covenants regarding the preservation of the tax-free status of the distribution, certain acquisitions of our equity securities or assets, or those of certain of our affiliates or subsidiaries, and any breach by us or any member of our group of certain representations in the documents delivered by us in connection with the distribution. Therefore, if the distribution fails to qualify as a transaction that is generally tax-free as a result of one of these actions or events, we may be required to make material payments to YUM under this indemnity.

YUM may be subject to Chinese indirect transfer tax with respect to the distribution, in which event we could be required to indemnify YUM for material taxes and related amounts pursuant to indemnification obligations under the tax matters agreement.

As noted above, Bulletin 7 provides that in certain circumstances a non-resident enterprise may be subject to Chinese enterprise income tax on an "indirect transfer" of Chinese interests. YUM concluded, and we concurred, that it believes that the distribution had a reasonable commercial purpose and that it is more likely than not that YUM will not be subject to this tax with respect to the distribution. However, there are uncertainties regarding the circumstances in which the tax will apply, and there can be no assurances that the Chinese tax authorities will not seek to impose this tax on YUM.

Pursuant to the tax matters agreement, the Company and YCCL have agreed to indemnify YUM for a portion (tied to the relative market capitalization of YUM and the Company during the 30 trading days after the distribution) of any taxes and related losses resulting from the application of Bulletin 7 to the distribution. Alternatively, if Bulletin 7 applies to the distribution as a result of a breach by the Company or Company group members of certain representations or covenants, or due to certain actions of the Company or Company group members following the distribution, the Company and YCCL generally will indemnify YUM for all such taxes and related losses. Therefore, if YUM is subject to such Chinese tax with respect to the distribution, we may be required to make material payments to YUM under this indemnity. Such payments could have a material adverse effect on our financial condition.

Potential indemnification liabilities owing to YUM pursuant to the separation and distribution agreement could materially and adversely affect our business, results of operations and financial condition.

We separated from YUM on October 31, 2016, becoming an independent, publicly traded company under the ticker symbol "YUMC" on the New York Stock Exchange on November 1, 2016. As part of the separation and distribution agreement, we agreed to indemnify YUM for claims against YUM relating to Yum China's business prior to the spin-off in 2016 as well as other liabilities. These liabilities include, among others, (i) our failure to pay, perform or otherwise promptly discharge any liabilities or contracts relating to the Company business, in accordance with their respective terms, whether prior to, at or after the distribution; (ii) any guarantee, indemnification obligation, surety bond or other credit support agreement, arrangement, commitment or understanding by YUM for our benefit, unless related to liabilities primarily associated with the YUM business; (iii) certain tax liabilities related to Bulletin 7 under PRC tax laws, which provides that in certain circumstances a non-resident enterprise may be subject to Chinese enterprise income tax on an "indirect transfer" of Chinese interests; (iv) any breach by us of the separation and distribution agreement or any of the ancillary agreements or any action by us in contravention of our amended and restated certificate of incorporation or amended and restated bylaws; and (v) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in the information statement relating to the distribution or any other disclosure document that describes the separation or the distribution or the Company and its subsidiaries or primarily relates to the transactions contemplated by the separation and distribution agreement, subject to certain exceptions. If we are required to indemnify YUM under the circumstances set forth in the separation and distribution agreement, we may be subject to substantial liabilities.

In connection with the separation, YUM has agreed to indemnify us for certain liabilities. However, there can be no assurance that the indemnity will be sufficient to insure us against the full amount of such liabilities, or that YUM's ability to satisfy its indemnification obligation will not be impaired in the future.

Pursuant to the separation and distribution agreement and certain other agreements we entered into with YUM, YUM has agreed to indemnify us for certain liabilities set forth in the separation and distribution agreement. However, third parties could also seek to hold us responsible for any of the liabilities that YUM has agreed to retain, and there can be no assurance that the indemnity from YUM will be sufficient to protect us against the full amount of such liabilities, or that YUM will be able to fully satisfy its indemnification obligations. In addition, YUM's insurers may attempt to deny us coverage for liabilities associated with certain occurrences of indemnified liabilities prior to the separation. Moreover, even if we ultimately succeed in recovering from YUM or such insurance providers any amounts for which we are held liable, we may be temporarily required to bear these losses. Each of these risks could negatively affect our business, results of operations, financial condition and cash flows.

A court could require that we assume responsibility for obligations allocated to YUM under the separation and distribution agreement.

Under the separation and distribution agreement and related ancillary agreements, from and after the separation, each of YUM and the Company will be generally responsible for the debts, liabilities and other obligations related to the business or businesses which they own and operate following the consummation of the separation. Although we do not expect to be liable for any obligations that are not allocated to us under the separation and distribution agreement, a court could disregard the allocation agreed to between the parties, and require that we assume responsibility for obligations allocated to YUM (for example, tax and/or environmental liabilities), particularly if YUM were to refuse or were unable to pay or perform the allocated obligations.

Potential liabilities may arise due to fraudulent transfer considerations, which would adversely affect our results of operations and financial condition.

In connection with the separation and distribution, YUM completed several corporate reorganization transactions involving its subsidiaries which, along with the separation and distribution, may be subject to federal and state fraudulent conveyance and transfer laws. If, under these laws, a court were to determine that, at the time of the separation and distribution, any entity involved in these reorganization transactions or the separation and distribution:

- was insolvent;
- was rendered insolvent by reason of the separation and distribution or a related transaction;
- had remaining assets constituting unreasonably small capital; or
- intended to incur, or believed it would incur, debts beyond its ability to pay these debts as they matured,

then the court could void the separation and distribution, in whole or in part, as a fraudulent conveyance or transfer. The court could then require our stockholders to return to YUM some or all of the shares of Company common stock issued in the distribution, or require YUM or the Company, as the case may be, to fund liabilities of the other company for the benefit of creditors. The measure of insolvency will vary depending upon the jurisdiction whose law is being applied. Generally, however, an entity would be considered insolvent if the fair value of its assets was less than the amount of its liabilities, or if it was unable to pay its liabilities as they mature.

Risks Related to Our Common Stock

The Company cannot guarantee the timing or amount of dividends on, or repurchases of, its common stock.

We intend to retain a significant portion of our earnings to finance the operation, development and growth of our business. Our board of directors commenced a quarterly cash dividend in October 2017, which was temporarily suspended during part of 2020 due to the impacts of the COVID-19 pandemic. Any future determination to declare and pay cash dividends will be at the discretion of our board of directors and will depend on, among other things, our financial condition, results of operations, actual or anticipated cash requirements, tax considerations, contractual or regulatory restrictions and such other factors as our board of directors deems relevant. Our board of directors has also authorized a $1.4 billion share repurchase program. Starting in the second quarter of 2020, our share repurchases have been suspended due to the impacts of the COVID-19 pandemic. Any future repurchases under the program will be at the discretion of management and we cannot guarantee the timing or amount of any share repurchases. For more information, see Item 5. "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."

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

We are subject to both New York Stock Exchange and Hong Kong Stock Exchange listing and regulatory requirements concurrently. The Hong Kong Stock Exchange and the New York Stock Exchange have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules, and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading prices of shares of our common stock may not be the same on the two exchanges, even allowing for currency differences. Certain events having significant negative impact specifically on the U.S. capital markets may result in a decline in the trading price of our shares on the Hong Kong Stock Exchange notwithstanding that such event may not impact the trading prices of securities listed in Hong Kong generally or to the same extent, or vice versa. Because of the different characteristics of the U.S. and Hong Kong capital markets, the historical market prices of our shares may not be indicative of the trading performance of the shares in the future.

As a company with a secondary listing on the Hong Kong Stock Exchange under Chapter 19C of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules"), we adopt different practices as to certain matters as compared with many other companies listed on the Hong Kong Stock Exchange. If 55% or more of the total worldwide trading volume, by dollar value, of our shares over our most recent fiscal year takes place on the Hong Kong Stock Exchange, the Hong Kong Stock Exchange will regard us as having a dual primary listing in Hong Kong and we will no longer enjoy certain exemptions or waivers from strict compliance with the requirements under the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Codes on Takeovers and Mergers and Share Buy-backs and the Securities and Futures Ordinance, which could result in our incurring of incremental compliance costs.

The interests of the Investors may differ from the interests of other holders of Company common stock, and the ownership percentage of other holders of Company common stock will be diluted as a result of any exercise of the warrants issued to the Investors.

In connection with the separation and distribution, Pollos Investment L.P., an affiliate of Primavera Capital Group ("Primavera"), and API (Hong Kong) Investment Limited, an affiliate of Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. ("Ant Financial" and together with Primavera, the "Investors") received shares of common stock, representing approximately 4.4% of the outstanding shares of Company common stock as of December 31, 2020. In addition, the Investors were issued warrants to purchase approximately 4% of the then outstanding shares of Company common stock in January 2017. Each of Primavera and Ant Financial has entered into pre-paid forward sale transactions with respect to all of their warrants with several financial institutions, pursuant to which Primavera and Ant Financial are obligated to deliver their respective warrants on the applicable settlement date. Any shares issued as a result of the exercise of the warrants will have a dilutive effect on the Company's basic earnings per share, which could adversely affect the market price of Company common stock. In addition, the Investors have the ability to acquire additional shares of Company common stock in the open market (subject to an aggregate beneficial ownership interest limit of 19.9%).

The interests of the Investors may differ from those of other holders of Company common stock in material respects. For example, the Investors may have an interest in pursuing acquisitions, divestitures, financings or other transactions that could enhance their respective equity portfolios, even though such transactions might involve risks to holders of Company common stock. The Investors may, from time to time in the future, acquire interests in businesses that directly or indirectly compete with certain portions of the Company's business or are suppliers or customers of the Company. Additionally, the Investors may determine that the disposition of some or all of their interests in the Company would be beneficial to the Investors at a time when such disposition could be detrimental to the other holders of Company common stock.

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

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions, summarized below, that could make it more difficult to acquire control of the Company by means of a tender offer, a proxy contest or otherwise, or to remove incumbent officers and directors. Further, as a Delaware corporation, we are subject to provisions of Delaware law, which may impair a takeover attempt that our stockholders may find beneficial. These provisions might discourage certain types of coercive takeover practices and takeover bids that our board of directors may consider inadequate or delay acquisition attempts for us that holders of Company common stock might consider favorable.

- Our amended and restated bylaws provide that such bylaws may be amended by our board of directors or by the affirmative vote of a majority of our stockholders entitled to vote.

- Our amended and restated certificate of incorporation provides that only our board of directors (or the chairman of our board of directors, our CEO or our secretary with the concurrence of a majority of our board of directors) may call special meetings of our stockholders.

- Our amended and restated certificate of incorporation expressly eliminates the right of our stockholders to act by written consent. Accordingly, stockholder action must take place at the annual or a special meeting of our stockholders.

- Our amended and restated bylaws establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors other than nominations made by or at the direction of our board of directors or a committee of our board of directors.

- Our amended and restated certificate of incorporation does not provide for cumulative voting, which means that stockholders are denied the right to cumulate votes in the election of directors.

- Our board of directors has the authority to issue preferred stock, which could potentially be used to discourage attempts by third parties to obtain control of our company through a merger, tender offer, proxy contest or otherwise by making such attempts more difficult or more costly.

General Risk Factors

We could be party to litigation that could adversely affect us by increasing our expenses, diverting management attention or subjecting us to significant monetary damages and other remedies.

We are involved in legal proceedings from time to time. These proceedings do or could include consumer, employment, real estate-related, tort, intellectual property, breach of contract and other litigation. As a public company, we may in the future also be involved in legal proceedings alleging violation of securities laws or derivative litigation. Plaintiffs in these types of lawsuits often seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may not be accurately estimated. Regardless of whether any claims against us are valid, or whether we are ultimately held liable, such litigation may be expensive to defend and may divert resources and management attention away from our operations and negatively impact reported earnings. With respect to insured claims, a judgment for monetary damages in excess of any insurance coverage could adversely affect our financial condition or results of operations. Any adverse publicity resulting from these allegations may also adversely affect our reputation, which in turn could adversely affect our results of operations.

In addition, the restaurant industry around the world has been subject to claims that relate to the nutritional content of food products, as well as claims that the menus and practices of restaurant chains have led to customer health issues, including weight gain and other adverse effects. We may also be subject to these types of claims in the future and, even if we are not, publicity about these matters (particularly directed at the quick-service and fast-casual segments of the restaurant industry) may harm our reputation and adversely affect our business, results of operations and financial condition.

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

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including revenue recognition, long-lived asset impairment, impairment of goodwill and other intangible assets, lease accounting, share-based compensation and recoverability of deferred tax assets are highly complex and involve many subjective assumptions, estimates and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported or expected financial performance or financial condition. New accounting guidance may require systems and other changes that could increase our operating costs and/or change our financial statements. For example, implementing the new lease standard issued by Financial Accounting Standards Board requires us to make significant changes to our lease management system and other accounting systems, and results in changes to our financial statements. The adoption of the new accounting standard for leases may result in a higher amount of impairment loss on newly recognized right-of-use assets and negatively impact our results of operations. Upon adoption of Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842) ("ASC 842") on January 1, 2019, an impairment charge of $60 million (net of related impact on deferred taxes and noncontrolling interests) on right-of-use assets arising from existing operating leases as of January 1, 2019 was recorded as an adjustment to retained earnings, as the additional impairment charge would have been recorded before adoption had the operating lease right-of-use assets been recognized at the time of impairment. See Note 12 for details on the impairment charge recorded upon adoption of ASC 842 as well as subsequent impairment charges.

Our insurance policies may not provide adequate coverage for all claims associated with our business operations.

We have obtained insurance policies that we believe are customary and appropriate for businesses of our size and type and at least in line with the standard commercial practice in China. However, there are types of losses we may incur that cannot be insured against or that we believe are not cost effective to insure, such as loss of reputation. If we were held liable for uninsured losses or amounts or claims for insured losses exceeding the limits of our insurance coverage, our business and results of operations may be materially and adversely affected.

Unforeseeable business interruptions could adversely affect our business.

Our operations are vulnerable to interruption by natural disasters, such as fires, floods and earthquakes, war, terrorism, power failures and power shortages, hardware and software failures, computer viruses and other events beyond our control. In particular, our business is dependent on prompt delivery and reliable transportation of our food products by our logistics partners. Unforeseeable events, such as adverse weather conditions, natural disasters, severe traffic accidents and delays, non-cooperation of our logistics partners, and labor strikes, could lead to delay or lost deliveries to our restaurants, which may result in the loss of revenue or in customer claims. There may also be instances where the conditions of fresh, chilled or frozen food products, being perishable goods, deteriorate due to delivery delays, malfunctioning of refrigeration facilities or poor handling during transportation by our logistics partners. This may result in a failure by us to provide quality food and services to customers, thereby affecting our business and potentially damaging our reputation. Any such events experienced by us could disrupt our operations. In addition, insurance may not be available to cover losses due to business interruptions resulting from public health issues.

Failure by us to maintain effective disclosure controls and procedures and internal control over financial reporting in accordance with the rules of the SEC could harm our business and results of operations and/or result in a loss of investor confidence in our financial reports, which could have a material adverse effect on our business.

We are required to maintain effective disclosure controls and procedures and effective internal control over financial reporting in connection with our filing of periodic reports with the SEC under the Exchange Act.

We may fail to maintain effective disclosure controls and procedures and internal control over financial reporting, and our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This may in turn cause investors to lose confidence in our financial statements and negatively impact the trading price of our common stock. Furthermore, we have incurred substantial costs, and may need to incur additional costs and use additional management and other resources, to comply with these requirements going forward.

If we fail to remedy any material weakness, our financial statements may be inaccurate and we may face restricted access to the capital markets, which could adversely affect our business, results of operations and financial condition.

The Company's stock price may fluctuate significantly.

The trading price of shares of our common stock can be volatile and could fluctuate widely in response to a variety of factors, many of which are beyond our control. In addition, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong and/or the United States may affect the volatility in the prices of and trading volumes for our shares. Some of these companies have experienced significant volatility. The trading performances of these companies' securities at the time of or after their offerings may affect the overall investor sentiment towards other companies with business operations located mainly in China and listed in Hong Kong and/or the United States and consequently may impact the trading performance of our shares. In addition to market and industry factors, the prices and trading volumes for our shares may be highly volatile for specific business reasons, including:

- actual or anticipated fluctuations in the our results of operations;
- significant liability claims, health concerns, food contamination complaints from our customers, shortages or interruptions in the availability of food or other supplies, or reports of incidents of food tampering;
- foreign exchange issues;
- geopolitical instability, conflict, or social unrest in the markets in which we operate, in Hong Kong, the United States or worldwide;
- changes in the regulatory, legal and political environment in which we operate, in Hong Kong, the United States and or worldwide; or
- the domestic and worldwide economies as a whole;

Any of these factors may result in large and sudden changes in the volume and trading price of our shares.

Substantial future sales or perceived potential sales of our shares in the public market could cause the price of our shares to decline significantly.

Sales of shares of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our shares to decline significantly. Divesture in the future of our shares by stockholders, the announcement of any plan to divest our shares, or hedging activity by third-party financial institutions in connection with similar derivative or other financing arrangements entered into by stockholders, could cause the price of our shares to decline.

Your percentage of ownership in the Company may be diluted in the future.

In the future, your percentage ownership in the Company may be diluted because of equity awards that we grant to our directors, officers and employees or otherwise as a result of equity issuances for acquisitions or capital market transactions. The Company's and certain of YUM's employees have equity awards with respect to Company common stock as a result of conversion of their YUM equity awards (in whole or in part) to Company equity awards in connection with the distribution. From time to time, the Company will issue additional stock-based awards to its employees under the Company's employee benefit plans. Such awards will have a dilutive effect on the Company's earnings per share, which could adversely affect the market price of Company common stock.

In addition, our amended and restated certificate of incorporation authorizes us to issue, without the approval of the Company's stockholders, one or more classes or series of preferred stock that have such designation, powers, preferences and relative, participating, optional and other special rights, including preferences over Company common stock respecting dividends and distributions, as our board of directors generally may determine. The terms of one or more classes or series of preferred stock could dilute the voting power or reduce the value of Company common stock. Similarly, the repurchase or redemption rights or liquidation preferences we could assign to holders of preferred stock could affect the residual value of the common stock.

ITEM 1B. Unresolved Staff Comments.

Not applicable.

ITEM 2. Properties.

As of year-end 2020, we leased land, building or both for over 8,100 units in China, which unit count includes land use rights for over 40 properties. We believe that our properties are generally in good operating condition and are suitable for the purposes for which they are being used. The Company-owned units are further detailed as follows:

- KFC leased land, building or both (including land use rights) for approximately 5,872 units.
- Pizza Hut leased land, building or both (including land use rights) for approximately 2,230 units.
- in addition to KFC and Pizza Hut, we also leased land, building or both (including land use rights) for approximately 88 units for our other restaurant concepts.

Company-owned restaurants in China are generally leased for initial terms of 10 to 20 years and generally do not have renewal options. We also lease our corporate headquarters in Shanghai and Dallas, Texas in the U.S., and regional offices and an innovation center in China, and own land use rights for nine non-store properties of Little Sheep, Huang Ji Huang and logistic centers. We sublease around 170 properties to franchisees and other third parties. Additional information about the Company's properties is included in Note 11 to the Consolidated Financial Statements in Part II, Item 8.

ITEM 3. Legal Proceedings.

We are subject to various lawsuits covering a variety of allegations from time to time. We believe that the ultimate liability, if any, in excess of amounts already provided for these matters in the Consolidated Financial Statements, is not likely to have a material adverse effect on the Company's annual results of operations, financial condition or cash flows. Matters faced by the Company from time to time include, but are not limited to, claims from landlords, employees, guests and others related to operational, contractual or employment issues. We are not involved in any material legal proceedings as of December 31, 2020.

ITEM 4. Mine Safety Disclosures.

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market for Yum China Common Stock

Yum China common stock trades on the New York Stock Exchange ("NYSE") under the symbol YUMC. Yum China common stock commenced trading on the NYSE on a "when-issued" basis on October 17, 2016 and began "regular way" trading on November 1, 2016. On September 10, 2020, the Company completed a secondary listing of its common stock on the Main Board of the HKEX under the stock code "9987". The shares listed on the HKEX are fully fungible with the shares listed on the NYSE.

As of February 22, 2021, there were 42,116 holders of record of Yum China's common stock. The number of registered holders does not include holders who are beneficial owners, but whose shares are held in street name by brokers and other nominees.

Dividends and Share Repurchases

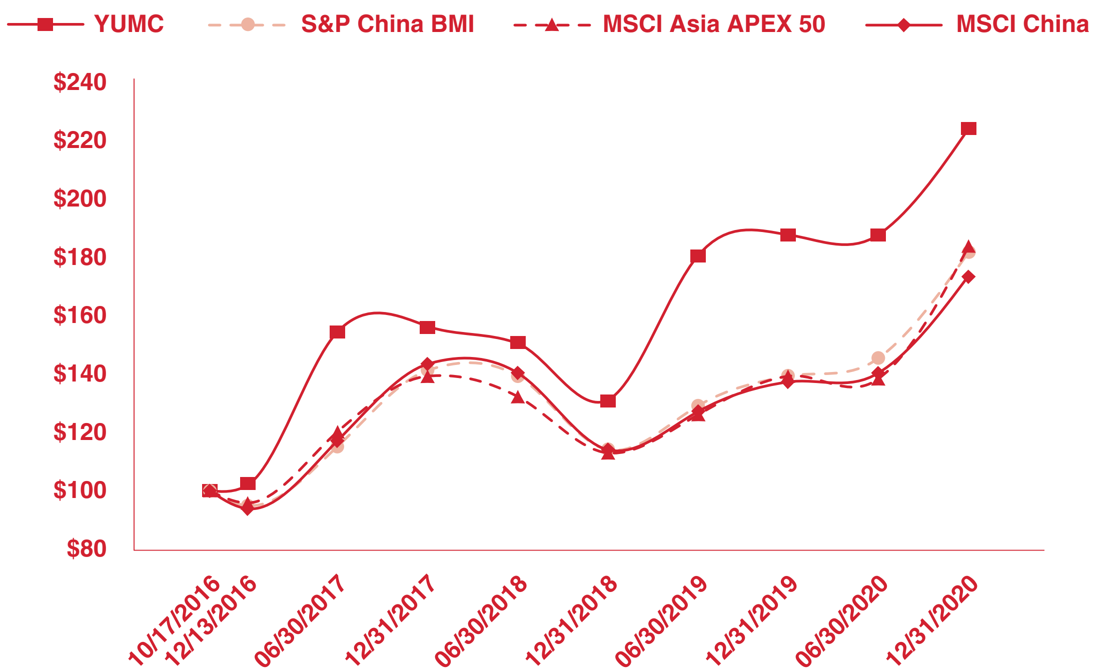
We intend to retain a significant portion of our earnings to finance the operation, development and growth of our business. Since declaring an initial dividend of $0.10 per share in the fourth quarter of 2017, we have paid a quarterly cash dividend on Yum China common stock. In the fourth quarter of 2018, each quarter of 2019, and the first and fourth quarter of 2020, we paid a quarterly cash dividend of $0.12 per share. Due to the unprecedented effects of the COVID-19 pandemic, the Company suspended its dividend payments in the second and third quarter of 2020. Cash dividends totaling $95 million were paid to shareholders in 2020. Any determination to declare and pay future cash dividends will be at the discretion of our board of directors and will depend on, among other things, our financial condition, results of operations, actual or anticipated cash requirements, contractual or regulatory restrictions, tax considerations and such other factors as our board of directors deems relevant.

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

Our board of directors has authorized an aggregate of $1.4 billion for our share repurchase program, including its most recent increase in authorization on October 31, 2018. Yum China may repurchase shares under this program from time to time in open market or privately negotiated transactions, including block trades, accelerated share repurchase transactions and the use of Rule 10b5-1 trading plans. As a result of the COVID-19 pandemic impact, we have taken, and are continuing to take, certain actions to provide additional liquidity and flexibility, which include suspending our share repurchase. No shares were repurchased during the quarter ended December 31, 2020. As of December 31, 2020, $692 million remained available for future share repurchases under the authorization.

Stock Performance Graph

This graph compares the cumulative total return of our common stock from October 17, 2016, which is the date "when-issued" trading in our common stock commenced, through December 31, 2020, with the comparable cumulative total return of the S&P China BMI, MSCI Asia APEX 50, and MSCI China Index. The graph assumes that the value of the investment in our common stock and each index was $100 on October 17, 2016 and that all dividends were reinvested. We selected the S&P China BMI and MSCI Asia APEX 50 for comparison, as YUMC is an index member of both of these indices. We also selected MSCI China Index, as our relative total shareholder return against this index is one of the measures to determine the payout of certain PSU awards.



	10/17/2016	12/31/2016	06/30/2017	12/31/2017	06/30/2018	12/31/2018	06/30/2019	12/31/2019	06/30/2020	12/31/2020
YUMC	$ 100	$ 102	$ 154	$ 156	$ 150	$ 131	$ 180	$ 187	$ 187	$ 223
S&P China BMI	$ 100	$ 95	$ 115	$ 141	$ 139	$ 114	$ 129	$ 139	$ 145	$ 181
MSCI Asia APEX 50	$ 100	$ 96	$ 120	$ 139	$ 132	$ 113	$ 126	$ 139	$ 138	$ 183
MSCI China	$ 100	$ 94	$ 117	$ 143	$ 140	$ 114	$ 127	$ 137	$ 140	$ 173

ITEM 6. Selected Financial Data.

The following table presents our selected historical consolidated and combined financial data. We derived the Consolidated Statements of Income data and the Consolidated Cash Flows data for the years ended December 31, 2020, 2019 and 2018, and the Consolidated Balance Sheets data as of December 31, 2020 and 2019, as set forth below, from our audited Consolidated Financial Statements, which are included elsewhere in this Form 10-K. We derived the Consolidated Statements of Income data and Consolidated Cash Flows data for the year ended December 31, 2017, Consolidated and Combined Statements of Income data and the Consolidated and Combined Cash Flows data for the year ended December 31, 2016, Consolidated Balance Sheets data as of December 31, 2018, 2017 and 2016, as set forth below, from our audited Consolidated and Combined Financial Statements that are not included in this Form 10-K.

Our combined financial information for periods prior to the separation may not necessarily reflect our financial position, results of operations or cash flows as if we had operated as an independent public company during the periods prior to October 31, 2016, including changes that occurred in our operations and capitalization as a result of the separation from YUM and the distribution. Accordingly, our historical combined results should not be relied upon as an indicator of our future performance.

The Company adopted Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* ("ASC 842") on January 1, 2019, using a modified retrospective method. Accordingly, financial data for the years ended December 31, 2018, 2017 and 2016 were not recast, which impacts the year-to-year comparability. See Note 2 of the Consolidated Financial Statements for more detailed information regarding adoption of the new lease standard.

The Company adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASC 606") on January 1, 2018, and applied the full retrospective approach. Accordingly, financial data for the years ended December 31, 2017 and 2016 has been recast.

The following tables should be read together with, and are qualified in their entirety by reference to, the historical Consolidated and Combined Financial Statements and the related notes included elsewhere in this Form 10-K. Among other things, the historical Consolidated and Combined Financial Statements include more detailed information regarding the basis of presentation for the information in the following table. The tables should also be read together with the sections entitled "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data."

Selected Financial Data

Yum China Holdings, Inc.
(in US$ millions, except per share and unit amounts)

	For the Years Ended December 31,				
	2020	2019	2018	2017	2016
Consolidated and Combined Statements of Income Data:					
Revenues					
Company sales	$ 7,396	$ 7,925	$ 7,633	$ 6,993	$ 6,622
Franchise fees and income	148	148	141	141	129
Revenues from transactions with franchisees and unconsolidated affiliates	647	654	603	599	299
Other revenues	72	49	38	36	25
Total revenues	8,263	8,776	8,415	7,769	7,075
Costs and Expenses, Net					
Company restaurants					
Food and paper	2,342	2,479	2,326	2,034	1,921
Payroll and employee benefits	1,730	1,807	1,714	1,543	1,432
Occupancy and other operating expenses	2,226	2,373	2,394	2,245	2,259
Company restaurant expenses	6,298	6,659	6,434	5,822	5,612
General and administrative expenses	479	487	456	495	429
Franchise expenses	65	71	71	71	72
Expenses for transactions with franchisees and unconsolidated affiliates	633	645	595	592	295
Other operating costs and expenses	57	37	29	28	15
Closures and impairment expenses, net	55	36	41	47	78
Other income, net	(285)	(60)	(152)	(64)	(60)
Total costs and expenses, net	7,302	7,875	7,474	6,991	6,441
Operating Profit	961	901	941	778	634
Interest income, net	43	39	36	25	11
Investment gain (loss)	104	63	(27)	—	—
Changes in fair value of financial instruments	—	—	—	—	21
Income Before Income Taxes	1,108	1,003	950	803	666
Income tax provision	(295)	(260)	(214)	(379)	(156)
Net income—including noncontrolling interests	813	743	736	424	510
Net income—noncontrolling interests	29	30	28	26	12
Net Income—Yum China Holdings, Inc.	784	713	708	398	498
Basic Earnings Per Common Share	2.01	1.89	1.84	1.03	1.35
Diluted Earnings Per Common Share	1.95	1.84	1.79	1.00	1.35
Cash Dividends Declared Per Common Share	0.24	0.48	0.42	0.10	—
Consolidated and Combined Cash Flow Data:					
Net cash provided by operating activities	$ 1,114	$ 1,185	$ 1,333	$ 884	$ 866
Capital spending	419	435	470	415	436
Consolidated Balance Sheet Data:					
Total assets	$ 10,875	$ 6,950	$ 4,610	$ 4,287	$ 3,750
Property, plant and equipment, net	1,765	1,594	1,615	1,691	1,647
Operating lease right-of-use assets	2,164	1,985	—	—	—
Total Yum China Holdings, Inc. Stockholders' Equity	6,206	3,077	2,873	2,765	2,367
Other Data:					
Adjusted Diluted Earnings Per Common Share[(a)]	$ 1.53	$ 1.88	$ 1.53	$ 1.40	$ 1.27
Number of stores at year-end					
Company	8,190	7,355	6,832	6,307	6,008
Unconsolidated Affiliates	681	896	811	891	836
Franchisees	1,635	949	841	785	718
Total	10,506	9,200	8,484	7,983	7,562
Total Company system sales (decline) growth[(b)]					
Reported	(5)%	4%	7%	6%	(1)%
Local currency[(c)]	(5)%	9%	5%	8%	5%
KFC system sales (decline) growth[(b)]					
Reported	(5)%	6%	10%	7%	—%
Local currency[(c)]	(5)%	11%	7%	9%	6%
Pizza Hut system sales (decline) growth[(b)]					
Reported	(15)%	(2)%	1%	5%	(2)%
Local currency[(c)]	(15)%	3%	(1)%	7%	4%

(a) In addition to the results provided in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") throughout this Form 10-K, the Company provides non-GAAP measures which present certain operating results on a basis before Special Items. The Company excludes impact from Special Items for the purpose of evaluating performance internally and Special Items are not included in any of our segment results. The adjusted measures are not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of measures adjusted for Special Items provides additional information to investors to facilitate the comparison of past and present results, excluding items that the Company does not believe are indicative of our ongoing operations due to their nature. The 2020, 2019 and 2018 Special Items are described in further detail within our Management's Discussion and Analysis of Financial Condition and Results of Operations. Special Items in 2017 negatively impacted net income by $161 million, or $0.40 per share, due to the impact from the Tax Act of $164 million, offset by income from the reversal of contingent consideration of $3 million. Special Items in 2016 negatively impacted operating profit by $15 million, or $0.08 per share, primarily due to the incremental restaurant-level impairment upon separation.

(b) System sales growth reflects the results of all restaurants regardless of ownership, including Company-owned, franchise and unconsolidated affiliate restaurants that operate our concepts, except for sales from non-Company-owned restaurants, for which we do not receive a sales-based royalty. Sales of franchise and unconsolidated affiliate restaurants typically generate ongoing franchise fees for the Company at a rate of approximately 6% of system sales. Franchise and unconsolidated affiliate restaurants sales are not included in Company sales in the Consolidated and Combined 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.

(c) Local currency represents the percentage change excluding the impact of foreign currency translation. These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the foreign currency translation impact provides better year-to-year comparability without distorting of foreign currency fluctuations.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Consolidated Financial Statements in Item 8, the "Forward-Looking Statements" section at the beginning of this Form 10-K and the "Risk Factors" section set forth in Item 1A.

All Note references in this MD&A refer to the Notes to the Consolidated Financial Statements included in Item 8. of this Form 10-K. Tabular amounts are displayed in millions of U.S. dollars except per share and unit count amounts, or as otherwise specifically identified. Percentages may not recompute due to rounding. Throughout this Form 10-K when we refer to the "financial statements," we are referring to the "Consolidated Financial Statements," unless the context indicates otherwise.

Overview

Yum China Holdings, Inc. is the largest restaurant company in China in terms of system sales, with $8.3 billion of revenues in 2020 and over 10,500 restaurants as of year-end 2020. Our growing restaurant network consists of our flagship KFC and Pizza Hut brands, as well as emerging brands such as Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell and Lavazza. We have the exclusive right to operate and sublicense the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China, (excluding Hong Kong, Macau and Taiwan), and own the intellectual property of the Little Sheep, Huang Ji Huang, COFFii & JOY and East Dawning concepts outright. We also established a joint venture with Lavazza Group, the world-renowned family-owned Italian coffee company, to explore and develop the Lavazza coffee shop concept in China. KFC was the first major global restaurant brand to enter China as early as 1987. With more than 30 years of operations, we have developed extensive operating experience in the China market. We have since grown to become the largest restaurant company in China in terms of 2020 System sales, with 10,506 restaurants covering over 1,500 cities primarily in China as of December 31, 2020. We believe that there are significant opportunities to expand within China, and we intend to focus our efforts on increasing our geographic footprint in both existing and new cities.

KFC is the leading and the largest quick-service restaurant ("QSR") brand in China in terms of system sales. As of December 31, 2020, KFC operated over 7,100 restaurants in more than 1,500 cities across China. KFC primarily competes with western QSR brands in China, such as McDonald's, Dicos and Burger King, among which we believe KFC had an approximate two-to-one lead over its nearest competitor in terms of store count as of the end of 2020. During the quarter ended March 31, 2018, the Company completed the acquisition of an additional 36% interest in an unconsolidated affiliate that operates KFC stores in and around Wuxi, China ("Wuxi KFC"), increasing our equity interest to 83% and allowing the Company to consolidate the entity. During the quarter ended September 30, 2020, the Company completed the acquisition of an additional 25% interest in an unconsolidated affiliate that operates KFC stores in and around Suzhou, China ("Suzhou KFC"), increasing our equity interest to 72% and allowing the Company to consolidate the entity.

Pizza Hut is the leading and the largest casual dining restaurant ("CDR") brand in China in terms of system sales and number of restaurants. As of December 31, 2020, Pizza Hut operated over 2,300 restaurants in over 500 cities. Measured by number of restaurants, we believe Pizza Hut has an approximate six-to-one lead over its nearest western CDR competitor in China as of the end of 2020.

We have two reportable segments: KFC and Pizza Hut. Our remaining non-reportable operating segments, including the operations of Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell, Lavazza, Daojia and our e-commerce business, are combined and referred to as All Other Segments, as these operating segments are insignificant both individually and in the aggregate. Starting from the first quarter of 2019, our COFFii & JOY concept and e-commerce business became operating segments, as their financial results started being regularly reviewed by the Company's chief operating decision maker. Segment financial information for prior years has been recast to align with this change in segment reporting. There was no impact to the consolidated financial statements of the Company as a result of this change. Additional details on our reportable operating segments are included in Note 17.

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

- The Company provides certain percentage changes excluding the impact of foreign currency translation ("F/X"). These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the F/X impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.

- System sales growth reflects the results of all restaurants regardless of ownership, including Company-owned, franchise and unconsolidated affiliate restaurants that operate our concepts, except for sales from non-Company-owned restaurants, for which we do not receive a sales-based royalty. Sales of franchise and unconsolidated affiliate restaurants typically generate ongoing franchise fees for the Company at a rate of approximately 6% of system sales. Franchise and unconsolidated affiliate restaurant sales are not included in Company sales in the Consolidated Statements of Income; however, the franchise fees are included in the Company's revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit growth.

- Effective January 1, 2018, the Company revised its definition of same-store sales growth to represent the estimated percentage change in sales of food of all restaurants in the Company system that have been open prior to the first day of our prior fiscal year, excluding the period during which stores are temporarily closed. We refer to these as our "base" stores. Previously, same-store sales growth represented the estimated percentage change in sales of all restaurants in the Company system that have been open for one year or more, including stores temporarily closed, and the base stores changed on a rolling basis from month to month. This revision was made to align with how management measures performance internally and focuses on trends of a more stable base of stores. Prior years have been adjusted accordingly.

- Company sales represent revenues from Company-owned restaurants. Company Restaurant profit ("Restaurant profit") is defined as Company sales less expenses incurred directly by our Company-owned restaurants in generating Company sales. Company restaurant margin percentage is defined as Restaurant profit divided by Company sales. Within the Company sales and Restaurant profit analysis, Store Portfolio Actions represent the net impact of new-unit openings, acquisitions, refranchising and store closures, and Other primarily represents the impact of same-store sales as well as the impact of changes in restaurant operating costs such as inflation/deflation.

Results of Operations

Summary

All comparisons within this summary are versus the same period a year ago. All system sales growth, same-store sales growth, operating profit and net income comparisons exclude the impact of foreign currency. Refer to Item 1. Business for a discussion on the seasonality of our operations.

The COVID-19 pandemic has adversely affected, and will continue to adversely affect, our operations and financial results for the foreseeable future.

In 2020, the Company's total revenues decreased 6%, both including and excluding the impact of F/X, mainly attributable to same-store sales decline of 8% and 14% at KFC and Pizza Hut, respectively, and temporary store closures due to the impact of the COVID-19 pandemic, partially offset by new-unit openings of 1,165 and the acquisition of Suzhou KFC and Huang Ji Huang, bringing total store count to 10,506 in more than 1,500 cities. The increase in operating profit, excluding the impact of F/X, was primarily driven by a gain recognized from re-measurement of our previously held equity interest in Suzhou KFC at fair value upon acquisition in the third quarter of 2020 and lower G&A expenses, partially offset by the decline in restaurant profit and higher closure and store impairment expenses due to the impact of the COVID-19 pandemic. Net income for 2020 increased 10%, both including and excluding F/X, mainly due to the increase in operating profit and investment gain, partially offset by higher income tax expenses, while Adjusted Net Income, excluding F/X, decreased 15%.

In 2019, the Company's total revenues increased 4%, or 9% excluding the impact of F/X, attributable to solid sales performance at KFC with same-store sales growth of 4% and 1% same-store sales growth at Pizza Hut. The increase was also attributable to new-unit openings of 1,006 or 8% net unit growth, bringing total store count to 9,200 in more than 1,300 cities. The increase in operating profit, excluding the impact of F/X, was primarily driven by strong sales and margin expansion, partially offset by the negative impact from lapping a gain recognized from re-measurement of our previously held equity interest in Wuxi KFC at fair value upon acquisition in 2018, and higher G&A expenses in 2019. Net income for 2019 increased 1% or 6%, excluding F/X, mainly due to investment gain and the increase in operating profit, partially offset by the impact from the Tax Act, while Adjusted Net Income, excluding F/X, increased 26%.

2020 financial highlights are below:

Year to date highlights:

	% Change				
	System Sales[(a)]	Same-Store Sales[(a)]	Net New Units	Operating Profit (Reported)	Operating Profit (Ex F/X)
KFC	(5)	(8)	+10	(16)	(16)
Pizza Hut	(15)	(14)	+3	(45)	(45)
All Other Segments[(b)]	NM	(20)	NM	+49	+45
Total	(5)	(9)	+14	+7	+7

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

(a) System Sales and Same-Store Sales percentages as shown in 2020 financial highlights exclude the impact of F/X. Effective January 1, 2018, temporary store closures are normalized in the same-store sales calculation by excluding the period during which stores are temporarily closed.

(b) Sales from non-Company-owned restaurants, for which we do not receive a sales-based royalty, are excluded from system sales and same-store sales.

The Consolidated Results of Operations for the years ended December 31, 2020, 2019 and 2018 and other data are presented below:

				% B/(W)[(a)]			
				2020		2019	
	2020	2019	2018	Reported	Ex F/X	Reported	Ex F/X
Company sales	$ 7,396	$ 7,925	$ 7,633	(7)	(7)	4	9
Franchise fees and income	148	148	141	—	—	5	9
Revenues from transactions with franchisees and unconsolidated affiliates	647	654	603	(1)	(2)	9	13
Other revenues	72	49	38	45	42	31	34
Total revenues	$ 8,263	$ 8,776	$ 8,415	(6)	(6)	4	9
Restaurant profit	$ 1,098	$ 1,266	$ 1,199	(13)	(13)	6	11
Restaurant margin %	14.9%	16.0%	15.7%	(1.1) ppts.	(1.1) ppts.	0.3 ppts.	0.3 ppts.
Operating Profit	$ 961	$ 901	$ 941	7	7	(4)	1
Interest income, net	43	39	36	11	11	7	12
Investment gain (loss)	104	63	(27)	65	65	NM	NM
Income tax provision	(295)	(260)	(214)	(13)	(13)	(21)	(26)
Net income—including noncontrolling interests	813	743	736	9	10	1	6
Net income—noncontrolling interests	29	30	28	3	4	(6)	(11)
Net Income—Yum China Holdings, Inc.	$ 784	$ 713	$ 708	10	10	1	6
Diluted Earnings Per Common Share	$ 1.95	$ 1.84	$ 1.79	6	7	3	8
Effective tax rate	26.6%	25.9%	22.6%				
Adjusted Operating Profit	$ 732	$ 912	$ 855				
Adjusted Net Income	$ 615	$ 729	$ 606				
Adjusted Diluted Earnings Per Common Share	$ 1.53	$ 1.88	$ 1.53				
Adjusted Effective Tax Rate	26.8%	24.9%	26.5%				
Adjusted EBITDA	$ 1,248	$ 1,378	$ 1,340				

(a) Represents year-over-year change in percentage.

Performance Metrics

	2020	2019
System Sales (Decline) Growth	(5)%	4%
System Sales (Decline) Growth, excluding F/X	(5)%	9%
Same-store Sales (Decline) Growth	(9)%	3%

				% Increase (Decrease)	
Unit Count	2020[(a)]	2019	2018	2020	2019
Company-owned	8,190	7,355	6,832	11	8
Unconsolidated affiliates	681	896	811	(24)	10
Franchisees	1,635	949	841	72	13
	10,506	9,200	8,484	14	8

(a) As a result of the acquisition of Suzhou KFC as disclosed in Note 1, the units of Suzhou KFC were transferred from unconsolidated affiliates to Company-owned.

Non-GAAP Measures

In addition to the results provided in accordance with GAAP throughout this MD&A, the Company provides non-GAAP measures adjusted for Special Items, which include Adjusted Operating Profit, Adjusted Net Income, Adjusted Earnings Per Common Share ("EPS"), Adjusted Effective Tax Rate and Adjusted EBITDA, which we define as net income including noncontrolling interests adjusted for income tax, interest income, net, investment gain or loss, certain non-cash expenses, consisting of depreciation and amortization as well as store impairment charges, and Special Items.

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

Non-GAAP Reconciliations	2020	2019	2018
Reconciliation of Operating Profit to Adjusted Operating Profit			
Operating Profit	$ 961	$ 901	$ 941
Special Items, Operating Profit	229	(11)	86
Adjusted Operating Profit	$ 732	$ 912	$ 855
Reconciliation of Net Income to Adjusted Net Income			
Net Income—Yum China Holdings, Inc.	$ 784	$ 713	$ 708
Special Items, Net Income—Yum China Holdings, Inc.	169	(16)	102
Adjusted Net Income—Yum China Holdings, Inc.	$ 615	$ 729	$ 606
Reconciliation of EPS to Adjusted EPS			
Basic Earnings Per Common Share	$ 2.01	$ 1.89	$ 1.84
Special Items, Basic Earnings Per Common Share	0.43	(0.04)	0.26
Adjusted Basic Earnings Per Common Share	$ 1.58	$ 1.93	$ 1.58
Diluted Earnings Per Common Share	$ 1.95	$ 1.84	$ 1.79
Special Items, Diluted Earnings Per Common Share	0.42	(0.04)	0.26
Adjusted Diluted Earnings Per Common Share	$ 1.53	$ 1.88	$ 1.53
Reconciliation of Effective Tax Rate to Adjusted Effective Tax Rate			
Effective tax rate (See Note 16)	26.6%	25.9%	22.6%
Impact on effective tax rate as a result of Special Items	(0.2)%	1.0%	(3.9)%
Adjusted effective tax rate	26.8%	24.9%	26.5%

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

	2020	2019	2018
Reconciliation of Net Income to Adjusted EBITDA			
Net Income—Yum China Holdings, Inc.	$ 784	$ 713	$ 708
Net income—noncontrolling interests	29	30	28
Income tax provision	295	260	214
Interest income, net	(43)	(39)	(36)
Investment (gain) loss	(104)	(63)	27
Operating Profit	961	901	941
Special Items, Operating Profit	(229)	11	(86)
Adjusted Operating Profit	732	912	855
Depreciation and amortization	450	428	445
Store impairment charges	66	38	40
Adjusted EBITDA	$ 1,248	$ 1,378	$ 1,340

Form 10-K

Details of Special Items are presented below:

Details of Special Items		2020		2019		2018
Gain from re-measurement of equity interest upon acquisition[a]	$	239	$	—	$	98
Share-based compensation expense for Partner PSU Awards[b]		(7)		—		—
Derecognition of indemnification assets related to Daojia[c]		(3)		—		—
Daojia impairment[d]		—		(11)		(12)
Special Items, Operating Profit		229		(11)		86
Tax effect on Special Items[e]		(60)		1		(21)
Impact from the U.S. Tax Act[f]		—		(8)		36
Special Items, net income—including noncontrolling interests		169		(18)		101
Special Items, net income—noncontrolling interests		—		(2)		(1)
Special Items, Net Income—Yum China Holdings, Inc.	$	169	$	(16)	$	102
Weighted-Average Diluted Shares Outstanding (in millions)		402		388		395
Special Items, Diluted Earnings Per Common Share	$	0.42	$	(0.04)	$	0.26

(a) As a result of the acquisition of Wuxi KFC and Suzhou KFC in the first quarter of 2018 and the third quarter of 2020, the Company recognized a gain of $98 million and $239 million, respectively, from the re-measurement of our previously held 47% equity interest at fair value, which was not allocated to any segment for performance reporting purposes. (See Note 5 for additional information.)

(b) In February 2020, the Company granted Partner PSU Awards to select employees who were deemed critical to the Company's execution of its strategic operating plan. These PSU awards will only vest if threshold performance goals are achieved over a four-year performance period, with the payout ranging from 0% to 200% of the target number of shares subject to the PSU awards. Partner PSU Awards were granted to address increased competition for executive talent, motivate transformational performance and encourage management retention. Given the unique nature of these grants, the Compensation Committee does not intend to grant similar, special grants to the same employees during the performance period. The impact from these special awards is excluded from metrics that management uses to assess the Company's performance. The Company recognized share-based compensation cost of $7 million associated with the Partner PSU Awards for the year ended December 31, 2020.

(c) In the quarter ended June 30, 2020, the Company derecognized a $3 million indemnification asset previously recorded for the Daojia acquisition as the indemnification right expired pursuant to the purchase agreement. The amount was included in Other income, net, but was not allocated to any segment for performance reporting purposes.

(d) During the years ended December 31, 2019 and 2018, we recorded impairment charges of $11 million and $12 million, respectively, on intangible assets and goodwill attributable to the Daojia business. The amount was included in Closures and impairment expenses in our Consolidated Statements of Income, but was not allocated to any segment for performance reporting purposes. For the years ended December 31, 2019 and 2018, we recorded tax benefits of $1 million and $3 million, respectively, associated with the Daojia impairment, and allocated $2 million and $1 million of the after-tax impairment charges to noncontrolling interests, respectively. (See Note 5 for additional information.)

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

(f) In the fourth quarter of 2018, we recognized a tax benefit of $36 million as a result of adjusting the provisional amount of the transition tax previously recorded. We completed the evaluation of the impact on our transition tax computation based on the final regulations that were released by the U.S. Treasury Department and the U.S. Internal Revenue Service and became effective in the first quarter of 2019, and recorded an additional tax expense of $8 million for the transition tax accordingly.

The Company excludes impact from Special Items for the purpose of evaluating performance internally. Special Items are not included in any of our segment results. In addition, the Company provides Adjusted EBITDA because we believe that investors and analysts may find it useful in measuring operating performance without regard to items such as income tax, interest income, net, investment gain or loss, depreciation and amortization, store impairment charges, and Special Items. Store impairment charges included as an adjustment item in Adjusted EBITDA primarily resulted from our semi-annual impairment evaluation of long-lived assets of individual restaurants, and additional impairment evaluation whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If these restaurant-level assets were not impaired, depreciation of the assets would have been recorded and included in EBITDA. Therefore, store impairment charges were a non-cash item similar to depreciation and amortization of our long-lived assets of restaurants. The Company believes that investors and analyst may find it useful in measuring operating performance without regard to such non-cash item.

These adjusted measures are not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of these adjusted measures provides additional information to investors to facilitate the comparison of past and present results, excluding those items that the Company does not believe are indicative of our ongoing operations due to their nature.

Segment Results

KFC

KFC delivered a resilient performance in 2020 by accelerating store expansion with attractive returns and maintaining solid profitability. KFC continued focus on innovative products, creating abundant value to our customers as well as upgrading ingredients to meet Chinese consumers' needs. KFC also continued with its digital and delivery initiatives to enhance the customer experience. KFC's loyalty program members exceeded 275 million at year-end 2020 and contributed approximately 62% of system sales at KFC in 2020. Delivery sales accounted for approximately 28% of Company sales at KFC in 2020 with store and city coverage of 85% and 97%, respectively, at the end of 2020.

				% B/(W)			
				2020		2019	
	2020	2019	2018	Reported	Ex F/X	Reported	Ex F/X
Company sales	$ 5,633	$ 5,839	$ 5,495	(4)	(4)	6	11
Franchise fees and income	125	136	132	(8)	(8)	2	7
Revenues from transactions with franchisees and unconsolidated affiliates	61	64	61	(4)	(4)	6	10
Other revenues	$ 2	$ 1	$ —	52	49	NM	NM
Total revenues	$ 5,821	$ 6,040	$ 5,688	(4)	(4)	6	11
Restaurant profit	$ 920	$ 1,042	$ 984	(12)	(12)	6	11
Restaurant margin %	16.3%	17.8%	17.9%	(1.5) ppts.	(1.5) ppts.	(0.1) ppts.	(0.1) ppts.
G&A expenses	$ 200	$ 207	$ 193	3	4	(7)	(12)
Franchise expenses	$ 62	$ 69	$ 69	10	10	—	(5)
Expenses for transactions with franchisees and unconsolidated affiliates	$ 61	$ 64	$ 60	4	4	(5)	(8)
Closure and impairment expenses, net	$ 25	$ 9	$ 10	NM	NM	15	13
Other income, net	$ (42)	$ (56)	$ (50)	(25)	(24)	10	15
Operating Profit	$ 801	$ 949	$ 895	(16)	(16)	6	11

	2020	2019
System Sales (Decline) Growth	(5)%	6%
System Sales (Decline) Growth, excluding F/X	(5)%	11%
Same-store Sales (Decline) Growth	(8)%	4%

Unit Count	2020[(a)]	2019	2018	% Increase (Decrease) 2020	% Increase (Decrease) 2019
Company-owned	5,872	5,083	4,597	16	11
Unconsolidated affiliates	677	896	811	(24)	10
Franchisees	617	555	502	11	11
	7,166	6,534	5,910	10	11

	2019	New Builds	Acquired[(a)]	Closures	Refranchised	2020
Company-owned	5,083	651	318	(171)	(9)	5,872
Unconsolidated affiliates	896	119	(316)	(22)	—	677
Franchisees	555	70	(2)	(15)	9	617
Total	6,534	840	—	(208)	—	7,166

	2018	New Builds	Closures	Refranchised	2019
Company-owned	4,597	586	(83)	(17)	5,083
Unconsolidated affiliates	811	106	(21)	—	896
Franchisees	502	50	(14)	17	555
Total	5,910	742	(118)	—	6,534

(a) As a result of the acquisition of Suzhou KFC as disclosed in Note 1, the units of Suzhou KFC were transferred from unconsolidated affiliates to Company-owned.

Company Sales and Restaurant Profit

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

Income (Expense)	2019	2020 vs. 2019 Store Portfolio Actions	Other	F/X	2020
Company sales	$ 5,839	$ 265	$ (487)	$ 16	$ 5,633
Cost of sales	(1,835)	(94)	133	(5)	(1,801)
Cost of labor	(1,245)	(87)	90	(5)	(1,247)
Occupancy and other operating expenses	(1,717)	(109)	166	(5)	(1,665)
Restaurant profit	$ 1,042	$ (25)	$ (98)	$ 1	$ 920

Income (Expense)	2018	2019 vs. 2018 Store Portfolio Actions	Other	F/X	2019
Company sales	$ 5,495	$ 414	$ 194	$ (264)	$ 5,839
Cost of sales	(1,679)	(136)	(102)	82	(1,835)
Cost of labor	(1,167)	(89)	(45)	56	(1,245)
Occupancy and other operating expenses	(1,665)	(125)	(5)	78	(1,717)
Restaurant profit	$ 984	$ 64	$ 42	$ (48)	$ 1,042

In 2020, the decrease in Company sales, excluding the impact of F/X, was primarily driven by the same-store sales decline and temporary store closures due to the impact of the COVID-19 pandemic, partially offset by net unit growth including the impact from the acquisition of Suzhou KFC. The decrease in Restaurant profit, excluding the impact of F/X, was primarily driven by the decrease in Company sales, increased rider cost associated with the rise in delivery volume, higher promotion costs and wage inflation of 3%, partially offset by labor efficiency, utility savings, one-time reductions in social security contributions and lease concessions.

In 2019, the increase in Company sales and Restaurant profit, excluding the impact of F/X, was mainly driven by same-store sales growth, net unit growth, labor efficiency and a decrease in utilities expenses and other restaurant operating costs, partially offset by commodity inflation of 4%, wage inflation of 5% and higher promotion cost.

Franchise Fees and Income

In 2020, the decrease in Franchise fees and income, excluding the impact of F/X, was primarily driven by the impact from the acquisition of Suzhou KFC and same-store sales decline of restaurants operated by unconsolidated affiliates and franchisees due to the impact of the COVID-19 pandemic, partially offset by the net unit growth of restaurants operated by unconsolidated affiliates and franchisees.

In 2019, the increase in Franchise fees and income, excluding the impact of F/X, was primarily driven by same-store sales growth and net unit growth for the unconsolidated affiliates and franchisees, partially offset by the impact from the acquisition of Wuxi KFC in 2018.

G&A Expenses

In 2020, the decrease in G&A expenses, excluding the impact of F/X, was primarily driven by realignment of cost structure, one-time reductions in social security contributions, higher government incentives received and a decrease in performance-based compensation, partially offset by merit increases.

In 2019, the increase in G&A expenses, excluding the impact of F/X, was primarily driven by higher compensation costs mainly due to merit increases and higher performance-based compensation associated with strong operating results of KFC.

Operating Profit

In 2020, the decrease in Operating profit, excluding the impact of F/X, was primarily driven by the decrease in Restaurant profit and higher Closure and store impairment expenses.

In 2019, the increase in Operating profit, excluding the impact of F/X, was primarily driven by the increase in Restaurant profit, partially offset by higher G&A expenses.

Pizza Hut

During 2020, we continued to focus on strengthening the fundamentals, including investments in products, strengthening our digital capabilities, developing delivery and other channels and enhancing asset portfolio to drive growth. Pizza Hut's loyalty program members exceeded 85 million at year-end 2020 and contributed approximately 52% of system sales at Pizza Hut in 2020. Delivery sales accounted for approximately 36% of Company sales at Pizza Hut in 2020 with store and city coverage of 92% and 99%, respectively, at the end of 2020.

	2020	2019	2018	% B/(W) 2020 Reported	2020 Ex F/X	2019 Reported	2019 Ex F/X
Company sales	$ 1,721	$ 2,045	$ 2,106	(16)	(16)	(3)	2
Franchise fees and income	5	4	3	18	17	71	79
Revenues from transactions with franchisees and unconsolidated affiliates	4	4	2	4	3	NM	NM
Other revenues	$ —	$ 1	$ —	(30)	(30)	NM	NM
Total revenues	$ 1,730	$ 2,054	$ 2,111	(16)	(16)	(3)	2
Restaurant profit	$ 181	$ 227	$ 215	(20)	(20)	5	10
Restaurant margin %	10.5%	11.1%	10.3%	(0.6) ppts.	(0.6) ppts.	0.8 ppts.	0.8 ppts.
G&A expenses	$ 96	$ 101	$ 102	5	5	1	(4)
Franchise expenses	$ 3	$ 2	$ 2	(14)	(14)	(32)	(38)
Expenses for transactions with franchisees and unconsolidated affiliates	$ 4	$ 4	$ 2	(12)	(12)	NM	NM
Closure and impairment expenses, net	$ 25	$ 14	$ 19	(83)	(81)	27	24
Other income, net	$ —	$ —	$ (2)	NM	NM	NM	NM
Operating Profit	$ 62	$ 114	$ 97	(45)	(45)	17	22

	2020	2019
System Sales Decline	(15)%	(2)%
System Sales (Decline) Growth, excluding F/X	(15)%	3%
Same-Store Sales (Decline) Growth	(14)%	1%

Unit Count	2020	2019	2018	% Increase 2020	% Increase 2019
Company-owned	2,230	2,178	2,188	2	—
Franchisees	125	103	52	21	98
	2,355	2,281	2,240	3	2

	2019	New Builds	Closures	Refranchised	2020
Company-owned	2,178	141	(77)	(12)	2,230
Franchisees	103	11	(1)	12	125
Total	2,281	152	(78)	—	2,355

	2018	New Builds	Closures	Refranchised	2019
Company-owned	2,188	117	(90)	(37)	2,178
Franchisees	52	15	(1)	37	103
Total	2,240	132	(91)	—	2,281

Company Sales and Restaurant Profit

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

Income (Expense)	2019	2020 vs. 2019 Store Portfolio Actions	Other	F/X	2020
Company sales	$ 2,045	$ (71)	$ (256)	$ 3	$ 1,721
Cost of sales	(633)	22	83	(1)	(529)
Cost of labor	(549)	16	63	(1)	(471)
Occupancy and other operating expenses	(636)	16	82	(2)	(540)
Restaurant profit	$ 227	$ (17)	$ (28)	$ (1)	$ 181

Income (Expense)	2019 vs. 2018				
	2018	Store Portfolio Actions	Other	F/X	2019
Company sales	$ 2,106	$ 9	$ 22	$ (92)	$ 2,045
Cost of sales	(637)	(4)	(21)	29	(633)
Cost of labor	(538)	(1)	(35)	25	(549)
Occupancy and other operating expenses	(716)	5	46	29	(636)
Restaurant profit	$ 215	$ 9	$ 12	$ (9)	$ 227

In 2020, the decrease in Company sales and Restaurant profit, excluding the impact of F/X, was primarily driven by same-store sales decline and temporary store closures due to the impact of the COVID-19 pandemic, increased rider cost associated with the rise in delivery volume, and commodity and wage inflation of 3% each, partially offset by labor efficiency, lower promotion costs, one-time reductions in social security contributions, and savings in utilities and other restaurant operating costs including lease concessions.

In 2019, the increase in Company sales and Restaurant profit, excluding the impact of F/X, was primarily driven by same-store sales growth, store portfolio actions, labor efficiency, commodity deflation of 2%, and savings in utilities and other restaurant operating costs, partially offset by higher promotion costs and wage inflation of 5%.

G&A Expenses

In 2020, the decrease in G&A expenses, excluding the impact of F/X, was primarily driven by the realignment of cost structure and one-time reductions in social security contributions.

In 2019, the increase in G&A expenses, excluding the impact of F/X, was primarily driven by higher compensation costs due to higher performance-based compensation and merit increases, and lower government incentives received, partially offset by lower shared cost allocation associated with store development activities.

Operating Profit

In 2020, the decrease in Operating profit, excluding the impact of F/X, was primarily driven by the decrease in Restaurant profit and higher Closure and store impairment expenses, partially offset by lower G&A expenses.

In 2019, the increase in Operating profit, excluding the impact of F/X, was primarily driven by the increase in Restaurant profit and lower Closure and store impairment expenses, partially offset by higher G&A expenses.

All Other Segments

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

	2020	2019	2018	% B/(W) 2020 Reported	% B/(W) 2020 Ex F/X	% B/(W) 2019 Reported	% B/(W) 2019 Ex F/X
Company sales	$ 42	$ 41	$ 32	—	(1)	27	32
Franchise fees and income	18	8	6	NM	NM	22	27
Revenues from transactions with franchisees and unconsolidated affiliates	49	28	26	76	74	8	12
Other revenues	96	81	51	18	16	59	63
Total revenues	$ 205	$ 158	$ 115	29	28	37	41
Restaurant loss	$ (3)	$ (3)	$ —	13	11	NM	NM
Restaurant margin %	(6.3)%	(7.3)%	(2.8)%	1.0 ppts.	1.0 ppts.	(4.5) ppts.	(4.5) ppts.
G&A expenses	$ 39	$ 34	$ 33	(15)	(15)	(1)	(4)
Expenses for transactions with franchisees and unconsolidated affiliates	$ 37	$ 23	$ 21	(61)	(59)	(12)	(15)
Other operating costs and expenses	$ 84	$ 69	$ 43	(22)	(21)	(62)	(66)
Closure and impairment expenses, net	$ 5	$ 2	$ —	NM	NM	NM	NM
Other (income) loss, net	$ 2	$ —	$ (2)	NM	NM	NM	NM
Operating Loss	$ (7)	$ (14)	$ (12)	49	45	(13)	(17)

Total Revenues

In 2020, the increase in Total revenues, excluding the impact of F/X, was primarily driven by the consolidation of Huang Ji Huang and the increase in demand of online orders of certain product categories (mainly fresh grocery products) from our e-commerce business, partially offset by the same-store sales decline due to the impact of the COVID-19 pandemic.

In 2019, the increase in Total revenues, excluding the impact of F/X, was primarily driven by inter-segment revenue transactions generated from our e-commerce business and Daojia, and the launch of the COFFii & JOY concept.

G&A Expenses

In 2020, the increase in G&A expenses, excluding the impact of F/X, was primarily driven by the consolidation of Huang Ji Huang, partially offset by a decrease in G&A expenses incurred by Little Sheep.

In 2019, the increase in G&A expenses, excluding the impact of F/X, was mainly due to an increase in G&A expenses incurred by Little Sheep, partially offset by a decrease in G&A expenses incurred by Daojia.

Operating Loss

In 2020, the decrease in Operating loss, excluding the impact of F/X, was primarily driven by the consolidation of operating profit generated by Huang Ji Huang, partially offset by higher Closure and store impairment expenses.

In 2019, the increase in Operating loss, excluding the impact of F/X, was primarily due to the operating loss incurred by Little Sheep and COFFii & JOY, partially offset by the improvement in operating results of our other operating segments.

Corporate & Unallocated

	2020	2019	2018	% B/(W) 2020 Reported	% B/(W) 2020 Ex F/X	% B/(W) 2019 Reported	% B/(W) 2019 Ex F/X
Revenues from transactions with franchisees and unconsolidated affiliates[(a)]	533	558	514	(5)	(5)	8	13
Other revenues	32	4	3	NM	NM	56	61
Expenses for transactions with franchisees and unconsolidated affiliates[(a)]	531	554	512	4	4	(8)	(13)
Other operating costs and expenses	30	4	2	NM	NM	(68)	(75)
Corporate G&A expenses	144	145	128	—	1	(13)	(17)
Unallocated closures and impairments	—	11	12	100	100	1	1
Other unallocated income	245	4	98	NM	NM	(95)	(95)
Interest income, net	43	39	36	11	11	7	12
Investment gain (loss)	104	63	(27)	65	65	NM	NM
Income tax provision (See Note 16)	(295)	(260)	(214)	(13)	(13)	(21)	(26)
Effective tax rate (See Note 16)	26.6%	25.9%	22.6%	(0.7) ppts	(0.7) ppts	(3.3) ppts	(3.3) ppts

(a) Primarily includes revenues and associated expenses of transactions with franchisees and unconsolidated affiliates derived from the Company's central procurement model whereby food and paper products are centrally purchased and then mainly sold to KFC and Pizza Hut franchisees and unconsolidated affiliates. Amounts have not been allocated to any segment for purposes of making operating decisions or assessing financial performance as the transactions are corporate revenues and expenses in nature.

Revenues from Transactions with Franchisees and Unconsolidated Affiliates

In 2020, the decrease in Revenues from transactions with franchisees and unconsolidated affiliates, excluding the impact of F/X, was mainly driven by the impact from the acquisition of Suzhou KFC.

In 2019, the increase in Revenues from transactions with franchisees and unconsolidated affiliates, excluding the impact of F/X, was mainly driven by system sales growth of franchisees and unconsolidated affiliates and an increase in the selling prices of food and paper products due to commodity inflation, partially offset by the impact from the acquisition of Wuxi KFC.

Other Revenues/Operating Costs and Expenses

In 2020, the increase in Other revenues/operating costs and expenses was mainly driven by revenues and costs associated with services provided to KFC and Pizza Hut segments by our centralized delivery team.

In 2019 and 2018, the Other revenues/operating costs and expenses primarily represent revenues and costs associated with logistics services provided to third parties.

Corporate G&A Expenses

In 2020, the decrease in Corporate G&A expenses, excluding the impact of F/X, was primarily driven by lower performance-based compensation, the realignment of cost structure and one-time reductions in social security contributions, partially offset by merit increases and lower government incentives received.

In 2019, the increase in Corporate G&A expenses, excluding the impact of F/X, was mainly driven by higher compensation costs and lower government incentives received.

Unallocated Closures and Impairments

In 2019 and 2018, Unallocated closures and impairments represent the impairment charges of $11 million and $12 million on goodwill and intangible assets acquired from Daojia, respectively. See Note 5 for additional information.

Other Unallocated Income

In 2020, Other unallocated income primarily includes a gain of $239 million recognized from the re-measurement of our previously held equity interest in Suzhou KFC at fair value upon acquisition. See Note 5 for additional information.

In 2019, Other unallocated income primarily includes refranchising gain.

In 2018, Other unallocated income primarily includes a gain of $98 million recognized from the re-measurement of our previously held equity interest in Wuxi KFC at fair value upon acquisition. See Note 5 for additional information.

Interest Income, Net

The increases in interest income, net for both 2020 and 2019 were driven by returns on larger balances of short-term investments and cash equivalents which mainly include time deposits.

Investment Gain (Loss)

The investment gain or loss relates to our investment in equity securities of Meituan Dianping (“Meituan”). See Note 5 for additional information.

Income Tax Provision

Our income tax provision includes tax on our earnings at the Chinese statutory tax rate of 25%, withholding tax on planned or actual repatriation of earnings outside of China, and U.S. corporate income tax, if any. Our effective tax rate was 26.6%, 25.9% and 22.6% in 2020, 2019 and 2018, respectively. The higher effective tax rate in 2020 compared with that in 2019 was due to the U.S. tax related to gain recognized on our investment in equity securities of Meituan during the year of 2020 and prior year, partially offset by additional tax expense of $8 million on transition tax pursuant to the Tax Act recorded in the first quarter of 2019. The higher effective tax rate in 2019 compared with that in 2018 was due to the tax benefit of $36 million recorded in 2018.

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

Impact of COVID-19 Pandemic

Starting in late January 2020, the COVID-19 pandemic has significantly impacted the Company’s operations and financial results. While operating results improved sequentially in the last three quarters of 2020, the pace of recovery has been uneven with recent sales and traffic still below pre-outbreak levels. Our sales continued to be impacted by reduced traffic at transportation and tourist locations, regional resurgences and the other lingering effects of the COVID-19 pandemic. We expect these factors to continue to impact our operations in 2021, as clusters of outbreaks, mostly in northern and northeastern China, continue to occur, resulting in the implementation of tighter public health measures across China, including measures restricting travel and large gatherings, and recommendations against dining out.

Management at this time cannot ascertain the extent to which our operations will continue to be impacted by the COVID-19 pandemic, which depends largely on future developments that are highly uncertain and cannot be accurately predicted, including resurgences and further spread of COVID-19 and the actions by government authorities to contain or treat its impact, the economic recovery within China and globally, the impact on consumer behavior and other related factors. The Company expects that further developments related to the COVID-19 pandemic may continue to have a material and extended adverse impact on the Company's results of operations, as well as the Company's cash flows and financial condition. For further information on the risks associated with the COVID-19 pandemic, see "Item 1A. Risk Factors—Risks Related to Our Business and Industry—Health concerns arising from outbreaks of viruses or other illnesses may have a material adverse effect on our business. The COVID-19 pandemic has had, and may continue to have, adverse effects on our results of operations, cash flows and financial condition."

Tax Examination on Transfer Pricing

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

PRC Value-Added Tax

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

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

As of December 31, 2020, an input VAT credit asset of $270 million and payable of $6 million were recorded in Other assets and Accounts payable and other current liabilities, respectively, on the Consolidated Balance Sheets. The Company has not made an allowance for the recoverability of the input VAT credit asset, as the balance is expected to be utilized to offset against VAT payables more than one year from December 31, 2020. Any input VAT credit asset would be classified as Prepaid expenses and other current assets if the credit expected to be used within one year can be reasonably determined.

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

Foreign Currency Exchange Rate

The reporting currency of the Company is the US$. Most of the revenues, costs, assets and liabilities of the Company are denominated in RMB. Any significant change in the exchange rate between US$ and RMB may materially affect the Company's business, results of operations, cash flows and financial condition, depending on the weakening or strengthening of RMB against the US$. See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for a further discussion.

Consolidated Cash Flows

Net cash provided by operating activities was $1,114 million in 2020 as compared to $1,185 million in 2019. The decrease was primarily driven by the decrease in net income, excluding a non-cash gain of $239 million recognized from the re-measurement of our previously held equity interest in Suzhou KFC at fair value upon acquisition, along with working capital changes.

In 2019, net cash provided by operating activities was $1,185 million as compared to $1,333 million in 2018. The decrease was primarily driven by timing of payments for inventory along with other working capital changes.

Net cash used in investing activities was $3,109 million in 2020 as compared to $910 million in 2019. The increase is mainly due to the net impact on cash flow resulting from purchases and maturities of short-term investments and long-term time deposits, and cash consideration paid for the acquisition of Huang Ji Huang and Suzhou KFC, partially offset by cash proceeds from the partial disposal of our investment in equity securities of Meituan.

In 2019, net cash used in investing activities was $910 million as compared to $552 million in 2018. The increase was primarily driven by the net impact on cash flow resulting from purchases and maturities of short-term investments and long-term time deposits, partially offset by lapping the impact from the acquisition of Wuxi KFC and investment in Meituan's ordinary shares in 2018.

Net cash provided by financing activities was $2,058 million in 2020 as compared to net cash used in financing activities of $480 million in 2019. The change was primarily attributable to the proceeds of $2.2 billion (net of issuance costs paid) raised from issuance of common stock in connection with our global offering and secondary listing on the Main Board of the HKEX, a decrease in the number of shares repurchased due to the suspension of our share repurchase and a decrease in the amount of dividends paid due to our temporary suspension of dividends in the second and third quarter of 2020.

In 2019, Net cash used in financing activities was $480 million as compared to $518 million in 2018. The decrease was primarily driven by a decrease in the number of shares repurchased, partially offset by an increase in cash dividends paid to stockholders.

Liquidity and Capital Resources

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

Our ability to fund our future operations and capital needs will primarily depend on our ongoing ability to generate cash from operations. We believe our principal uses of cash in the future will be primarily to fund our operations and capital expenditures for accelerating store network expansion and store remodeling, step up investments in digitalization, automation and logistics infrastructure, provide returns to our stockholders, as well as explore opportunities for acquisitions or investments that build and support our ecosystem. We believe that our future cash from operations, together with our funds on hand and access to capital markets, will provide adequate resources to fund these uses of cash and that our existing cash, net cash from operations and credit facilities will be sufficient to fund our operations and anticipated capital expenditures for the next 12 months.

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

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

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

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

Dividends and Share Repurchases

Our Board of Directors has authorized an aggregate of $1.4 billion for our share repurchase program. Yum China may repurchase shares under this program from time to time in open market or privately negotiated transactions, including block trades, accelerated share repurchase transactions and the use of Rule 10b5-1 trading plans. During the years ended December 31, 2020, 2019 and 2018, the Company repurchased $7 million or 0.2 million shares, $261 million or 6.2 million shares and $312 million or 9.0 million shares of common stock, respectively, under the repurchase program.

The Company paid a cash dividend of $0.10 per share for each of the first three quarters of 2018 and $0.12 per share for the fourth quarter of 2018, each quarter of 2019, and the first and fourth quarter of 2020. Total cash dividends of $95 million, $181 million and $161 million were paid to shareholders in 2020, 2019 and 2018, respectively.

Due to the unprecedented effects of the COVID-19 pandemic, starting in the second quarter of 2020, the Company suspended its share repurchases and, in the second and third quarters of 2020, dividend payments.

On February 3, 2021, the board of directors declared a cash dividend of $0.12 per share, payable on March 25, 2021, to stockholders of record as of the close of business on March 3, 2021.

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

Borrowing Capacity

As of December 31, 2020, the Company had credit facilities of RMB 3,305 million (approximately $506 million), comprised of onshore credit facilities of RMB2,000 million (approximately $306 million) in the aggregate and offshore credit facilities of $200 million in the aggregate.

The credit facilities had remaining terms ranging from less than one year to two years as of December 31, 2020. Each credit facility bears interest based on the prevailing rate stipulated by the People's Bank of China, Loan Prime Rate ("LPR") published by the National Interbank Funding Centre of the PRC or London Interbank Offered Rate ("LIBOR") administered by the ICE Benchmark Administration. Each credit facility contains a cross-default provision whereby our failure to make any payment on a principal amount from any credit facility will constitute a default on other credit facilities. Some of the credit facilities contain covenants limiting, among other things, certain additional indebtedness and liens, and certain other transactions specified in the respective agreement. Some of the onshore credit facilities contain sub-limits for overdrafts, non-financial bonding, standby letters of credit and guarantees. As of December 31, 2020, we had outstanding bank guarantees of RMB 114 million (approximately $18 million) mainly to secure our lease payments to landlords for certain Company-owned restaurants. The credit facilities were therefore reduced by the same amount, while there were no borrowings outstanding as of December 31, 2020.

Contractual Obligations

Our significant contractual and other long-term obligations and payments as of December 31, 2020 included:

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Finance Leases[a]	$ 41	$ 4	$ 8	$ 8	$ 21
Operating Leases[a]	2,892	568	884	622	818
Purchase Obligations[b]	181	35	56	36	54
Transition Tax[c]	47	7	14	26	—
Total Contractual Obligations	$ 3,161	$ 614	$ 962	$ 692	$ 893

(a) These obligations, which are shown on a nominal basis, relate primarily to more than 8,100 Company-owned restaurants. See Note 11 for additional information.

(b) Purchase obligations relate primarily to supply and service agreements. We have excluded agreements that are cancelable without penalty or have a remaining term not in excess of one year. Such commitments are generally near term in nature, will be funded from operating cash flows, and are not significant to the Company's overall financial position.

(c) This amount represents transition tax payable on the deemed repatriation of accumulated undistributed foreign earnings after utilizing existing qualified foreign tax credits, which is to be paid over a maximum of eight years beginning in 2018.

We have not included in the contractual obligations table approximately $26 million of liabilities for unrecognized tax benefits related to the uncertainty with regard to the deductibility of certain business expenses incurred as well as related accrued interest and penalties. These liabilities may increase or decrease over time as a result of tax examinations, and given the status of the examinations, we cannot reliably estimate the period of any cash settlement with the respective taxing authorities. These liabilities exclude amounts that are temporary in nature and for which we anticipate that over time there will be no net cash outflow.

Off-Balance Sheet Arrangements

See the Guarantees for Franchisees and Unconsolidated Affiliates sections of Note 18 for discussion of our off-balance sheet arrangements.

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

See Note 2 for details of recently adopted accounting pronouncements.

New Accounting Pronouncements Not Yet Adopted

In December 2019, the FASB issued ASU 2019-12, *Income Tax (Topic 740), Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Topic 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The guidance also simplifies the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. We will adopt the standard in the first quarter of 2021, and do not expect the adoption of this standard to have a material impact on our financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)* ("ASU 2020-01"), which clarifies the interaction between equity securities under Topic 321 and investments accounted for under the equity method in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. We will adopt the standard in the first quarter of 2021, and do not expect the adoption of this standard to have a material impact on our financial statements.

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)* ("ASU 2020-06"), which eliminates two of the three models in ASC 470-20 that require separate accounting for embedded conversion features and eliminates some of the conditions for equity classification in ASC 815-40 for contracts in an entity's own equity. The guidance amends ASC 260 on the computation of earnings per share for convertible instruments and contracts on an entity's own equity. ASU 2020-06 is effective for the Company from January 1, 2022, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In October 2020, the FASB issued ASU 2020-08, *Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs* ("ASU 2020-08"), which clarifies that an entity should reevaluate for each reporting period whether a callable debt security is within the scope of certain guidance in ASC 310-20 that was issued in ASU 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. We will adopt the standard in the first quarter of 2021, and do not expect the adoption of this standard to have a material impact on our financial statements.

Critical Accounting Policies and Estimates

Our reported results are impacted by the application of certain accounting policies that require us to make subjective or complex judgments. These judgments involve estimations of the effect of matters that are inherently uncertain and may significantly impact our quarterly or annual results of operations or financial condition. Changes in the estimates and judgments could significantly affect our results of operations, financial condition and cash flows in future years. A description of what we consider to be our most significant critical accounting policies and estimates follows.

Loyalty Programs

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

Breakage Revenue

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

Impairment or Disposal of Long-Lived Assets

We review long-lived assets of restaurants (primarily operating lease right-of-use assets and property, plant and equipment ("PP&E")) semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. We evaluate recoverability based on the restaurant's forecasted undiscounted cash flows, which are based on our entity-specific assumptions, to the carrying value of such assets. The forecasted undiscounted cash flows incorporate our best estimate of sales growth based upon our operation plans for the unit and actual results at comparable restaurants. For restaurant assets that are deemed not to be recoverable, we write down the impaired restaurant to its estimated fair value. In determining the fair value of restaurant-level assets, we consider the highest and best use of the assets from market participants' perspective, which is represented by the higher of the forecasted discounted cash flows of operating restaurants and the price market participants would pay to sub-lease the operating lease right-of-use assets and acquire remaining restaurant assets, even if that use differs from the current use by the Company. Key assumptions in the determination of fair value include reasonable sales growth assumption in generating after-tax cashflows that would be used by a franchisee in the determination of a purchase price for the restaurant, and market rental assumption for estimating the price market participants would pay to sub-lease the operating lease right-of-use assets. Estimates of forecasted cash flows of operating restaurants are highly subjective judgments and can be significantly impacted by changes in the business or economic conditions. Estimates of the price market participants would pay to sub-lease the operating lease right-of-use assets are based on comparable market rental information that could be reasonably obtained for the property. In situations where the highest and best use of the restaurant-level assets from market participants' perspective is represented by sub-leasing the operating lease right-of-use assets and acquiring the remaining restaurant assets, the Company continues to use these assets in operating its restaurant business, which is consistent with its long-term strategy of growing revenue through operating restaurant concepts.

When we believe it is more likely than not a restaurant or groups of restaurants will be refranchised for a price less than their carrying value, but do not believe the restaurant(s) have met the criteria to be classified as held for sale, we review the restaurants for impairment. Expected net sales proceeds are generally based on actual bids from the buyer.

The discount rate used in the fair value calculations is our estimate of the required rate-of-return that a franchisee would expect to receive when purchasing a similar restaurant or groups of restaurants and the related long-lived assets. The discount rate incorporates rates of returns for historical refranchising market transactions and is commensurate with the risks and uncertainty inherent in the forecasted cash flows.

We evaluate indefinite-lived intangible assets for impairment on an annual basis or more often if an event occurs or circumstances change that indicates impairment might exist. We perform our annual test for impairment of our indefinite-lived intangible assets at the beginning of our fourth quarter. When we evaluate these assets for impairment, we have the option to first perform a qualitative assessment to determine whether an intangible asset group is impaired. If we believe, as a result of the qualitative assessment, that it is more likely than not that the fair value of the intangible asset group is less than its carrying amount, we will then perform quantitative assessment. Fair value is an estimate of the price a willing buyer would pay for the intangible asset and is generally estimated by discounting the expected future after-tax cash flows associated with the intangible asset. The discount rate is our estimate of the required rate-of-return that a third-party buyer would expect to receive. These estimates are highly subjective, and our ability to achieve the forecasted cash is affected by factors such as changes in our operating performance and business strategies and changes in economic conditions. Our indefinite-lived intangible assets had a book value of $138 million and $52 million as of December 31, 2020 and 2019, respectively, representing two material indefinite-lived intangible assets, which are our Little Sheep trademark and the newly-acquired Huang Ji Huang trademark. Upon acquisition of Huang Ji Huang in April 2020, we recognized and measured its trademark at fair value.

In the years ended December 31, 2020, 2019 and 2018, we elected to perform the qualitative impairment assessment for the Little Sheep and Huang Ji Huang trademarks by evaluating all pertinent factors, including but not limited to macro-economic conditions, industry and market conditions and financial performance. Based on our qualitative assessment, it was more likely than not that the carrying value of the Little Sheep and Huang Ji Huang trademarks were not impaired and therefore the quantitative assessment was not required.

Our finite-lived intangible assets that are not allocated to an individual restaurant are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. An intangible asset that is deemed not recoverable on a undiscounted basis is written down to its estimated fair value, which is our estimate of the price a willing buyer would pay for the intangible asset based on discounted expected future after-tax cash flows. For purposes of our impairment analysis, we update the cash flows that were initially used to value the finite-lived intangible asset to reflect our current estimates and assumptions over the asset's future remaining life.

In 2019 and 2018, we recorded impairment charges of $2 million and $12 million on finite-lived intangible assets of the Daojia business, respectively, primarily attributable to the platforms of the Daojia business. The fair value of platforms was determined using a relief-from-royalty valuation approach that was based on unobservable inputs, including estimated future sales, royalty rates as well as the selection of an appropriate discount rate based on weighted-average cost of capital and company-specific risk premium, which are considered Level 3 inputs.

Impairment of Goodwill

We evaluate goodwill for impairment on an annual basis as of the beginning of our fourth quarter or more often if an event occurs or circumstances change that indicates impairment might exist. When we evaluate goodwill for impairment, we have the option to first perform a qualitative assessment to determine whether it is more likely than not the fair value of a reporting unit is less than its carrying amount. If we believe, as a result of the qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, we will then perform quantitative assessment. Our reporting units are our individual operating segments. Fair value is the price a willing buyer would pay for the reporting unit, and is generally estimated using discounted expected future after-tax cash flows from the business operation of the reporting unit.

Future cash flow estimates and the discount rate are the key assumptions when estimating the fair value of a reporting unit. Future cash flows are based on growth expectations relative to recent historical performance and incorporate sales growth and margin improvement assumptions that we believe a third-party buyer would assume when determining a purchase price for the reporting unit. The sales growth and margin improvement assumptions that factor into the discounted cash flows are highly correlated as cash flow growth can be achieved through various interrelated strategies such as product pricing and restaurant productivity initiatives. The discount rate is our estimate of the required rate-of-return that a third-party buyer would expect to receive when purchasing a business from us that constitutes a reporting unit. We believe the discount rate is commensurate with the risks and uncertainty inherent in the forecasted cash flows. These estimates are highly subjective, and our ability to achieve the forecasted cash is affected by factors such as changes in our operating performance and business strategies and changes in economic conditions.

Our goodwill of $832 million as of December 31, 2020 was related to the KFC, Pizza Hut and recently acquired Huang Ji Huang reporting units. We performed a qualitative impairment assessment for each of our individual reporting units of KFC, Pizza Hut and Huang Ji Huang in 2020. Based on our qualitative assessment, the Company concluded that no changes in events or circumstances have occurred that indicated impairment may exist and it was more likely than not that the fair value of the reporting units of KFC, Pizza Hut and Huang Ji Huang exceeds their carrying amount and therefore no quantitative assessment was required. No impairment charge on goodwill related to KFC, Pizza Hut and Huang Ji Huang was recorded in 2020, 2019 and 2018.

As a result of our annual goodwill impairment review as of the beginning of our fourth quarter of 2019, goodwill related to the Daojia reporting unit was fully impaired, resulting in an impairment charge of $9 million. The fair value of the Daojia reporting unit was based on the estimated price a willing buyer would pay, and was determined using an income approach with future cash flow estimates supported by estimated future sales, margin, as well as the selection of an appropriate discount rate based on weighted-average cost of capital and company-specific risk premium.

If we record goodwill upon acquisition of a restaurant(s) from a franchisee and such restaurant(s) is then sold within two years of acquisition, the goodwill associated with the acquired restaurant(s) is written off in its entirety. If the restaurant is refranchised two years or more subsequent to its acquisition, we include goodwill in the carrying amount of the restaurants disposed of based on the relative fair values of the portion of the reporting unit disposed of in the refranchising and the portion of the reporting unit that will be retained.

Share-Based Compensation

We account for share awards issued to employees in accordance with Accounting Standards Codification Topic 718 ("ASC 718"), *Compensation-Stock Compensation*. Share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense, net of estimated forfeitures, over the requisite service period, which is generally the vesting period. We recognize share-based compensation expense for awards granted to employees and non-employee directors using the straight-line method.

We estimated the fair value of stock options and SARs at the grant date using the Black-Scholes option-pricing model ("the BS model"). It should be noted that the option-pricing model requires the input of highly subjective assumptions. Changes in the subjective input assumptions can materially affect the fair value estimate and, as a result, our operating profit and net income. PSUs have performance and/or market conditions that are based on the closing price of Yum China's stock, shareholder return performance relative to peer group in the MSCI International China Index, or relative shareholder return against the MSCI China Index measured over the performance period. The fair values of PSUs have been determined based on the outcome of a Monte-Carlo Simulation model (the "MCS model") and the closing price of the Company's stock on the date of the grant.

Under the BS and MCS models, we made a number of assumptions regarding the fair value of the share-based awards, including:

- the expected future volatility of the price of shares of Yum China common stock;
- the risk-free interest rate;
- the expected dividend yield; and
- the expected term.

We estimated the expected future volatility of the price of shares of Yum China common stock based on the historical price volatility of the publicly traded shares of common stock of comparable companies in the same business as Yum China as well as the historical volatility of the Company's common stock. The risk-free interest rate was based on the U.S. Treasury zero-coupon yield in effect with maturity terms equal to the expected term or performance measurement period of the awards. The dividend yield was estimated based on the Company's dividend policy. We use historical turnover data to estimate the expected forfeiture rate.

PRC Value-Added Tax

As of December 31, 2020, an input VAT credit asset of $270 million and payable of $6 million were recorded in Other assets and Accounts payable and other current liabilities, respectively, on the Consolidated Balance Sheets. At each balance sheet date, the Company reviews the outstanding balance of any VAT credit asset for recoverability, giving consideration to the indefinite life of the input VAT credit assets as well as its forecasted operating results and capital spending, which inherently include significant assumptions subject to change. Key assumptions include the following:

- Estimated growth rate for revenues;
- Estimated restaurant expenses and other costs;
- Estimated new-unit development and asset upgrades.

We also consider qualitative factors including the fact that such assets can be carried forward indefinitely to offset future VAT payables, our ability to manage the accumulation of the input VAT credits and potential changes in VAT rates. We did not make an allowance for the recoverability of the input VAT credit asset as of December 31, 2020 and 2019. Changes in any of the assumptions could materially impact the amount of VAT asset and its recoverability and, as a result, our operating income and net income.

Income Taxes

The Tax Act

On December 22, 2017, the Tax Act was signed into law effective for tax years beginning after December 31, 2017. The Tax Act requires complex computations with significant estimates to be performed, significant judgments to be made in interpretation of the provisions, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, the SEC and other standard-setting bodies could interpret or issue guidance on how provisions of the Tax Act will be applied or otherwise administered that is different from our current interpretation. We completed our analysis of the Tax Act in the fourth quarter of 2018 according to guidance released by the U.S. Treasury Department and the IRS as of December 2018 and made an adjustment of $36 million to reduce the provisional amount of the transition tax recorded in 2017 accordingly. The U.S. Treasury Department and the IRS released the final transition tax regulations in the first quarter of 2019. We completed the evaluation of the impact on our transition tax computation based on the final regulations released in the first quarter of 2019 and recorded an additional income tax expense of $8 million for the transition tax accordingly.

Uncertain Tax Positions

We are subject to reviews, examinations and audits by Chinese tax authorities, the IRS and other tax authorities with respect to income and non-income based taxes. We recognize the benefit of positions taken or expected to be taken in our tax returns when it is more likely than not that the position would be sustained upon examination by these tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. At December 31, 2020 and 2019, we had $21 million and $19 million, respectively, of unrecognized tax benefits related to the uncertainty with regard to the deductibility of certain business expenses incurred. We evaluate unrecognized tax benefits, including interest thereon, on a quarterly basis to ensure that they have been appropriately adjusted for events, including audit settlements, which may impact our ultimate payment for such exposures.

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

Unremitted Earnings of Foreign Subsidiaries

We have investments in our foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. Except for the planned but yet to be distributed earnings, we have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone the basis differences from reversing with a tax consequence. The Company's separation from YUM was intended to qualify as a tax-free reorganization for U.S. income tax purposes resulting in the excess of financial reporting basis over tax basis in our investment in the China business continuing to be indefinitely reinvested. The excess of financial reporting basis over tax basis as of December 31, 2017 was subject to the one-time transition tax under the Tax Act as a deemed repatriation of accumulated undistributed earnings from the foreign subsidiaries. However, we continue to believe that the portion of the excess of financial reporting basis over tax basis (including earnings and profits subject to the one-time transition tax) is indefinitely reinvested in our foreign subsidiaries for foreign withholding tax purposes. We estimate that our total temporary difference for which we have not provided foreign withholding taxes is approximately $2 billion at December 31, 2020. The foreign withholding tax rate on this amount is 5% or 10% depending on the manner of repatriation and the applicable tax treaties or tax arrangements.

See Note 16 of the Consolidated Financial Statements for a further discussion of our income taxes.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk.

Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Rate Risk

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

As substantially all of the Company's assets are located in China, the Company is exposed to movements in the RMB foreign currency exchange rate. For the year ended December 31, 2020, the Company's operating profit would have decreased approximately $93 million if RMB weakened 10% relative to the U.S. dollar. This estimated reduction assumes no changes in sales volumes or local currency sales or input prices.

Commodity Price Risk

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

Investment Risk

In September 2018, we invested $74 million in Meituan's ordinary shares. The Company sold 4.2 million of its ordinary shares of Meituan in the second quarter of 2020 for proceeds of approximately $54 million. The equity investment is recorded at fair value, which is measured on a recurring basis and is subject to market price volatility. See Note 5 of the Consolidated Financial Statements for a further discussion on our investment in Meituan.

ITEM 8. Financial Statements and Supplementary Data.

INDEX TO FINANCIAL INFORMATION

Financial Statement Schedules

No schedules are required because either the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the above-listed financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Yum China Holdings, Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Yum China Holdings, Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company acquired Suzhou KFC Co., Ltd. ("Suzhou KFC") and Huang Ji Huang group ("Huang Ji Huang") during 2020, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, the internal control over financial reporting of Suzhou KFC and Huang Ji Huang. Suzhou KFC's total assets represented 1.4% of the Company's total consolidated assets, excluding goodwill and net intangible assets which were included within the scope of assessment and total revenues of 2.1% of total consolidated revenues of the Company, as of and for the year ended December 31, 2020. Huang Ji Huang's total assets represented 1.0% of the Company's total consolidated assets, excluding goodwill and intangible assets which were included within the scope of assessment, and total revenues of less than 1.0% of total consolidated revenues of the Company, as of and for the year ended December 31, 2020. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Suzhou KFC and Huang Ji Huang.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases in 2019 due to the adoption of Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* ("ASC 842"), as amended.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Assessment of impairment of long-lived assets of restaurants

As discussed in Notes 2, 7 and 11 to the consolidated financial statements, property, plant and equipment, net and operating lease right-of-use assets were US$1,765 million and US$2,164 million, respectively, as of December 31, 2020, which included the long-lived assets of the Company's restaurants. For restaurant assets with indicators that the carrying value may not be recoverable, the Company evaluates recoverability of these assets by comparing the forecasted undiscounted cash flows of the restaurant's operations to the carrying value of such assets. For restaurant assets that are not deemed to be recoverable, the Company writes down the restaurant assets to the estimated fair value. The Company determines the fair value of the restaurant assets based on the higher of the forecasted discounted cash flows of the restaurant's operations and the price market participants would pay to sub-lease the operating lease right-of-use assets and acquire the remaining restaurant assets.

We identified the assessment of impairment of long-lived assets of restaurants as a critical audit matter. A high degree of auditor judgment was required in assessing the sales growth rates used to estimate the forecasted undiscounted cash flows of the restaurants' operations. In addition, specialized skills and knowledge were required to assess the Company's market rental assumptions to estimate the fair values of the operating lease right-of-use assets.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's long-lived assets of restaurants impairment assessment process. This included controls related to the determination of the sales growth rates and the market rentals. To evaluate the sales growth rates, we compared the sales growth rates of a sample of restaurants to the historical sales growth rates and the Company's operation plans for the respective restaurants. We performed sensitivity analyses over the sales growth rates for a sample of restaurants to assess their impact on the restaurants' forecasted undiscounted cash flows. We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Comparing the market rentals of a sample of restaurants to respective market rental ranges that we independently developed using external data; and

- Developing independent estimates of the fair values of the operating lease right-of-use assets based on the price that market participants would pay to sub-lease the right-of-use assets for a sample of restaurants and comparing the results of our estimates to the Company's estimates.

Evaluation of uncertain tax position

As discussed in Notes 2 and 16 to the consolidated financial statements, the Company recognizes the benefit of positions taken or expected to be taken in tax returns in the financial statements when it is more likely than not (more than a 50% likelihood) that the position would be sustained upon examination by tax authorities. Since 2016, the Company has been under a national audit on transfer pricing by the Chinese State Taxation Administration ("STA") regarding the related party transactions for the period from 2006 to 2015.

We identified the evaluation of the Company's uncertain tax position pertaining to the transfer pricing used in the related party transactions under audit by the STA as a critical audit matter. Specifically, a high degree of auditor judgment and specialized skills and knowledge were required in evaluating the Company's interpretation of the applicable tax laws and regulations and the estimate of the more likely than not assessment of tax position being sustained under examination by tax authorities.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of the internal control related to the Company's assessment process pertaining to the transfer pricing audit, including the control related to the interpretation of the applicable tax laws and regulations and the assessment of the uncertain tax position being sustained under examination by tax authorities. Since tax law is complex and often subject to interpretation, we involved tax professionals with specialized skills and knowledge, who assisted in:

- Reading the correspondence received by the Company from the tax authorities in connection with the transfer pricing audit by the STA, as well as responses and information the Company submitted to the tax authorities;

- Evaluating the Company's identification and consideration of information that could significantly affect the recognition, measurement or disclosure of the uncertain tax position; and
- Evaluating the Company's interpretation of applicable tax laws and regulations, technical analysis and the application of the accounting standards in assessing the potential impact from the uncertain tax position.

/s/ KPMG Huazhen LLP

We have served as the Company's auditor since 2016.

Shanghai, China
February 26, 2021

Consolidated Statements of Income

Yum China Holdings, Inc.
Years ended December 31, 2020, 2019 and 2018

(in US$ millions, except per share data)

	2020	2019	2018
Revenues			
Company sales	$ 7,396	$ 7,925	$ 7,633
Franchise fees and income	148	148	141
Revenues from transactions with franchisees and unconsolidated affiliates	647	654	603
Other revenues	72	49	38
Total revenues	8,263	8,776	8,415
Costs and Expenses, Net			
Company restaurants			
Food and paper	2,342	2,479	2,326
Payroll and employee benefits	1,730	1,807	1,714
Occupancy and other operating expenses	2,226	2,373	2,394
Company restaurant expenses	6,298	6,659	6,434
General and administrative expenses	479	487	456
Franchise expenses	65	71	71
Expenses for transactions with franchisees and unconsolidated affiliates	633	645	595
Other operating costs and expenses	57	37	29
Closures and impairment expenses, net	55	36	41
Other income, net	(285)	(60)	(152)
Total costs and expenses, net	7,302	7,875	7,474
Operating Profit	961	901	941
Interest income, net	43	39	36
Investment gain (loss)	104	63	(27)
Income Before Income Taxes	1,108	1,003	950
Income tax provision	(295)	(260)	(214)
Net income—including noncontrolling interests	813	743	736
Net income—noncontrolling interests	29	30	28
Net Income—Yum China Holdings, Inc.	$ 784	$ 713	$ 708
Weighted-average common shares outstanding (in millions):			
Basic	390	377	384
Diluted	402	388	395
Basic Earnings Per Common Share	$ 2.01	$ 1.89	$ 1.84
Diluted Earnings Per Common Share	$ 1.95	$ 1.84	$ 1.79

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Yum China Holdings, Inc.
Years ended December 31, 2020, 2019 and 2018

(in US$ millions)

	2020	2019	2018
Net income—including noncontrolling interests	$ 813	$ 743	$ 736
Other comprehensive income (loss), net of tax of nil			
Foreign currency gain (loss) arising during the year	230	(32)	(160)
Comprehensive income—including noncontrolling interests	1,043	711	576
Comprehensive income—noncontrolling interests	43	30	22
Comprehensive Income—Yum China Holdings, Inc.	$ 1,000	$ 681	$ 554

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Yum China Holdings, Inc.
Years ended December 31, 2020, 2019 and 2018

(in US$ millions)

	2020	2019	2018
Cash Flows—Operating Activities			
Net income—including noncontrolling interests	$ 813	$ 743	$ 736
Depreciation and amortization	450	428	445
Non-cash operating lease cost	368	339	—
Closures and impairment expenses	55	36	41
Gain from re-measurement of equity interest upon acquisition	(239)	—	(98)
Investment (gain) loss	(104)	(63)	27
Equity income from investments in unconsolidated affiliates	(62)	(69)	(65)
Distributions of income received from unconsolidated affiliates	55	73	63
Deferred income taxes	111	16	33
Share-based compensation expense	36	26	24
Changes in accounts receivable	(15)	(9)	(13)
Changes in inventories	17	(77)	(23)
Changes in prepaid expenses and other current assets	(15)	(3)	(22)
Changes in accounts payable and other current liabilities	65	171	254
Changes in income taxes payable	17	(8)	17
Changes in non-current operating lease liabilities	(394)	(381)	—
Other, net	(44)	(37)	(86)
Net Cash Provided by Operating Activities	1,114	1,185	1,333
Cash Flows—Investing Activities			
Capital spending	(419)	(435)	(470)
Purchases of short-term investments	(4,499)	(1,024)	(604)
Purchase of long-term time deposits	(57)	—	—
Maturities of short-term investments	2,061	534	680
Contribution to unconsolidated affiliates	(17)	—	—
Acquisition of business, net of cash acquired	(288)	—	(91)
Disposal of (investment in) equity securities	54	—	(74)
Other, net	56	15	7
Net Cash Used in Investing Activities	(3,109)	(910)	(552)
Cash Flows—Financing Activities			
Common stock issuance proceeds, net of issuance costs	2,195	—	—
Repurchase of shares of common stock	(8)	(265)	(307)
Cash dividends paid on common stock	(95)	(181)	(161)
Dividends paid to noncontrolling interests	(33)	(32)	(36)
Other, net	(1)	(2)	(14)
Net Cash Provided by (Used in) Financing Activities	2,058	(480)	(518)
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	40	(6)	(56)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	103	(211)	207
Cash, Cash Equivalents and Restricted Cash—Beginning of Year	1,055	1,266	1,059
Cash, Cash Equivalents and Restricted Cash—End of Year	$ 1,158	$ 1,055	$ 1,266
Supplemental Cash Flow Data			
Cash paid for income tax	170	255	208
Non-cash Investing and Financing Activities			
Capital expenditures included in accounts payables and other current liabilities	203	150	137

See accompanying Notes to Consolidated Financial Statements.

Form 10-K

Consolidated Balance Sheets

Yum China Holdings, Inc.
December 31, 2020 and 2019

(in US$ millions)

	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,158	$ 1,046
Short-term investments	3,105	611
Accounts receivable, net	99	88
Inventories, net	398	380
Prepaid expenses and other current assets	176	134
Total Current Assets	$ 4,936	$ 2,259
Property, plant and equipment, net	1,765	1,594
Operating lease right-of-use assets	2,164	1,985
Goodwill	832	254
Intangible assets, net	246	94
Deferred income taxes	98	95
Investments in unconsolidated affiliates	85	89
Other assets	749	580
Total Assets	$ 10,875	$ 6,950
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	$ 1,995	$ 1,691
Income taxes payable	72	45
Total Current Liabilities	2,067	1,736
Non-current operating lease liabilities	1,915	1,803
Non-current finance lease obligations	28	26
Other liabilities	394	210
Total Liabilities	4,404	3,775
Redeemable Noncontrolling Interest	12	—
Equity		
Common stock, $0.01 par value; 1,000 million shares authorized; 440 million shares and 395 million shares issued at December 31, 2020 and 2019, respectively; 420 million shares and 376 million shares outstanding at December 31, 2020 and 2019, respectively	4	4
Treasury stock	(728)	(721)
Additional paid-in capital	4,658	2,427
Retained earnings	2,105	1,416
Accumulated other comprehensive income (loss)	167	(49)
Total Yum China Holdings, Inc. Stockholders' Equity	6,206	3,077
Noncontrolling interests	253	98
Total Equity	6,459	3,175
Total Liabilities, Redeemable Noncontrolling Interest and Equity	$ 10,875	$ 6,950

See accompanying Notes to Consolidated Financial Statements.

Form 10-K

Consolidated Statements of Equity

Yum China Holdings, Inc.
Years ended December 31, 2020, 2019 and 2018

(in US$ millions)

	Yum China Holdings, Inc.									
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interest
	Shares	Amount				Shares*	Amount			
Balance at December 31, 2017	**389**	**$ 4**	**$ 2,375**	**$ 397**	**$ 137**	**(4)**	**$ (148)**	**$ 77**	**$ 2,842**	**$ 5**
Net Income (loss)				708				29	737	(1)
Foreign currency translation adjustment					(154)			(6)	(160)	—
Comprehensive income (loss)									577	(1)
Dividends declared								(33)	(33)	
Cash dividends declared ($0.42 per common share)				(161)					(161)	
Acquisition of business								36	36	
Repurchase of shares of common stock						(9)	(312)		(312)	
Exercise and vesting of share-based awards	3	—	—						—	
Share-based compensation			24						24	
Revaluation of redeemable noncontrolling interest			3						3	(3)
Balance at December 31, 2018	**392**	**$ 4**	**$ 2,402**	**$ 944**	**$ (17)**	**(13)**	**$ (460)**	**$ 103**	**$ 2,976**	**$ 1**
Net Income (loss)				713				32	745	(2)
Foreign currency translation adjustment					(32)			—	(32)	—
Comprehensive income (loss)									713	(2)
Dividends declared								(34)	(34)	
Cash dividends declared ($0.48 per common share)				(181)					(181)	
Repurchase of shares of common stock						(6)	(261)		(261)	
Exercise and vesting of share-based awards	3	—	—						—	
Share-based compensation			26						26	
Revaluation of redeemable noncontrolling interest			(1)						(1)	1
Cumulative effect of accounting change				(60)				(3)	(63)	
Balance at December 31, 2019	**395**	**$ 4**	**$ 2,427**	**$ 1,416**	**$ (49)**	**(19)**	**$ (721)**	**$ 98**	**$ 3,175**	**$ —**
Net Income				784				29	813	—
Foreign currency translation adjustment					216			14	230	—
Comprehensive income									1,043	—
Dividends declared								(32)	(32)	
Cash dividends declared ($0.24 per common share)				(95)					(95)	
Acquisition of business								144	144	12
Issuance of common stock, net of issuance costs	42	—	2,193						2,193	
Repurchase of shares of common stock						—	(7)		(7)	
Exercise and vesting of share-based awards	3	—	2						2	
Share-based compensation			36						36	
Balance at December 31, 2020	**440**	**$ 4**	**$ 4,658**	**$ 2,105**	**$ 167**	**(20)**	**$ (728)**	**$ 253**	**$ 6,459**	**$ 12**

*: Shares may not add due to rounding.

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(Tabular amounts in US$ millions, except for number of shares and per share data)

Note 1—Description of Business

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

The Company owns, franchises or has ownership in entities that own and operate restaurants (also referred to as "stores" or "units") under the KFC, Pizza Hut, Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning and Taco Bell, and Lavazza concepts (collectively, the "concepts"). In connection with the separation of the Company in 2016 from its former parent company, Yum! Brands, Inc. ("YUM"), a 50-year master license agreement was entered into between Yum Restaurants Consulting (Shanghai) Company Limited ("YCCL"), a wholly-owned indirect subsidiary of the Company and YUM, through YRI China Franchising LLC, a subsidiary of YUM, effective from January 1, 2020 and previously through Yum! Restaurants Asia Pte. Ltd., another subsidiary of YUM, from October 31, 2016 to December 31, 2019, with automatic renewals for additional consecutive renewal terms of 50 years each, subject only to YCCL being in "good standing" and unless YCCL gives notice of its intent not to renew, for the exclusive right to use and sublicense the use of intellectual property owned by YUM and its subsidiaries for the development and operation of the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands and their related marks and other intellectual property rights for restaurant services in the People's Republic of China (the "PRC" or "China"), excluding Hong Kong, Macau and Taiwan. In exchange, we pay a license fee to YUM equal to 3% of net system sales from both our Company and franchise restaurants. We own the intellectual property of Little Sheep, Huang Ji Huang, COFFii & JOY and East Dawning, and pay no license fee related to these concepts.

In 1987, KFC was the first quick-service restaurant brand to enter China. As of December 31, 2020, there are over 7,000 KFC stores in China. We maintain a 58% and 70% controlling interest in the entities that own and operate the KFCs in Shanghai and Beijing, respectively. During the first quarter of 2018, the Company completed the acquisition of an additional 36% equity interest in an unconsolidated affiliate that operates KFC stores in and around Wuxi, China ("Wuxi KFC"), for cash consideration of approximately $98 million, increasing the Company's equity interest to 83%, allowing the Company to consolidate the entity. During the third quarter of 2020, the Company completed the acquisition of an additional 25% equity interest in an unconsolidated affiliate that operates KFC stores in and around Suzhou, China ("Suzhou KFC"), for cash consideration of $149 million. Upon closing of the acquisition, the Company increased its equity interest to 72%, allowing the Company to consolidate Suzhou KFC. These acquisitions were considered immaterial. We began consolidating Wuxi KFC and Suzhou KFC upon the completion of acquisition. We have a 47% noncontrolling ownership in our unconsolidated affiliate that owns and operates KFCs in and around Hangzhou.

The first Pizza Hut in China opened in 1990. As of December 31, 2020, there are over 2,300 Pizza Hut restaurants in China.

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

On April 8, 2020, the Company completed the acquisition of a 93.3% interest in the Huang Ji Huang group ("Huang Ji Huang"), a leading Chinese-style casual dining franchise business, for cash consideration of $185 million. Huang Ji Huang became an operating segment of the Company. The acquisition was considered immaterial. Following the acquisition, we established a Chinese dining business unit comprising our three Chinese dining brands, namely Little Sheep, Huang Ji Huang and East Dawning.

In the quarter ended June 30, 2020, the Company partnered with Lavazza Group, the world renowned family-owned Italian coffee company, and entered into a joint venture to explore and develop the Lavazza coffee shop concept in China.

The Company has two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell, Lavazza and Daojia, are combined and referred to as All Other Segments, as those operating segments are insignificant both individually and in the aggregate. Starting from the first quarter of 2019, our COFFii & JOY concept and e-commerce business became operating segments, as their financial results started being regularly reviewed by the Company's chief operating decision maker. Segment financial information for prior years has been recast to align with this change in segment reporting. There was no impact to the consolidated financial statements of the Company as a result of this change. Additional details on our segment reporting are included in Note 17.

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 at the public offering price of HK$412.00 per share, or US$53.16 per share. The shares listed on the HKEX are fully fungible with the shares listed on the NYSE. Net proceeds raised by the Company from the global offering after deducting underwriting fees and the offering expenses amounted to US$2.2 billion.

Note 2—Summary of Significant Accounting Policies

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

Basis of Preparation and Principles of Consolidation. Intercompany accounts and transactions have been eliminated in consolidation. We consolidate entities in which we have a controlling financial interest, the usual condition of which is ownership of a majority voting interest. We also consider consolidating an entity in which we have certain interests where the controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity ("VIE"), is required to be consolidated by its primary beneficiary. The primary beneficiary is the entity that possesses the power to direct the activities of the VIE that most significantly impact its economic performance and has the obligation to absorb losses or the right to receive benefits from the VIE that are significant to it.

Our most significant variable interests are in entities that operate restaurants under franchise arrangements. We do not generally have an equity interest in our franchisee businesses. Additionally, we do not typically provide significant financial support such as loans or guarantees to our franchisees. We have variable interests in certain entities that operate restaurants under franchise agreements through real estate lease arrangements with them to which we are a party. At December 31, 2020, the Company had future lease payments due from franchisees, on a nominal basis, of approximately $41 million. As our franchise arrangements provide our franchisee entities the power to direct the activities that most significantly impact their economic performance, we do not consider ourselves the primary beneficiary of any such entity that might otherwise be considered a VIE.

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

We consolidate the entities that operate KFCs in Shanghai, Beijing, Wuxi and Suzhou where we have controlling interests of 58%, 70%, 83% and 72%, respectively.

We have a noncontrolling 47% interest in the entity that operates the KFCs in and around Hangzhou. This entity is not a VIE and our lack of majority voting rights precludes us from controlling this affiliate. Thus, we do not consolidate this affiliate. Instead, we account for it under the equity method. Our share of the net income or loss of the unconsolidated affiliate is included in Other income, net in our Consolidated Statements of Income.

The results of Huang Ji Huang and Suzhou KFC's operations have been included in the Company's Consolidated Financial Statements since the acquisition dates of April 8, 2020 and August 3, 2020, respectively.

Comparative Information. Certain comparative items in the Consolidated Financial Statements have been reclassified to conform to the current year's presentation to facilitate comparison.

Fiscal Calendar. Our fiscal year ends on December 31, with each quarter comprised of three months.

Foreign Currency. Our functional currency for the operating entities in China is the Chinese Renminbi ("RMB"), the currency of the primary economic environment in which they operate. Income and expense accounts for our operations are then translated into U.S. dollars at the average exchange rates prevailing during the period. Assets and liabilities are then translated into U.S. dollars at exchange rates in effect at the balance sheet date. Foreign currency translation adjustments are recorded in the Accumulated other comprehensive income (loss) on the Consolidated Balance Sheets. Gains and losses arising from the impact of foreign currency exchange rate fluctuations on transactions in foreign currency, to the extent they arise, are included in Other income, net in our Consolidated Statements of Income.

Franchise Operations. We execute agreements which set out the terms of our arrangement with franchisees. Our franchise agreements typically require the franchisee to pay an initial, non-refundable fee and continuing fees based upon a percentage of sales. Subject to our approval and their payment of a renewal fee, a franchisee may generally renew the franchise agreement upon its expiration.

The 3% license fees we pay to YUM for the right to sublicense the KFC, Pizza Hut and Taco Bell intellectual property to franchisees and unconsolidated affiliates are recorded in Franchise expenses. License fees due to YUM for our Company-owned stores are included within restaurant margin in Occupancy and other operating expenses. Total license fees paid to YUM were $256 million, $273 million and $263 million during the years ended December 31, 2020, 2019 and 2018, respectively.

Certain direct costs of our franchise operations are charged to Franchise expenses. These costs include provisions for estimated uncollectible fees, rent or depreciation expense associated with restaurants we sub-lease to franchisees, and certain other direct incremental franchise support costs.

We also have certain transactions with franchisees and unconsolidated affiliates, which consist primarily of sales of food and paper products, advertising services and other services provided to franchisees and unconsolidated affiliates. Related expenses are included in Expenses for transactions with franchisees and unconsolidated affiliates.

Revenue Recognition. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASC 606"), to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. The standard allows for either a full retrospective or modified retrospective transition method. Additional amendments were subsequently issued by the FASB to clarify the implementation guidance. The Company adopted these standards on January 1, 2018, and applied the full retrospective approach. Therefore, revenue for all three years in the accompanying Consolidated Financial Statements was consistently accounted for in accordance with ASC 606.

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

Company Sales

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

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

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

Franchise Fees and Income

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

Revenues from Transactions with Franchisees and Unconsolidated Affiliates

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

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

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

Loyalty Programs

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

The Company estimates the value of the future redemption obligations based on the estimated value of the product for which points are expected to be redeemed and historical redemption patterns and reviews such estimates periodically based upon the latest available information regarding redemption and expiration patterns.

Direct Marketing Costs. We charge direct marketing costs to expense ratably in relation to revenues over the year in which incurred and, in the case of advertising production costs, in the year the advertisement is first shown. Deferred direct marketing costs, which are classified as prepaid expenses, consist of media and related advertising production costs which will generally be used for the first time in the next fiscal year and have historically not been significant. Our direct marketing expenses incurred for Company-owned restaurants were $307 million, $344 million and $341 million in 2020, 2019 and 2018, respectively, and were included in Occupancy and other operating expenses. In addition, the direct marketing costs incurred for franchisees and unconsolidated affiliates were $60 million, $65 million and $62 million in 2020, 2019 and 2018, respectively, and were recorded in Expenses for transactions with franchisees and unconsolidated affiliates.

Research and Development Expenses. Research and development expenses associated with our food innovation activities, which are expensed as incurred, are reported in general and administrative ("G&A") expenses. Research and development expenses were $3 million, $4 million and $4 million in 2020, 2019 and 2018, respectively.

Share-Based Compensation. Prior to the separation, all employee equity awards were granted by YUM. Upon the separation, holders of outstanding YUM equity awards generally received both adjusted YUM awards and Yum China awards, or adjusted awards of either YUM or Yum China in their entirety, to maintain the pre-separation intrinsic value of the awards. The modified equity awards have the same terms and conditions as the awards held immediately before the separation, except the number of shares and the price were adjusted. The incremental compensation cost, measured as the excess of the fair value of the award immediately after the modification over the fair value of the award immediately before the modification, based on Black-Scholes option-pricing model was immaterial, and YUM and the Company continue to recognize the unamortized fair value of the awards over the remaining requisite service period as their respective employees continue to provide services. All awards granted following the separation were granted under the Company's Long Term Incentive Plan (the "2016 Plan"). We recognize all share-based payments to employees and directors, including grants of stock options, restricted stock units ("RSUs"), stock appreciation rights ("SARs") and performance share units ("PSUs"), in the Consolidated Financial Statements as compensation cost over the service period based on their fair value on the date of grant. This compensation cost is recognized over the service period on a straight-line basis, net of an assumed forfeiture rate, for awards that actually vest and when performance conditions are probable of being achieved, if applicable. Forfeiture rates are estimated at grant date based on historical experience and compensation cost is adjusted in subsequent periods for differences in actual forfeitures from the previous estimates. We present this compensation cost consistent with the other compensation costs for the employee recipient in either payroll and employee benefits or G&A expenses.

Impairment or Disposal of Long-Lived Assets. Long-lived assets, primarily Property, plant and equipment ("PP&E") and operating lease right-of-use ("ROU") assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The assets are not recoverable if their carrying value is less than the undiscounted cash flows we expect to generate from such assets. If the assets are not deemed to be recoverable, impairment is measured based on the excess of their carrying value over their fair value.

For purposes of impairment testing for our restaurants, we have concluded that an individual restaurant is the lowest level of independent cash flows unless our intent is to refranchise restaurants as a group. We review our long-lived assets of such individual restaurants (primarily operating lease ROU assets and PP&E) semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. Our primary indicators of potential impairment for our semi-annual impairment testing of these restaurant assets include two consecutive years of operating losses after a restaurant has been open for three years. We evaluate the recoverability of these restaurant assets by comparing the forecasted undiscounted cash flows of the restaurant's operation, which are based on our entity-specific assumptions, to the carrying value of such assets. The forecasted undiscounted cash flows incorporate our best estimate of sales growth based upon our operation plans for the unit and actual results at comparable restaurants. For restaurant assets that are not deemed to be recoverable, we write down an impaired restaurant to its estimated fair value, which becomes its new cost basis. Fair value is an estimate of the price market participants would pay for the restaurant and its related assets. In determining the fair value of restaurant-level assets, we considered the highest and best use of the assets from market participants' perspective, which is represented by the higher of the forecasted discounted cash flows from operating restaurants and the price market participants would pay to sub-lease the operating lease ROU assets and acquire remaining restaurant assets, even if that use differs from the current use by the Company. The after-tax cash flows incorporate reasonable assumptions we believe a franchisee would make such as sales growth and include a deduction for royalties we would receive under a franchise agreement with terms substantially at market. The discount rate used in the fair value calculation is our estimate of the required rate-of-return that a franchisee would expect to receive when purchasing a similar restaurant and the related long-lived assets. The discount rate incorporates rates of returns for historical refranchising market transactions and is commensurate with the risks and uncertainty inherent in the forecasted cash flows. Estimates of the price market participants would pay to sub-lease the operating lease ROU assets are based on comparable market rental information that could be reasonably obtained for the property. In situations where the highest and best use of the restaurant level assets from market participants' perspective is represented by sub-leasing the operating lease right-of-use assets and acquiring remaining restaurant assets, the Company continues to use these assets in operating its restaurant business, which is consistent with its long-term strategy of growing revenue through operating restaurant concepts.

When we believe it is more likely than not a restaurant or groups of restaurants will be refranchised for a price less than their carrying value, but do not believe the restaurant(s) have met the criteria to be classified as held for sale, we review the restaurants for impairment. We evaluate the recoverability of these restaurant assets by comparing estimated sales proceeds plus holding period cash flows, if any, to the carrying value of the restaurant or group of restaurants. For restaurant assets that are not deemed to be recoverable, we recognize impairment for any excess of carrying value over the fair value of the restaurants, which is based on the expected net sales proceeds. To the extent ongoing agreements to be entered into with the franchisee simultaneous with the refranchising are expected to contain terms, such as royalty rates, not at prevailing market rates, we consider the off-market terms in our impairment evaluation. We recognize any such impairment charges in Refranchising gain. Refranchising gain includes the gains or losses from the sales of our restaurants to new and existing franchisees, including any impairment charges discussed above. We recognize gains on restaurant refranchising when the sale transaction closes, the franchisee has a minimum amount of the purchase price in at-risk equity and we are satisfied that the franchisee can meet its financial obligations.

When we decide to close a restaurant, it is reviewed for impairment, and depreciable lives are adjusted based on the expected disposal date. Other costs incurred when closing a restaurant such as costs of disposing of the assets as well as other facility-related expenses are generally expensed as incurred. Additionally, at the time we decide to close a restaurant, we reassess whether it is reasonably certain that we will exercise the termination option, and remeasure lease liability to reflect changes in lease term and remaining lease payments based on the planned exit date, if applicable. The amount of the re-measurement of the lease liability is recorded as an adjustment to the operating lease ROU asset first, with any remaining amount recorded in Closures and impairment expenses if the carrying amount of the operating lease ROU asset is reduced to zero. Any costs recorded upon store closure as well as any subsequent adjustments to remaining operating lease ROU assets and lease liabilities as a result of lease termination are recorded in Closures and impairment expenses. In the event we are forced to close a store and receive compensation for such closure, that compensation is recorded in Closures and impairment expenses. To the extent we sell assets associated with a closed store, any gain or loss upon that sale is also recorded in Closures and impairment expenses.

Considerable management judgment is necessary to estimate future cash flows, including cash flows from continuing use, terminal value, lease term and refranchising proceeds. Accordingly, actual results could vary significantly from our estimates.

Government Subsidies. Government subsidies generally consist of financial subsidies received from provincial and local governments for operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. There are no defined rules and regulations to govern the criteria necessary for companies to receive such benefits, and the amount of financial subsidy is determined at the discretion of the relevant government authorities. Government subsidies are recognized when it is probable that the Company will comply with the conditions attached to them, and the subsidies are received. If the subsidy is related to an expense item, it is recognized as a reduction to the related expense to match the subsidy to the costs that it is intended to compensate. If the subsidy is related to an asset, it is deferred and recorded in other liabilities and then recognized ratably over the expected useful life of the related asset in the Consolidated Statements of Income.

Income Taxes. We record deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss, capital loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences or carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Additionally, in determining the need for recording a valuation allowance against the carrying amount of deferred tax assets, we consider the amount of taxable income and periods over which it must be earned, actual levels of past taxable income and known trends and events or transactions that are expected to affect future levels of taxable income. Where we determine that it is more likely than not that all or a portion of an asset will not be realized, we record a valuation allowance.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law effective for tax years beginning after December 31, 2017. The Tax Act requires complex computations with significant estimates to be performed, significant judgments to be made in interpretation of the provisions, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, the SEC and other standard-setting bodies could interpret or issue guidance on how provisions of the Tax Act will be applied or otherwise administered that is different from our current interpretation. We completed our analysis of the Tax Act in the fourth quarter of 2018 according to guidance released by the U.S. Treasury Department and the IRS as of December 2018 and made an adjustment of $36 million to reduce the provisional amount for transition tax recorded in 2017 accordingly. The U.S. Treasury Department and the IRS released the final transition tax regulations in the first quarter of 2019. We completed the evaluation of the impact on our transition tax computation based on the final regulations released in the first quarter of 2019 and recorded an additional income tax expense of $8 million for the transition tax accordingly.

We are subject to reviews, examinations and audits by Chinese tax authorities, the IRS and other taxing authorities with respect to income and non-income based taxes. We recognize the benefit of positions taken or expected to be taken in our tax returns when it is more likely than not that the position would be sustained upon examination by these tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. We evaluate unrecognized tax benefits, including interest thereon, on a quarterly basis to ensure that they have been appropriately adjusted for events, including audit settlements, which may impact our ultimate payment for such exposures.

We have investments in our foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. Except for the planned but yet to be distributed earnings, we have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone the basis differences from reversing with a tax consequence. The Company's separation from YUM was intended to qualify as a tax-free reorganization for U.S. income tax purposes resulting in the excess of financial reporting basis over tax basis in our investment in the China business continuing to be indefinitely reinvested. The excess of financial reporting basis over tax basis as of December 31 2017 was subject to the one-time transition tax under the Tax Act as a deemed repatriation of accumulated undistributed earnings from the foreign subsidiaries. However, we continue to believe that the portion of the excess of financial reporting basis over tax basis (including earnings and profits subject to the one-time transition tax) is indefinitely reinvested in our foreign subsidiaries for foreign withholding tax purposes.

Pursuant to the China Enterprise Income Tax Law ("EIT Law"), a 10% PRC withholding tax is generally levied on dividends declared by companies in China to their non-resident enterprise investors unless otherwise reduced according to treaties or arrangements between the Chinese central government and the governments of other countries or regions where the non-China resident enterprises are incorporated. Hong Kong has a tax arrangement with mainland China that provides for a 5% withholding tax on dividends distributed to a Hong Kong resident enterprise, upon meeting certain conditions and requirements, including, among others, that the Hong Kong resident enterprise own at least 25% equity interest of the Chinese enterprise and is a "beneficial owner" of the dividends. We believe that our Hong Kong subsidiary, which is the equity holder of our Chinese subsidiaries, met the relevant requirements pursuant to the tax arrangement between mainland China and Hong Kong in 2018 and is expected to meet the requirements in the subsequent years; thus, it is more likely than not that our dividends declared or earnings expected to be repatriated since 2018 are subject to the reduced withholding tax of 5%.

See Note 16 for a further discussion of our income taxes.

Fair Value Measurements. Fair value is the price we would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. For those assets and liabilities we record or disclose at fair value, we determine fair value based upon the quoted market price, if available. If a quoted market price is not available for identical assets, we determine fair value based upon the quoted market price of similar assets or the present value of expected future cash flows considering the risks involved, including counterparty performance risk if appropriate, and using discount rates appropriate for the duration. The fair values are assigned a level within the fair value hierarchy, depending on the source of the inputs into the calculation.

Level 1	Inputs based upon quoted prices in active markets for identical assets.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
Level 3	Inputs that are unobservable for the asset.

Cash and Cash Equivalents. Cash equivalents represent highly liquid investments with original maturities not exceeding three months and are primarily comprised of time deposits. Cash and overdraft balances that meet the criteria for right to offset are presented net on our Consolidated Balance Sheets.

Short-term Investments. Short-term investments primarily represent time deposits with original maturities of over three months but less than one year when purchased.

Accounts Receivable. Accounts Receivable consist of trade receivables and royalties from franchisees and unconsolidated affiliates, and are generally due within 30 days of the period in which the corresponding sales occur and are classified as Accounts receivable on the Consolidated Balance Sheets. Prior to the adoption of ASC 326, our provision for uncollectible receivable balances was based upon pre-defined aging criteria or upon the occurrence of other events that indicated that we may not collect the balance due. Additionally, we monitor the financial condition of our franchisees and record provisions for estimated losses on receivables when we believe it is probable that our franchisees will be unable to make their required payments. Upon adoption of ASC 326 starting from January 1, 2020, our provision of credit losses for accounts receivable is based upon the current expected credit losses ("CECL") model. The CECL model requires an estimate of the credit losses expected over the life of accounts receivable since initial recognition, and accounts receivable with similar risk characteristics are grouped together when estimating CECL. In assessing the CECL, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical credit loss experience, adjusted for relevant factors impacting collectability and forward-looking information indicative of external market conditions. While we use the best information available in making our determination, the ultimate recovery of recorded receivables is also dependent upon future economic events and other conditions that may be beyond our control. Accounts receivables that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts. As of December 31, 2020 and 2019, the ending balances of provision for accounts receivable were $1 million and $1 million, respectively, and amounts of accounts receivable past due were immaterial. Receivables due from unconsolidated affiliates including accounts receivables and dividend receivables were $50 million and $58 million as of December 31, 2020 and 2019, respectively.

Receivables from Payment Processors or Aggregators. Receivables from payment processors such as WeChat and Alipay or aggregators are cash due from them for clearing transactions and are included in Prepaid expenses and other current assets. The cash was paid by customers through these payment processors or aggregators for food provided by the Company. The Company considers and monitors the credit worthiness of the third-party payment processors and aggregators used. Prior to the adoption of ASC 326, an allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. Upon adoption of ASC 326 starting from January 1, 2020, we adopted the same methodology of estimating expected credit losses based upon the CECL model as described above. Receivable balances are written off after all collection efforts have been exhausted. As of December 31, 2020 and 2019, no allowance for doubtful accounts was provided for such receivables.

Inventories. We value our inventories at the lower of cost (computed on the first-in, first-out method) or net realizable value.

Property, Plant and Equipment. We state PP&E at cost less accumulated depreciation and amortization. We calculate depreciation and amortization on a straight-line basis over the estimated useful lives of the assets as follows: 20 to 50 years for buildings, the lesser of estimated useful lives (5 to 10 years) and remaining lease term for leasehold improvements, 3 to 10 years for restaurant machinery and equipment and 3 to 5 years for capitalized software costs. We suspend depreciation and amortization on assets related to restaurants that are held for sale.

Leases. The Company adopted Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* ("ASC 842") and subsequent amendments issued by FASB on January 1, 2019, using a modified retrospective method for leases that exist at, or are entered into after, January 1, 2019, and has not recast the comparative periods presented in the Consolidated Financial Statements.

Prior to the adoption of ASC 842, operating leases were not recognized on the balance sheet of the Company, but rent expenses with fixed escalating payments and/or rent holidays were recognized on a straight-line basis over the lease term. Contingent rentals are generally based on sales levels, and thus are included in rent expense when attainment of the contingency is considered probable (e.g., when Company sales occur).

Upon adoption of ASC 842, ROU assets and lease liabilities are recognized upon lease commencement for operating leases based on the present value of lease payments over the lease term. As the rate implicit in the lease cannot be readily determined, we use our incremental borrowing rate at the lease commencement date in determining the imputed interest and present value of lease payments. The incremental borrowing rate was determined using a portfolio approach based on the rate of interest that we would have to borrow an amount equal to the lease payments on a collateralized basis over a similar term. The incremental borrowing rate is primarily influenced by the risk-free interest rate of China, the Company's credit rating and lease term, and is updated on a quarterly basis for measurement of new lease liabilities.

For operating leases, the Company recognizes a single lease cost on a straight-line basis over the remaining lease term. For finance leases, the Company recognizes straight-line amortization of the ROU asset and interest on the lease liability. This is consistent with the historical recognition of finance leases, which was unchanged upon adoption of ASC 842. For rental payments either based on a percentage of the restaurant's sales in excess of a fixed base amount or solely based on a percentage of the restaurant's sales, they are recognized as variable lease expenses as incurred.

The Company has elected not to recognize ROU assets or lease liabilities for leases with an initial term of 12 months or less; we recognize lease expense for these leases on a straight-line basis over the lease term. In addition, the Company has elected not to separate non-lease components (e.g., common area maintenance fees) from the lease components.

From time to time, we purchase the rights to use government-owned land and the building occupying the land for a fixed period of time. Prior to the adoption of ASC 842, these land use rights and related buildings were recorded in Other Assets and Property, Plant and Equipment in our Consolidated Balance Sheets, and are amortized on a straight-line basis over the term of the land use rights. Upon the adoption of ASC 842 on January 1, 2019, land use rights acquired are assessed in accordance with ASC 842 and recognized in right-of-use assets if they meet the definition of lease.

See Note 11 for further discussions on our leases.

Internal Development Costs and Abandoned Site Costs. We capitalize direct costs associated with the site acquisition and construction of a Company unit on that site, including direct internal payroll and payroll-related costs. Only those site-specific costs incurred subsequent to the time that the site acquisition is considered probable are capitalized. If we subsequently make a determination that it is probable a site for which internal development costs have been capitalized will not be acquired or developed, any previously capitalized internal development costs are expensed and included in G&A expenses.

Goodwill and Intangible Assets. From time to time, the Company acquires restaurants from our existing franchisees or acquires another business, including restaurants business of unconsolidated affiliates. Goodwill from these acquisitions represents the excess of the cost of a business acquired over the net of the amounts assigned to assets acquired, including identifiable intangible assets and liabilities assumed. Goodwill is not amortized and has been assigned to reporting units for purposes of impairment testing. Our reporting units are our individual operating segments.

We evaluate goodwill for impairment on an annual basis or more often if an event occurs or circumstances change that indicate impairment might exist. We have selected the beginning of our fourth quarter as the date on which to perform our ongoing annual impairment test for goodwill. We may elect to perform a qualitative assessment for our reporting units to determine whether it is more likely than not that the fair value of the reporting unit is greater than its carrying value. If a qualitative assessment is not performed, or if as a result of a qualitative assessment it is not more likely than not that the fair value of a reporting unit exceeds its carrying value, then the reporting unit's fair value is compared to its carrying value. Fair value is the price a willing buyer would pay for a reporting unit, and is generally estimated using discounted expected future after-tax cash flows from the business operation of the reporting unit. The discount rate is our estimate of the required rate-of-return that a third-party buyer would expect to receive when purchasing a business from us that constitutes a reporting unit. We believe the discount rate is commensurate with the risks and uncertainty inherent in the forecasted cash flows. If the carrying value of a reporting unit exceeds its fair value, we will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit.

If we record goodwill upon acquisition of a restaurant(s) from a franchisee and such restaurant(s) is then sold within two years of acquisition, the goodwill associated with the acquired restaurant(s) is written off in its entirety. If the restaurant is refranchised two years or more subsequent to its acquisition, we include goodwill in the carrying amount of the restaurants disposed of based on the relative fair values of the portion of the reporting unit disposed of in the refranchising and the portion of the reporting unit that will be retained.

We determine the useful life of intangible assets with consideration of factors including the expected use of the asset, the expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate, any legal, regulatory or contractual provisions that may limit the useful life, our historical experience in renewing or extending similar arrangements, the effects of obsolescence, demand, competition and other economic factors, and the level of maintenance expenditures required to obtain the expected future cash flows from the assets. We evaluate the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, we amortize the intangible asset prospectively over its estimated remaining useful life. The Company's indefinite-lived intangible asset represents Little Sheep and Huang Ji Huang trademarks as we consider their useful life to be indefinite since we intend to use Little Sheep and Huang Ji Huang trademarks indefinitely and there are no legal, regulatory or contractual provisions that may limit the useful life of the trademarks. Intangible assets that are deemed to have a finite life are generally amortized over their estimated useful lives on a straight-line basis to their residual value as follows:

Reacquired franchise rights	2 to 10 years
Huang Ji Huang franchise related assets	19 years
Daojia platform	8 years
Customer-related assets	2 to 15 years
Others	up to 20 years

The useful life of reacquired franchise rights was determined based on the contractual term whereas both the contractual term and historical pattern of renewing franchise agreements were considered in assessing the useful life of Huang Ji Huang franchise related assets. Customer-related assets primarily represent the customer relationship and user base acquired and the estimate of the useful life was based on the historical pattern of extending similar arrangements and attrition rate of users. Others primarily represent Little Sheep's secret recipe. The useful life of the Daojia platform and Little Sheep's secret recipe was assessed based on our estimate of periods generating cash flows from utilizing such assets.

We evaluate our indefinite-lived intangible assets for impairment on an annual basis or more often if an event occurs or circumstances change that indicate impairments might exist. We perform our annual test for impairment of our indefinite-lived intangible assets at the beginning of our fourth quarter. We may elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is greater than its carrying value. If a qualitative assessment is not performed, or if as a result of a qualitative assessment it is not more likely than not that the fair value of an indefinite-lived intangible asset exceeds its carrying value, then the asset's fair value is compared to its carrying value. Fair value is an estimate of the price a willing buyer would pay for the intangible asset and is generally estimated by discounting the expected future after-tax cash flows associated with the intangible asset.

Our finite-lived intangible assets that are not allocated to an individual restaurant are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. An intangible asset that is deemed not recoverable based on forecasted undiscounted future cash flow is written down to its estimated fair value, which is our estimate of the price a willing buyer would pay for the intangible asset based on discounted expected future after-tax cash flows. For purposes of our impairment analysis, we update the cash flows that were initially used to value the finite-lived intangible asset to reflect our current estimates and assumptions over the asset's future remaining life.

During the year ended December 31, 2019 and 2018, we recorded an impairment charge of $11 million and $12 million, respectively, on intangible assets and goodwill attributable to the Daojia business. See Note 5 for additional details.

Equity Investments. The Company's equity investments include investments in unconsolidated affiliates and investments in equity securities with readily determinable fair value.

The Company applies the equity method to account for the investments in unconsolidated affiliates over which it has significant influence but does not control. Equity method investments are included as Investments in unconsolidated affiliates on our Consolidated Balance Sheets. Our share of earnings or losses and share of changes in other comprehensive income or losses of equity method investees is included in net income and other comprehensive income or losses, respectively. We record impairment charges related to an investment in an unconsolidated affiliate whenever events or circumstances indicate that a decrease in the fair value of an investment has occurred which is other than temporary. In addition, we evaluate our investments in unconsolidated affiliates for impairment when they have experienced two consecutive years of operating losses.

For our investments in equity securities with readily determinable fair value, over which the Company has neither significant influence nor control, they are measured at fair value with subsequent changes recognized in net income.

Financial Instruments. We account for derivative instruments as either assets or liabilities in the Consolidated Balance Sheets. The financial instruments are recorded at their respective fair value as determined on the day of issuance and subsequently adjusted to the fair value at each reporting date. Changes in the fair value of financial instruments are recognized periodically in the Consolidated Statements of Income. The estimated fair values of derivative instruments are determined at discrete points in time using standard valuation techniques.

Noncontrolling Interests. We report Net income attributable to noncontrolling interests separately on the face of our Consolidated Statements of Income. The portion of equity attributable to noncontrolling interests is reported within equity, separately from the Company's stockholders' equity on the Consolidated Balance Sheets.

When the noncontrolling interest is redeemable at the option of the noncontrolling shareholder, or contingently redeemable upon the occurrence of a conditional event that is not solely within the control of the Company, the noncontrolling interest is separately classified as mezzanine equity. In connection with the acquisition of Huang Ji Huang, a redeemable noncontrolling interest was initially recognized at fair value and classified outside of permanent equity on our Consolidated Balance Sheets due to redemption rights being held by the noncontrolling shareholder. Subsequent changes in the redemption value of the redeemable noncontrolling interest are immediately recognized as they occur and adjusted to the carrying amount of the redeemable noncontrolling interest.

Guarantees. We account for guarantees in accordance with ASC Topic 460 ("ASC 460"), *Guarantees*. Accordingly, the Company evaluates its guarantees to determine whether (a) the guarantee is specifically excluded from the scope of ASC 460, (b) the guarantee is subject to ASC 460 disclosure requirements only, but not subject to the initial recognition and measurement provisions, or (c) the guarantee is required to be recorded in the financial statements at fair value. The Company provides: (i) indemnifications to certain investors and other parties for certain losses suffered or incurred by the indemnified party in connection with third-party claims; and (ii) indemnifications of officers and directors against third-party claims arising from the services they provide to the Company. To date, the Company has not incurred costs as a result of these obligations and does not expect to incur material costs in the future. Accordingly, the Company has not accrued any liabilities on the Consolidated Balance Sheets related to these indemnifications.

Asset Retirement Obligations. We recognize an asset and a liability for the fair value of a required asset retirement obligation ("ARO") when such an obligation is incurred. The Company's AROs are primarily associated with leasehold improvements which, at the end of the lease, the Company is contractually obligated to remove in order to comply with the lease agreement. As such, we amortize the asset on a straight-line basis over the lease term and accrete the liability to its nominal value using the effective interest method over the lease term.

Contingencies. The Company records accruals for certain of its outstanding legal proceedings or claims when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal proceedings or claims that could affect the amount of any accrual, as well as any developments that would make a loss contingency both probable and reasonably estimable. The Company discloses the amount of the accrual if it is material.

Retirement Plans. Certain of the Company's employees participate in noncontributory defined benefit plans and post-retirement medical plans sponsored by YUM prior to October 31, 2016. Subsequent to the separation, employees participating in YUM's plans were enrolled in the Yum China Holdings, Inc. Leadership Retirement Plan ("YCHLRP"), an unfunded, unsecured account-based retirement plan which allocates a percentage of pay to an account payable to the executive following the executive's separation of employment from the Company or attainment of age 55.

The Company also offers other defined contribution plans to employees. The total contribution for such employee benefits was expensed as incurred. The Company has no additional legal obligation or liabilities for the benefits beyond the paid and accrued amounts. See Note 13 for additional information.

PRC Value-Added Tax. The Company has been subject to VAT within the normal course of its restaurant business nationwide since May 1, 2016.

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

As of December 31, 2020 and 2019, an input VAT credit asset of $270 million and $243 million, were recorded in Other assets, respectively, and payable of $6 million and $5 million, were recorded in Accounts payable and other current liabilities, respectively, on the Consolidated Balance Sheets. The Company has not made an allowance for the recoverability of the input VAT credit asset, as the balance is expected to be utilized to offset against VAT payables more than one year from December 31, 2020. Any input VAT credit asset would be classified as Prepaid expenses and other current assets if the credit expected to be used within one year can be reasonably determined.

Earnings Per Share. Basic earnings per share represent net earnings to common stockholders divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares. See Note 4 for further information.

Common Stock Repurchases. We may repurchase shares of Yum China common stock under a program authorized by our board of directors from time to time in open market or privately negotiated transactions, including block trades, accelerated share repurchase transactions and the use of Rule 10b5-1 trading plans. Shares repurchased are included in treasury stock in the financial statements. See Note 15 for further information.

Recently Adopted Accounting Pronouncements

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

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

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

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

Note 3—Revenue

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

2020	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Revenues							
Company sales	$ 5,633	$ 1,721	$ 42	$ —	$ 7,396	$ —	$ 7,396
Franchise fees and income	125	5	18	—	148	—	148
Revenues from transactions with franchisees and unconsolidated affiliates	61	4	49	533	647	—	647
Other revenues	2	—	96	32	130	(58)	72
Total revenues	$ 5,821	$ 1,730	$ 205	$ 565	$ 8,321	$ (58)	$ 8,263

2019	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Revenues							
Company sales	$ 5,839	$ 2,045	$ 41	$ —	$ 7,925	$ —	$ 7,925
Franchise fees and income	136	4	8	—	148	—	148
Revenues from transactions with franchisees and unconsolidated affiliates	64	4	28	558	654	—	654
Other revenues	1	1	81	4	87	(38)	49
Total revenues	$ 6,040	$ 2,054	$ 158	$ 562	$ 8,814	$ (38)	$ 8,776

2018	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated(a)	Combined	Elimination	Consolidated
Revenues							
Company sales	$ 5,495	$ 2,106	$ 32	$ —	$ 7,633	$ —	$ 7,633
Franchise fees and income	132	3	6	—	141	—	141
Revenues from transactions with franchisees and unconsolidated affiliates	61	2	26	514	603	—	603
Other revenues	—	—	51	3	54	(16)	38
Total revenues	$ 5,688	$ 2,111	$ 115	$ 517	$ 8,431	$ (16)	$ 8,415

(a) As COFFii & JOY and our e-commerce business became operating segments starting from the first quarter of 2019, revenue by segment information for 2018 has been recast to align with the change in segment reporting. Additional details on our reportable segments are included in Note 17.

Franchise Fees and Income

	2020	2019	2018
Initial fees, including renewal fees	$ 8	$ 8	$ 7
Continuing fees and rental income	140	140	134
Franchise fees and income	$ 148	$ 148	$ 141

Costs to Obtain Contracts

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

Contract Liabilities

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

	2020	2019
Contract liabilities		
—Deferred revenue related to prepaid stored-value products	$ 117	$ 86
—Deferred revenue related to upfront franchise fees	38	39
—Deferred revenue related to customer loyalty programs	23	24
—Deferred revenue related to privilege membership programs	27	16
—Others	1	3
Total	$ 206	$ 168

Contract liabilities primarily consist of deferred revenue related to prepaid stored-value products, privilege membership programs, customer loyalty programs and upfront franchise fees. Deferred revenue related to prepaid stored-value products, privilege membership programs, and customer loyalty programs is included in Accounts payable and other current liabilities in the Consolidated Balance Sheets. Deferred revenue related to upfront franchise fees that we expect to recognize as revenue in the next 12 months is included in Accounts payable and other current liabilities, and the remaining balance is included in Other liabilities in the Consolidated Balance Sheets. Revenue recognized that was included in the contract liability balance at the beginning of the year amounted to $95 million and $68 million in 2020 and 2019, respectively. Changes in contract liability balances were not materially impacted by business acquisition, change in estimate of transaction price or any other factors during any of the years presented.

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

Note 4—Earnings Per Common Share ("EPS")

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

	2020	2019	2018
Net Income—Yum China Holdings, Inc.	$ 784	$ 713	$ 708
Weighted-average common shares outstanding (for basic calculation)[(a)]	390	377	384
Effect of dilutive share-based awards[(a)]	7	8	9
Effect of dilutive warrants[(b)]	5	3	2
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)	402	388	395
Basic Earnings Per Share	$ 2.01	$ 1.89	$ 1.84
Diluted Earnings Per Share	$ 1.95	$ 1.84	$ 1.79
Share-based awards and warrants excluded from the diluted EPS computation[(c)]	3	2	6

(a) As a result of the separation, shares of Yum China common stock were distributed to YUM's shareholders of record as of October 19, 2016 and included in the calculated weighted-average common shares outstanding. Holders of outstanding YUM equity awards generally received both adjusted YUM awards and Yum China awards, or adjusted awards of either YUM or Yum China in their entirety. Any subsequent exercise of these awards, whether held by the Company's employees or YUM's employees, would increase the number of common shares outstanding. The incremental shares arising from outstanding equity awards are included in the computation of diluted EPS, if there is dilutive effect. See Note 14 for a further discussion of share-based compensation. In September 2020, 41,910,700 common shares were issued as a result of the Company's global offering and secondary listing on the HKEX and they were included in the calculated weighted-average common shares outstanding.

(b) Pursuant to the investment agreements dated September 1, 2016 (Note 10), Yum China issued to strategic investors two tranches of warrants on January 9, 2017, with each tranche initially providing the right to purchase 8,200,405 shares of Yum China common stock, at an initial exercise price of $31.40 and $39.25 per share, respectively, subject to customary anti-dilution adjustments. The warrants may be exercised at any time through October 31, 2021. The incremental shares arising from outstanding warrants are included in the computation of diluted EPS, if there is dilutive effect when the average market price of Yum China common stock for the year exceeds the applicable exercise price of the warrants.

(c) These outstanding employee stock appreciation rights, RSUs, PSUs and warrants were excluded from the computation of diluted EPS because to do so would have been antidilutive for the years presented, or because certain PSUs are contingently issuable based on the achievement of performance and market conditions, which have not been met as of December 31, 2020.

Note 5—Items Affecting Comparability of Net Income

Impact of COVID-19 pandemic

The COVID-19 pandemic has significantly impacted the Company's operations in 2020. The Company's operations improved sequentially since the first quarter, although still impacted by the lingering effects of the COVID-19 pandemic. Operating profit for the years ended December 31, 2020 and 2019 was $961 million and $901 million, respectively. Excluding the impact of a $239 million gain from the re-measurement of our previously held equity interest in Suzhou KFC upon the acquisition as further described below, the decrease in Operating profit for the year ended December 31, 2020 was mainly driven by same-store sales declines and temporary store closures due to the COVID-19 pandemic, partially offset by one-time lease concession totaling $36 million from landlords and a one-time government relief of $59 million.

Consolidation of former unconsolidated affiliates

In the third quarter of 2020, the Company completed the acquisition of an additional 25% equity interest in Suzhou KFC for cash consideration of $149 million, increasing our equity interest to 72%, and thus we began to consolidate Suzhou KFC since the acquisition date.

In the first quarter of 2018, the Company completed the acquisition of an additional 36% equity interest in Wuxi KFC for cash consideration of $98 million, increasing our equity interest to 83%, and thus we began to consolidate Wuxi KFC since the acquisition date.

As a result of the acquisitions of Suzhou KFC and Wuxi KFC, the Company also recognized a gain of $239 million and $98 million, respectively, from the re-measurement of our previously held 47% equity interest at fair value using a discounted cash flow valuation approach and incorporating assumptions and estimates that are Level 3 inputs. Key assumptions used in estimating future cash flows included projected revenue growth and costs and expenses, which were based on internal projections, historical performance of stores, and the business environment, as well as the selection of an appropriate discount rate based on weighted-average cost of capital and company-specific risk premium. The gain was recorded in Other income, net and not allocated to any segment for performance reporting purposes.

Additionally, as a result of the acquisition of Suzhou KFC and Wuxi KFC, $61 million and $61 million of the purchase price was allocated to intangible assets related to reacquired franchise rights, respectively, which are being amortized over the remaining franchise contract period of 2.4 years and 5 years, 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, an e-commerce platform for services in China, for a total consideration of approximately $74 million, when it launched its initial public offering on the Hong Kong Stock Exchange in September 2018. In the second quarter of 2020, the Company sold 4.2 million of the ordinary shares of Meituan for proceeds of approximately $54 million, and realized a $17 million pre-tax gain which was recognized during the holding period. The Company recorded $29 million of U.S. tax in the year ended December 31, 2020 related to the gains on our investment in equity securities of Meituan, which were recognized during the year ended December 31, 2020 and prior year.

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

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

	2020	2019	2018
Unrealized gains (losses) recorded on equity securities still held as of the end of the year	$ 105	$ 63	$ (27)
Losses recorded on equity securities sold during the year	(1)	—	—
Gains (losses) recorded on equity securities	$ 104	$ 63	$ (27)

Store Impairment Charges

We recorded store impairment charges of $66 million, $38 million and $40 million for the years ended December 31, 2020, 2019 and 2018, respectively. The increase in store impairment charges in 2020 mainly resulted from the adverse effects of the COVID-19 pandemic. See Note 12 for additional information.

Daojia impairment

During the years ended December 31, 2019 and 2018, we recorded impairment charges of $2 million and $12 million, respectively, on the intangible assets acquired from the Daojia business primarily attributable to its platform.

Additionally, during the year ended December 31, 2019, goodwill related to Daojia reporting unit was fully impaired, resulting in an impairment charge of $9 million.

The fair values of Daojia intangible assets and reporting unit were based on the estimated price a willing buyer would pay, using unobservable inputs (level 3). The fair values of intangible assets were determined using a relief-from-royalty valuation approach, with estimated future sales and royalty rates as significant inputs. The fair value of the reporting unit was determined using an income approach with future cash flow estimates supported by estimated future sales and margin. Both valuation approaches incorporated a selection of an appropriate discount rate based on weighted-average cost of capital and company-specific risk premium.

For the years ended December 31, 2019 and 2018, these non-cash impairment charges totaling $11 million and $12 million, respectively, were included in Closures and impairment expenses in our Consolidated Statements of Income, but were not allocated to any segment for performance reporting purposes. We recorded tax benefit of $1 million and $3 million associated with the impairment, respectively, and allocated $2 million and $1 million of the after-tax impairment charge to Net Income—noncontrolling interests, respectively, which resulted in a net impairment charge of $8 million and $8 million allocated to Net Income – Yum China Holdings, Inc., respectively, for the years ended December 31, 2019 and 2018.

Partner PSU Awards

In February 2020, the Company's board of directors approved new grants of SARs, RSUs and PSUs to employees under the Yum China Holdings, Inc. Long Term Incentive Plan (the "2016 Plan"). The awards will be earned based on their respective vesting terms, with PSUs subject to market conditions or performance conditions. A special award of PSUs ("Partner PSU Awards") was granted to select employees who were deemed critical to the Company's execution of its strategic operating plan. These Partner PSU Awards will only vest if threshold performance goals are achieved over a four-year performance period, with the payout ranging from 0% to 200% of the target number of shares. Partner PSU Awards were granted to address increased competition for executive talent, motivate transformational performance and encourage management retention. Given the unique nature of these grants, the Compensation Committee of the Board does not intend to grant similar, special grants to the same employees during the performance period. The impact from these special awards is excluded from metrics that management uses to assess the Company's performance. The Company recognized a share-based compensation cost of $7 million associated with the Partner PSU Awards for year ended December 31, 2020.

Transition Tax

We completed our analysis of the Tax Act in the fourth quarter of 2018 according to guidance released by the U.S. Treasury Department and IRS as of December 2018 and made an adjustment of $36 million to reduce the provisional amount for transition tax recorded in 2017 accordingly. The U.S. Treasury Department and the IRS released the final transition tax regulations in the first quarter of 2019. We completed the evaluation of the impact on our transition tax computation based on the final regulations released in the first quarter of 2019 and recorded an additional income tax expense of $8 million for the transition tax accordingly.

Note 6—Other Income, net

	2020	2019	2018
Gain from re-measurement of equity interest upon acquisition[a]	$ 239	$ —	$ 98
Equity income from investments in unconsolidated affiliates	62	69	65
Derecognition of indemnification asset[b]	(3)	—	—
Foreign exchanges and other	(13)	(9)	(11)
Other income, net	$ 285	$ 60	$ 152

(a) As a result of the acquisition of Suzhou KFC and Wuxi KFC, as disclosed in Note 5, the Company recognized a gain of $239 million and $98 million in 2020 and 2018, respectively, from the re-measurement of our previously held 47% equity interest at fair value, which was not allocated to any segment for performance reporting purposes.

(b) In the second quarter of 2020, the Company derecognized a $3 million indemnification asset previously recorded for the Daojia acquisition as the indemnification right pursuant to the purchase agreement expired. The expense was included in Other income, net, but was not allocated to any segment for performance reporting purposes.

Note 7—Supplemental Balance Sheet Information

Accounts Receivables, net	2020	2019
Accounts receivables, gross	$ 100	$ 89
Allowance for doubtful accounts	(1)	(1)
Accounts receivables, net	$ 99	$ 88

Prepaid Expenses and Other Current Assets	2020	2019
Receivables from payment processors and aggregators	$ 47	$ 39
Dividends receivable from unconsolidated affiliates	10	8
Other prepaid expenses and current assets	119	87
Prepaid expenses and other current assets	$ 176	$ 134

Property, Plant and Equipment	2020	2019
Buildings and improvements	$ 2,367	$ 2,159
Finance leases, primarily buildings	36	30
Machinery and equipment and construction in progress	1,490	1,282
Property, plant and equipment, gross	3,893	3,471
Accumulated depreciation	(2,128)	(1,877)
Property, plant and equipment, net	$ 1,765	$ 1,594

Depreciation and amortization expense related to property, plant and equipment was $421 million, $408 million and $414 million in 2020, 2019 and 2018, respectively.

Other Assets	2020	2019
VAT assets	$ 270	$ 243
Investment in equity securities	160	110
Land use right[(a)]	140	133
Long-term deposits	83	71
Investment in long-term time deposits[(b)]	61	—
Costs to obtain contracts	9	9
Restricted cash	—	9
Others	26	5
Other Assets	$ 749	$ 580

(a) Amortization expense related to land use right was $5 million, $4 million and $5 million in 2020, 2019 and 2018, respectively.

(b) As of December 31, 2020, the Company had $61 million invested in long-term time deposits, bearing a fixed interest rate with original maturity of three years. The asset is restricted for use in order to secure the balance of prepaid stored-value cards issued by the Company pursuant to regulatory requirements.

Accounts Payable and Other Current Liabilities	2020	2019
Accounts payable	$ 708	$ 623
Operating leases liabilities	448	382
Accrued compensation and benefits	238	223
Accrued capital expenditures	203	150
Contract liabilities	175	135
Accrued marketing expenses	73	64
Other current liabilities	150	114
Accounts payable and other current liabilities	$ 1,995	$ 1,691

Other Liabilities	2020	2019
Deferred income tax liabilities[c]	$ 227	$ 67
Accrued income tax payable	66	69
Contract liabilities	31	33
Other noncurrent liabilities	70	41
Other liabilities	$ 394	$ 210

(c) Increase in deferred income tax liabilities balances in 2020 primarily resulted from Suzhou KFC and Huang Ji Huang acquisitions.

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

	2020	2019
Cash and cash equivalents as presented in Consolidated Balance Sheets	$ 1,158	$ 1,046
Restricted cash included in Other assets[d]	—	9
Cash, Cash Equivalents and Restricted Cash as presented in Consolidated Statements of Cash Flows	$ 1,158	$ 1,055

(d) As of December 31, 2019, the $9 million of restricted cash represents amounts deposited into an escrow account pursuant to a definitive agreement entered into in August 2019 to acquire a controlling interest in the Huang Ji Huang group. The Huang Ji Huang acquisition was completed on April 8, 2020.

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, 2018				
Goodwill, gross	$ 648	$ 238	$ 19	$ 391
Accumulated impairment losses[a]	(382)	—	—	(382)
Goodwill, net	266	238	19	9
Goodwill impairment[b]	(9)	—	—	(9)
Effect of currency translation adjustment and other	(3)	(3)	—	—
Balance as of December 31, 2019				
Goodwill, gross	645	235	19	391
Accumulated impairment losses	(391)	—	—	(391)
Goodwill, net	254	235	19	—
Goodwill acquired[c]	524	465		59
Effect of currency translation adjustment and other	54	48	1	5
Balance as of December 31, 2020				
Goodwill, gross	1,223	748	20	455
Accumulated impairment losses	(391)	—	—	(391)
Goodwill, net	$ 832	$ 748	$ 20	$ 64

(a) Accumulated impairment losses represent Little Sheep goodwill related impairment.

(b) In 2019, we recorded an impairment charge of $9 million on goodwill attributable to the Daojia reporting unit (Note 5).

(c) Goodwill acquired resulted from the acquisition of Suzhou KFC and Huang Ji Huang. (Note 1).

Form 10-K

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

	2020				2019			
	Gross Carrying Amount[(a)]	Accumulated Amortization	Accumulated Impairment Losses[(b)]	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Losses[(b)]	Net Carrying Amount
Finite-lived intangible assets								
Reacquired franchise rights[(c)]	$ 223	$ (144)	$ —	$ 79	$ 148	$ (113)	$ —	$ 35
Huang Ji Huang franchise related assets[(d)]	23	(1)	—	22	—	—	—	—
Daojia platform	16	(4)	(12)	—	16	(4)	(12)	—
Customer-related assets	12	(8)	(2)	2	12	(8)	(2)	2
Other	9	(4)	—	5	9	(4)	—	5
	$ 283	$ (161)	$ (14)	$ 108	$ 185	$ (129)	$ (14)	$ 42
Indefinite-lived intangible assets								
Little Sheep trademark	$ 56	$ —	$ —	$ 56	$ 52	$ —	$ —	$ 52
Huang Ji Huang trademark[(d)]	82	—	—	82	—	—	—	—
	$ 138	$ —	$ —	$ 138	$ 52	$ —	$ —	$ 52
Total intangible assets	$ 421	$ (161)	$ (14)	$ 246	$ 237	$ (129)	$ (14)	$ 94

(a) Changes in gross carrying amount include effect of currency translation adjustment.

(b) Accumulated impairment losses represent impairment charges on intangible assets acquired from Daojia primarily attributable to the Daojia platform.

(c) Increase in gross carrying amount of reacquired franchise rights during the year ended December 31, 2020 primarily resulted from the acquisition of Suzhou KFC (Note 5).

(d) Increase in gross carrying amount of finite-lived and indefinite-lived intangible assets primarily resulted from the acquisition of Huang Ji Huang group (Note 1).

Amortization expense for finite-lived intangible assets was $24 million in 2020, $16 million in 2019 and $26 million in 2018. Amortization expense for finite-lived intangible assets is expected to approximate $40 million in 2021, $40 million in 2022, $5 million in 2023, $2 million in 2024 and $2 million in 2025.

Note 9—Credit Facilities

As of December 31, 2020, the Company had credit facilities of RMB3,305 million (approximately $506 million), comprised of onshore credit facilities of RMB2,000 million (approximately $306 million) in the aggregate and offshore credit facilities of $200 million in the aggregate.

The credit facilities had remaining terms ranging from less than one year to two years as of December 31, 2020. Each credit facility bears interest based on the prevailing rate stipulated by the People's Bank of China, Loan Prime Rate ("LPR") published by the National Interbank Funding Centre of the PRC or London Interbank Offered Rate ("LIBOR") administered by the ICE Benchmark Administration. Each credit facility contains a cross-default provision whereby our failure to make any payment on a principal amount from any credit facility will constitute a default on other credit facilities. Some of the credit facilities contain covenants limiting, among other things, certain additional indebtedness and liens, and certain other transactions specified in the respective agreement. Interest on any outstanding borrowings is due at least monthly. Some of the onshore credit facilities contain sub-limits for overdrafts, non-financial bonding, standby letters of credit and guarantees. As of December 31, 2020, we had outstanding bank guarantees of RMB 114 million (approximately $18 million) to secure our lease payment to landlords for certain Company-owned restaurants. The credit facilities were therefore reduced by the same amount, while there were no borrowings outstanding as of December 31, 2020.

Note 10—Investment Agreements with Strategic Investors

On September 1, 2016, YUM and the Company entered into investment agreements (the “Investment Agreements”) with each of Pollos Investment L.P., an affiliate of Primavera Capital Group (“Primavera”), and API (Hong Kong) Investment Limited, an affiliate of Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. (“Ant Financial” and, together with Primavera, the “Investors”). Pursuant to the Investment Agreements, on November 1, 2016 (“Closing Date”), Primavera and Ant Financial invested $410 million and $50 million, respectively, for a collective $460 million investment (the “Investment”) in the Company in exchange for: (i) shares of Yum China common stock representing in the aggregate 5% of Yum China common stock issued and outstanding immediately following the separation subject to Post-Closing Adjustment for a final aggregate ownership of between 4.3% and 5.9% in Yum China and (ii) two tranches of warrants (the “Warrants”), exercisable for an approximate additional 4% ownership, in the aggregate, of Yum China common stock issued and outstanding after the separation, taking into account the shares previously issued to the Investors. Immediately before the closing of the Investment, Yum China had 363,758,219 shares of common stock issued and outstanding, with a par value $0.01 per share. Pursuant to the Investment Agreements, on November 1, 2016, Yum China issued 17,064,172.74 and 2,080,996.68 shares of common stock (the “Closing Shares”) at $24.03 per share (“Closing Price”) to Primavera and Ant Financial, respectively, subject to adjustment as described below.

Pursuant to the Investment Agreements, the Investors and the Company determined the volume weighted-average trading price (“VWAP”) per share of Company common stock over the trading days occurring over the period from December 1, 2016 to December 30, 2016 (the “Measurement Period”), and discounted such VWAP by 8% (the “Adjusted VWAP Price Per Share”).

Since the Adjusted VWAP Price Per Share of $25.05 exceeded the Closing Price of $24.03 paid by the Investors at the Closing Date, on January 9, 2017, the Company repurchased from Primavera and Ant Financial 699,394.74 and 85,291.68 shares of common stock, respectively, at par value of $0.01 per share, based on the Adjusted VWAP Price Per Share as determined on December 30, 2016. The repurchased shares were included in Treasury Stock as of December 31, 2016 in the Consolidated Financial Statements.

In addition, pursuant to the terms of the Investment Agreements, on January 9, 2017, Yum China issued to each of the Investors two tranches of Warrants. Upon exercise, the first tranche of Warrants initially provided Primavera and Ant Financial with the right to purchase 7,309,057 and 891,348 shares of Yum China common stock, respectively, at an initial exercise price of $31.40 per share. The second tranche of Warrants initially provided Primavera and Ant Financial with the right to purchase the same number of shares of Yum China common stock purchasable by Primavera and Ant Financial under the first tranche of Warrants, at an initial exercise price of $39.25 per share. The initial exercise price for the Warrants was based on $12 billion and $15 billion for the first tranche and second tranche, respectively, divided by the number of shares of common stock, including the Closing Shares after the Post-Closing Adjustment, issued and outstanding as of the Closing Date. The Warrants may be exercised at any time through October 31, 2021 and contain customary anti-dilution protections.

As a result of the issuance of the Closing Shares and the Post-Closing Adjustment (excluding shares issuable upon exercise of the Warrants), Primavera and Ant Financial collectively beneficially owned approximately 4.8% of the outstanding shares of Yum China common stock as of January 9, 2017, or approximately 8.7% of the outstanding shares of Yum China common stock as of January 9, 2017 assuming the full exercise of both tranches of Warrants by each of the Investors.

Total cash proceeds of $460 million from the closing of the Investment were first allocated to the Post-Closing Adjustment and Warrants based on their fair value on November 1, 2016, with the residual value of $364 million allocated to the shares of common stock issued.

As of December 31, 2020, Primavera and Ant Financial had separately entered into pre-paid forward sale transactions with respect to all of their Warrants with several financial institutions, pursuant to which Primavera and Ant Financial are obligated to deliver their respective Warrants on the applicable settlement date.

Note 11—Leases

As of December 31, 2020, we operated over 8,100 company-owned restaurants, leasing the underlying land and/or building. We generally enter into lease agreements for our restaurants with initial terms of 10 to 20 years. Most of our lease agreements contain termination options that permit us to terminate the lease agreement early if the restaurant's unit contribution is negative for a specified period of time. We generally do not have renewal options for our leases. Such options are accounted for only when it is reasonably certain that we will exercise the options. The rent under the majority of our current restaurant lease agreements is generally payable in one of three ways: (i) fixed rent; (ii) the higher of a fixed base rent or a percentage of the restaurant's sales; or (iii) a percentage of the restaurant's sales. Most leases require us to pay common area maintenance fees for the leased property. In addition to restaurants leases, we also lease office spaces, logistics centers and equipment. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In limited cases, we sub-lease certain restaurants to franchisees in connection with refranchising transactions or lease our properties to other third parties. The lease payments under these leases are generally based on the higher of a fixed base rent or a percentage of the restaurant's annual sales. Income from sub-lease agreements with franchisees or lease agreements with other third parties are included in Franchise fees and income and Other revenue, respectively, within our Consolidated Statements of Income. The impact of ASC 842 on our accounting as a lessor was not significant.

Supplemental Balance Sheet	2020/12/31	2019/12/31	Account Classification
Assets			
Operating lease right-of-use assets[(a)]	$ 2,164	$ 1,985	Operating lease right-of-use assets
Finance lease right-of-use assets	20	18	Property, plant and equipment, net
Total leased assets	$ 2,184	$ 2,003	
Liabilities			
Current			
Operating lease liabilities[(a)]	$ 448	$ 382	Accounts payable and other current liabilities
Finance lease liabilities	2	2	Accounts payable and other current liabilities
Non-current			
Operating lease liabilities[(a)]	1,915	1,803	Non-current operating lease liabilities
Finance lease liabilities	28	26	Non-current finance lease liabilities
Total lease liabilities	$ 2,393	$ 2,213	

(a) Increase in balances of operating lease right-of-use assets and liabilities mainly resulted from the acquisition of Suzhou KFC.

Summary of Lease Cost	2020	2019	Account Classification
Operating lease cost	$ 496	$ 472	Occupancy and other operating expenses, G&A or Franchise expenses
Finance lease cost			
Amortization of leased assets	2	1	Occupancy and other operating expenses
Interest on lease liabilities	2	2	Interest expense, net
Variable lease cost[(b)]	262	325	Occupancy and other operating expenses or Franchise expenses
Short-term lease cost	10	10	Occupancy and other operating expenses or G&A
Sublease income	(24)	(27)	Franchise fees and income or Other revenues
Total lease cost	$ 748	$ 783	

(b) The Company was granted $36 million in lease concessions from landlords related to the effects of the COVID-19 pandemic for the year ended December 31, 2020. The lease concessions were primarily in the form of rent reduction over the period of time when the Company's restaurant business was adversely impacted. The Company applied the interpretive guidance in a FASB staff Q&A document issued in April 2020 and elected: (1) not to evaluate whether a concession received in response to the COVID-19 pandemic is a lease modification and (2) to assume such concession was contemplated as part of the existing lease contract with no contract modification. Such concession was recognized as negative variable lease cost in the period the concession was granted.

Supplemental Cash Flow Information	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 493	$ 481
Operating cash flows from finance leases	2	1
Financing cash flows from finance leases	2	2
Right-of-use assets obtained in exchange for new lease liabilities[(c)]:		
Operating leases	$ 337	$ 346
Finance leases	2	4

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

Lease Term and Discount Rate	2020	2019
Weighted-average remaining lease term (years)		
Operating leases	7.0	7.1
Finance leases	10.9	11.5
Weighted-average discount rate		
Operating leases	5.8%	6.1%
Finance leases	5.8%	5.9%

Summary of Future Lease Payments and Lease Liabilities

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

	Amount of Operating Leases	Amount of Finance Leases	Total
2021	$ 568	$ 4	$ 572
2022	474	4	478
2023	410	4	414
2024	343	4	347
2025	279	4	283
Thereafter	818	21	839
Total undiscounted lease payment	2,892	41	2,933
Less: imputed interest[(d)]	529	11	540
Present value of lease liabilities	$ 2,363	$ 30	$ 2,393

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

As of December 31, 2020, we have additional lease agreements that have been signed but not yet commenced, with total undiscounted minimum lease payments of $141 million. These leases will commence between 2021 and 2023 with lease terms of 1 year to 20 years.

Note 12—Fair Value Measurements and Disclosures

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

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

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

	Balance at December 31, 2020	Fair Value Measurement or Disclosure at December 31, 2020		
		Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	$ 601		$ 601	
Fixed income debt securities[(a)]	207	207		
Total cash equivalents	808	207	601	—
Short-term investments:				
Time deposits	2,165		2,165	
Fixed income debt securities[(a)]	784	104	680	
Variable return investments	156	156		
Total short-term investments	3,105	260	2,845	—
Other assets:				
Equity securities	160	160		
Time deposits	61		61	
Total	$ 4,134	$ 627	$ 3,507	$ —

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

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

Non-recurring fair value measurements

In addition, certain of the Company's restaurant-level assets (including operating lease ROU assets, property, plant and equipment), goodwill and intangible assets, are measured at fair value based on unobservable inputs (Level 3) on a non-recurring basis, if determined to be impaired. As of December 31, 2020, the fair value of restaurant-level assets, if determined to be impaired, are primarily represented by the price market participant would pay to sub-lease the operating lease ROU assets and acquire remaining restaurants assets, which reflects the highest and best use of the assets. Significant unobservable inputs used in the fair value measurement include market rental prices, which were determined with the assistance of an independent valuation specialist. The direct comparison approach is used as the valuation technique by assuming sub-lease of each of these properties in its existing state with vacant possession. By making reference to lease transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the difference in factors such as location and property size.

The following table presents amounts recognized from all non-recurring fair value measurements based on unobservable inputs (Level 3) during the years ended December 31, 2020, 2019 and 2018. These amounts exclude fair value measurements made for restaurants that were subsequently closed or refranchised prior to those respective year-end dates.

	2020	2019	2018	Account Classification
Restaurant-level impairment[(a)]	52	28	27	Closure and impairment expenses, net
ROU impairment prior to the adoption of ASC 842[(b)]	—	82	—	Retained Earnings
Daojia impairment[(c)]	—	11	12	Closure and impairment expenses, net
Total	$ 52	$ 121	$ 39	

(a) Restaurant-level impairment charges are recorded in Closures and impairment expenses, net and resulted primarily from our semi-annual impairment evaluation of long-lived assets of individual restaurants that were being operated at the time of impairment and had not been offered for refranchising. We performed an additional impairment evaluation in the first quarter of 2020, considering the adverse effects of the COVID-19 pandemic as an impairment indicator. A trend of continuing operating losses for certain restaurants due to the COVID-19 pandemic resulted in higher impairment during 2020. We also performed an additional impairment evaluation upon adoption of ASC 842 in the first quarter of 2019. The remaining net book value of assets measured at fair value as of each relevant measurement date, after considering the impairment charges recorded during the years ended December 31, 2020 was $157 million. The remaining net book value of assets measured at fair value as of each relevant measurement date, after considering the impairment charges recorded during the years ended December 31, 2019 and December 2018, was insignificant.

(b) ROU impairment prior to the adoption of ASC 842 represents an impairment charge on operating lease ROU assets arising from existing operating leases as of January 1, 2019. After netting with the related impact on deferred taxes of $19 million and the impact on noncontrolling interests of $3 million, we recorded a cumulative adjustment of $60 million to retained earnings in accordance with the transition guidance for the new lease standard. For those restaurants under operating leases with full impairment on their long-lived assets (primarily property, plant and equipment) before January 1, 2019, an additional impairment charge would have been recorded before January 1, 2019 had the operating lease ROU assets been recognized at the time of impairment.

(c) See Note 5 for further discussion.

Note 13—Retirement Plans

For executives who were hired or re-hired after September 30, 2001, YUM has implemented the YUM LRP. This is an unfunded, unsecured account-based retirement plan which allocates a percentage of pay to an account payable to the executive following the executive's separation of employment from YUM or attainment of age 55. The Company adopted the YCHLRP upon separation while the assets and liabilities associated with these employees under YUM LRP were transferred to YCHLRP. YCHLRP will continue to be in effect until terminated by the Company's board of directors. The terms of the YCHLRP are substantially similar to the terms of the YUM LRP. Under the YCHLRP, certain executives who are at least age 21, who are classified as salary level 12, who are not eligible to participate in a tax-qualified defined benefit plan, and who satisfy certain additional requirements as to work location and assignment, are eligible to participate in the YCHLRP if selected for participation by the Company. The YCHLRP is an unfunded, unsecured account-based retirement plan that allocates a percentage of pay to an account payable to an executive following the later to occur of the executive's separation of employment from the Company or attainment of age 55. Under the YCHLRP, participants aged 55 or older are entitled to a lump sum distribution of their account balance on the last day of the calendar quarter that occurs on or follows their separation of employment. The liabilities of $0.2 million and $4.8 million attributable to our employees under the YCHLRP as of December 31, 2020 and 2019, respectively, are included in our Consolidated Balance Sheets.

YUM offers certain of the Company's executives working in China retirement benefits under the Bai Sheng Restaurants China Holdings Limited Retirement Scheme (previously known as the Bai Sheng Restaurants (Hong Kong) Ltd. Retirement Scheme). Under this defined contribution plan, YUM provides a company funded contribution ranging from 5% to 10% of an executive's base salary. Upon termination, participants will receive a lump sum equal to a percentage of the Company's contributions inclusive of investment return. This percentage is based on a vesting schedule that provides participants with a vested 30% interest upon completion of a minimum of 3 years of service, and an additional 10% vested interest for each additional completed year, up to a maximum of 100%. The Company adopted the same plan after the separation and the contribution amount to the plan for the years ended December 31, 2020, 2019 and 2018 was insignificant.

As stipulated by Chinese state regulations, the Company participates in a government-sponsored defined contribution retirement plan. Substantially all employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. We are required to make contributions to the local social security bureau between 12% and 20% of the previous year's average basic salary amount of the geographical area where the employees are under our employment. Contributions are recorded in the Consolidated Statements of Income as they become payable. We have no obligation for the payment of pension benefits beyond the annual contributions as set out above. In 2020, the Company also received one-time government subsidy related to COVID-19 in the form of a reduction in social security contributions, which was recognized as reduction to the related expenses when it was granted. The Company contributed $167 million, $160 million and $174 million to the government-sponsored plan for 2020, 2019 and 2018, respectively.

Note 14—Share-Based Compensation

Overview

Upon the separation, holders of outstanding YUM equity awards generally received both adjusted YUM awards and Yum China awards, or adjusted awards of either YUM or Yum China in their entirety, to maintain the pre-separation intrinsic value of the awards. Depending on the tax laws of the country of employment, awards were modified using either the shareholder method or the employer method. Share issuances for Yum China awards held by YUM's employees will be satisfied by Yum China. Share issuances for YUM awards held by the Company's employees will be satisfied by YUM. The shareholder method was based on the premise that employees holding YUM awards prior to the separation should receive an equal number of awards of both YUM and Yum China. Under the employer method, employees holding YUM awards prior to the separation had their awards converted into awards of the company that they worked for subsequent to the separation. As a result, Yum China may issue shares of common stock to YUM's employees upon exercise or vesting of various types of awards, including stock options, SARs, RSUs, and awards from the executive income deferral plan.

The modified equity awards have the same terms and conditions as the awards held immediately before the separation, except that the number of shares and the price were adjusted. In accordance with ASC 718, the Company compared the fair value of the awards immediately prior to the separation to the fair value immediately after the separation to measure the incremental compensation cost, using the Black-Scholes option-pricing model (the "BS model"). The incremental compensation cost was insignificant, and YUM and the Company continue to recognize the unamortized original grant-date fair value of the modified awards over the remaining requisite service period as their respective employees continue to provide services. Share-based compensation for the Company's employees is based on both YUM awards and Yum China awards held by those employees.

Effective October 31, 2016, the Company adopted the Yum China Holdings, Inc. Long Term Incentive Plan (the "2016 Plan"). The Company has reserved for issuance under the 2016 Plan of 45,000,000 shares of our common stock. Under this plan, the exercise price of stock options and SARs granted must be equal to or greater than the fair market value of the Company's stock on the date of grant.

Potential awards to employees and non-employee directors under the 2016 Plan include stock options, incentive options, SARs, restricted stock, stock units, RSUs, performance shares, performance units, and cash incentive awards. We have issued only stock options, SARs, RSUs and PSUs under the 2016 Plan. While awards under the 2016 Plan can have varying vesting provisions and exercise periods, outstanding awards under the 2016 Plan vest in periods ranging from three to five years. Stock options and SARs expire ten years after grant.

The Company recognizes all share-based payments to employees and non-employee directors in the Consolidated Financial Statements as compensation cost on a straight-line basis over the service period based on their fair value on the date of grant, for awards that actually vest and when performance conditions are probable of being achieved, if applicable. If no substantive service condition exists, the grant-date fair value is fully recognized as expense upon grant. Certain awards are subject to specific retirement conditions, which allow the awards to fully vest as long as the employee is actively employed for at least one year following the grant date, provides at least six months notification of intention to retire, and signs non-solicitation and non-compete agreements. Under such circumstances, the grant-date fair value of the award is recognized as expense on a straight-line basis over the one-year service period from the grant date.

Award Valuation

Stock Options and SARs

The Company estimated the fair value of each stock option and SAR award granted to the Company's employees as of the date of grant, using the BS model with the following assumptions:

	2020	2019	2018
Risk-free interest rate	1.5%	2.5%	2.5%
Expected term (years)	6.50	6.50	6.50
Expected volatility	33.2%	32.0%	33.0%
Expected dividend yield	1.1%	1.2%	1.0%

Share option and SAR awards granted to employees typically have a graded vesting schedule of 25% per year over four years and expire 10 years after grant. The Company uses a single weighted-average term for awards that have a graded vesting schedule. Based on analysis of the historical exercise and post-vesting termination behavior, the Company determined that employees exercised the awards on average after 6.5 years. Forfeitures were estimated based on historical experience. Historical data used to estimate the expected term and forfeiture rate were based on data associated with the Company's employees who were granted share-based awards by YUM prior to the separation.

For those awards granted by the Company after the separation, the Company considered the volatility of common shares of comparable companies in the same business as the Company, as well as the historical volatility of the Company stock. The dividend yield was estimated based on the Company's dividend policy at the time of the grant.

RSUs and PSUs

RSU awards generally vest over a three-year period with a majority of the awards cliff vesting at 100% on the third grant anniversary. The fair values of RSU awards are based on the closing price of the Company's stock on the date of grant.

During 2019 and 2018, the Company granted PSUs that are subject to market conditions and service conditions, cliff vesting at the end of the performance period. The number of shares to be distributed is based on the Company's performance on its total shareholder return relative to its peer group in the MSCI International China Index, measured over a three-year performance period. The fair value of PSU awards was valued based on the outcome of the Monte-Carlo Simulation model (the "MCS model") and amortized on a straight-line basis over the three-year period. The total amount of fair value for the PSUs granted in 2019 and 2018 is immaterial.

In February 2020, the Company's board of directors approved new grants of a special award of PSUs ("Partner PSU Awards") to select employees who were deemed critical to the Company's execution of its strategic operating plan under the 2016 Plan. These Partner PSU Awards are subject to market and performance conditions, and will cliff vest only if threshold performance goals are achieved over a four-year performance period, with the payout ranging from 0% to 200% of the target number of shares. The fair value of Partner PSU Awards was determined based on the outcome of the MCS model and closing price of the Company's stock on the date of the grant. The assumptions used in determining the grant date fair value of Partner PSU Awards include the risk-free interest rate of 1.4%, expected dividend yield of 1.1%, and expected volatility of 33.4%.

The annual PSU awards granted in February 2020 are cliff vested based only on the Company's achievement of performance goals with a relative total shareholder return payout modifier against the MSCI China Index, measured over a three-year period. The fair value of annual PSU awards was determined based on the outcome of the MCS model. The assumptions used in determining the grant date fair value of annual PSU awards include the risk-free interest rate of 1.4% and expected volatility of 33.4%.

Compensation costs associated with annual and Partner PSU Awards are recognized on a straight-line basis over the performance period when performance conditions are probable of being achieved, adjusted for estimated forfeiture rate.

Others

Commencing from November 11, 2016, Yum China also granted annual awards of common stock to non-employee directors for their service on Yum China's board of directors. The fair value of these awards is based on the closing price per share of the Company's common stock on the date of grant. The shares were issued outright to the directors on the date of grant, with no conditions attached. Therefore, the fair value of the awards was fully recognized as expenses upon grant. For the years ended December 31, 2020 and 2019, a total of 54,757 and 60,419 shares of Yum China common stock, respectively, were granted to non-employee directors and the grant-date fair value of $2.6 million and $2.4 million, respectively, was immediately recognized in full in the Consolidated Statements of Income.

Award Activity

Stock Options and SARs

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding at the beginning of 2020	14,373	24.22		
Granted	1,314	42.71		
Exercised	(3,585)	19.19		
Forfeited or expired	(252)	38.22		
Outstanding at the end of 2020	11,850[(a)]	27.49	5.12	351
Exercisable at the end of 2020	8,841	23.32	4.11	299

(a) Outstanding awards include 348,407 stock options and 11,501,517 SARs with weighted-average exercise prices of $19.91 and $27.72, respectively. Outstanding awards represent Yum China awards held by employees of both the Company and YUM.

The weighted-average grant-date fair value of SARs granted in 2020, 2019 and 2018 was $13.36, $13.43 and $13.52, respectively. The total intrinsic value of stock options and SARs exercised by the Company's employees during the years ended December 31, 2020, 2019 and 2018 was $75 million, $39 million and $31 million, respectively.

As of December 31, 2020, $25 million of unrecognized compensation cost related to unvested stock options and SARs, which will be reduced by any forfeitures that occur, is expected to be recognized over a remaining weighted-average vesting period of approximately 1.69 years. This reflects unrecognized cost for both Yum China awards and YUM awards held by the Company's employees. The total fair value at grant date or modification date of awards held by the Company's employees that vested during 2020, 2019 and 2018 was $15 million, $14 million and $14 million, respectively.

RSUs and PSUs

	Shares (in thousands)	Weighted-Average Grant Date Fair Value
Unvested at the beginning of 2020	971	36.08
Granted	1,214	40.49
Vested	(448)	30.76
Forfeited or expired	(37)	41.25
Unvested at the end of 2020	1,700	40.52

The weighted-average grant-date fair value of RSUs and PSUs granted in 2020, 2019 and 2018 was $40.49, $44.75 and $39.50, respectively. As of December 31, 2020, $10 million of unrecognized compensation cost related to 551,642 unvested RSUs and $29 million of unrecognized compensation cost related to 1,148,042 PSUs, which will be reduced by any forfeiture that occurs, are expected to be recognized over a remaining weighted-average vesting period of approximately 1.50 and 2.82 years, respectively. The total fair value at grant date of awards that vested during 2020, 2019 and 2018 was $14 million, $4 million and $4 million, respectively.

Impact on Net Income

Share-based compensation expense was $36 million, $26 million and $24 million for 2020, 2019 and 2018, respectively. Deferred tax benefits of $1 million, $1 million, $1 million was recognized in 2020, 2019 and 2018, respectively.

Note 15—Equity

Immediately after the separation on October 31, 2016, Yum China authorized capital stock consisted of 1,000 million shares of common stock, par value $0.01 per share, and 364 million shares of Yum China common stock were issued and outstanding. As of December 31, 2020, 440 million shares of Yum China common stock were issued and 420 million shares were outstanding.

Share Repurchase Program

The Company repurchased 0.2 million, 6.2 million and 9.0 million shares of common stock at a total cost of $7 million, $261 million and $312 million for the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, $692 million remained available for repurchase under the current authorization. The Company suspended the share repurchase in the second, third and fourth quarter of 2020.

Cash Dividend

On October 4, 2017, the board of directors approved a regular quarterly cash dividend program, and declared an initial cash dividend of $0.10 per share on Yum China's common stock. Total cash dividends of $38 million were paid to shareholders in December 2017. The Company paid a cash dividend of $0.10 per share for each of the first three quarters of 2018 and $0.12 per share for the fourth quarter of 2018, each quarter of 2019 and the first quarter and fourth quarter of 2020. The Company suspended the share repurchase in the second and third quarter of 2020. Total cash dividends of $95 million, $181 million and $161 million were paid to shareholders in 2020, 2019 and 2018, respectively.

Accumulated Other Comprehensive Income ("AOCI")

The Company's other comprehensive income (loss) for the years ended December 31, 2020, 2019, and 2018 and AOCI balances as of December 31, 2020 and 2019 were comprised solely of foreign currency translation adjustments. Other comprehensive income was $230 million for the year ended December 31, 2020 and other comprehensive loss was $32 million and $160 million for the years ended December 31, 2019 and 2018, respectively. The accumulated balances reported in AOCI in the Consolidated Balance Sheets for currency translation adjustments were net income of $167 million as of December 31, 2020 and net loss of $49 million as of December 31, 2019. There was no tax effect related to the components of other comprehensive income for all years presented.

Restricted net assets

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Company's PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the Consolidated Financial Statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's subsidiaries.

In accordance with the PRC Regulations on Enterprises with Foreign Investment and the articles of association of the Company's PRC subsidiaries, a foreign-invested enterprise established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A foreign-invested enterprise is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve has reached 50% of its respective registered capital based on the enterprise's PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign-invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends.

As a result of these PRC laws and regulations subject to the limit discussed above that require annual appropriations of 10% of after-tax income to be set aside, prior to payment of dividends as general reserve fund, the Company's PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to the Company in the form of dividend payments, loans or advances. The restricted net assets of the PRC subsidiaries is approximately $855 million as of December 31, 2020.

Furthermore, cash transfers from the Company's PRC subsidiaries to its subsidiaries outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of the PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency-denominated obligations.

Note 16—Income Taxes

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

Based on the information available, we made a reasonable estimate of the effects and recorded the provisional amount of $164 million as an additional income tax expense in the fourth quarter of 2017. This amount included an estimated one-time transition tax of $130 million on the deemed repatriation of accumulated undistributed foreign earnings, $4 million primarily related to the re-measurement of certain deferred tax assets based on the rates at which they are expected to reverse in the future, and the valuation allowance of $30 million for certain deferred tax assets. After utilizing existing qualified foreign tax credits, the total payable of the estimated one-time transition tax was $83 million as of December 31, 2017.

We completed our analysis of the Tax Act in the fourth quarter of 2018 according to guidance released by the U.S. Treasury Department and the IRS as of December 2018 and made a reversal to provisional amount in the amount of $36 million for the transition tax recorded in 2017 accordingly. The U.S. Treasury Department and the IRS released the final transition tax regulations in the first quarter of 2019. We completed the evaluation of the impact on our transition tax computation based on the final regulations released in the first quarter of 2019 and recorded an additional income tax expense of $8 million for the transition tax accordingly.

The Tax Act requires a U.S. shareholder to be subject to tax on Global Intangible Low Taxed Income ("GILTI") earned by certain foreign subsidiaries. We have elected the option to account for current year GILTI tax as a period cost as incurred.

U.S. and foreign income (loss) before taxes are set forth below:

	2020	2019	2018
U.S.	$ (10)	$ (7)	$ (3)
Mainland China	1,014	941	979
Other Foreign	$ 104	69	(26)
	$ 1,108	$ 1,003	$ 950

The details of our income tax provision (benefit) are set forth below:

		2020	2019	2018
Current:	Federal	$ 1	$ 16	$ (33)
	Foreign	183	228	214
		$ 184	$ 244	$ 181
Deferred:	Federal	$ 26	$ (1)	$ —
	Foreign	85	17	33
		$ 111	$ 16	$ 33
		$ 295	$ 260	$ 214

The reconciliation of income taxes calculated at the U.S. federal statutory rate to our effective tax rate is set forth below:

	2020		2019		2018	
U.S. federal statutory rate	$ 233	21.0%	$ 211	21.0%	$ 199	21.0%
Impact from the Tax Act	—	—	8	0.8	(36)	(3.8)
Statutory rate differential attributable to foreign operations	63	5.7	53	5.3	56	5.8
Adjustments to reserves and prior years	(6)	(0.6)	(2)	(0.2)	(4)	(0.4)
Change in valuation allowances	1	0.1	2	0.2	(4)	(0.4)
Impact from investment (gain) loss	7	0.7	(10)	(1.0)	4	0.5
Other, net	(3)	(0.3)	(2)	(0.2)	(1)	(0.1)
Effective income tax rate	$ 295	26.6%	$ 260	25.9%	$ 214	22.6%

Statutory rate differential attributable to foreign operations. This item includes local taxes, withholding taxes, and shareholder-level taxes, net of foreign tax credits. A majority of our income is earned in China, which is generally subject to a 25% tax rate. The negative impact in 2020, 2019 and 2018 is primarily due to the U.S. federal statutory rate of 21%, which is lower than China's statutory income tax rate.

Adjustments to reserves and prior years. This item includes: (1) changes in tax reserves, including interest thereon, established for potential exposure we may incur if a taxing authority takes a position on a matter contrary to our position; and (2) the effects of reconciling income tax amounts recorded in our Consolidated Statements of Income to amounts reflected on our tax returns, including any adjustments to the Consolidated Balance Sheets. The impact of certain effects or changes may offset items reflected in the 'Statutory rate differential attributable to foreign operations' line.

Change in valuation allowances. This item relates to changes for deferred tax assets generated or utilized during the current year and changes in our judgment regarding the likelihood of using deferred tax assets that existed at the beginning of the year. The impact of certain changes may offset items reflected in '*Statutory rate differential attributable to foreign operations*'.

Impact from investment (gain) loss. This item relates to the gain or loss on investment in equity securities of Meituan. The Company recorded $29 million of U.S. tax in 2020, including $22 million and $7 million related to gains on investment in equity securities of Meituan recognized during the year of 2020 and prior year, respectively.

Others. This item primarily includes the impact of permanent differences related to current year earnings, as well as U.S. tax credits and deductions.

The details of 2020 and 2019 deferred tax assets (liabilities) are set forth below:

	2020	2019
Operating losses and tax credit carryforwards	$ 24	$ 25
Tax benefit from Little Sheep restructuring	17	18
Employee benefits	3	4
Share-based compensation	5	5
Lease	62	61
Other liabilities	13	13
Deferred income and other	75	58
Gross deferred tax assets	199	184
Deferred tax asset valuation allowances	(42)	(47)
Net deferred tax assets	$ 157	$ 137
Intangible assets	(61)	(23)
Property, plant and equipment	(85)	(59)
Gain from re-measurement of equity interest upon acquisition	(87)	(22)
Unrealized gains from equity securities	(26)	—
Withholding tax on distributable earnings	(27)	(5)
Gross deferred tax liabilities	$ (286)	$ (109)
Net deferred tax assets (liabilities)	$ (129)	$ 28
Reported in Consolidated Balance Sheets as:		
Deferred income taxes	98	95
Other liabilities	(227)	(67)
	$ (129)	$ 28

Form 10-K

We have investments in our foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. Except for the planned but yet to be distributed earnings, we have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone the basis differences from reversing with a tax consequence. The Company's separation from YUM was intended to qualify as a tax-free reorganization for U.S. income tax purposes resulting in the excess of financial reporting basis over tax basis in our investment in the China business continuing to be indefinitely reinvested. The excess of financial reporting basis over tax basis as of December 31, 2017 was subject to the one-time transition tax under the Tax Act as a deemed repatriation of accumulated undistributed earnings from the foreign subsidiaries. However, we continue to believe that the portion of the excess of financial reporting basis over tax basis (including earnings and profits subject to the one-time transition tax) is indefinitely reinvested in our foreign subsidiaries for foreign withholding tax purposes. We estimate that our total temporary difference for which we have not provided foreign withholding taxes is approximately $2 billion at December 31, 2020. The foreign withholding tax rate on this amount is 5% or 10% depending on the manner of repatriation and the applicable tax treaties or tax arrangements.

At December 31, 2020, the Company had operating loss carryforwards of $111 million, primarily related to our Little Sheep and Daojia business as well as certain underperforming entities, most of which will expire by 2025. These losses are being carried forward in jurisdictions where we are permitted to use tax losses from prior periods to reduce future taxable income.

Cash payments for tax liabilities on income tax returns filed were $170 million, $255 million and $208 million in 2020, 2019 and 2018, respectively.

We recognize the benefit of positions taken or expected to be taken in tax returns in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2020	2019
Beginning of Year	$ 19	$ 22
Additions on tax positions	8	4
Reductions due to statute expiration	(6)	(7)
End of Year	$ 21	$ 19

In 2020 and 2019, our unrecognized tax benefits were increased by $8 million and $4 million, respectively. The unrecognized tax benefits balance of $21 million as of December 31, 2020 related to the uncertainty with regard to the deductibility of certain business expenses incurred, all of which, if recognized upon audit settlement or statute expiration, would affect the effective tax rate. The Company believes it is reasonably possible its unrecognized tax benefits of $21 million as of December 31, 2020, which is included in Other liabilities on the Consolidated Balance Sheet, may decrease by approximately $6 million in the next 12 months, which if recognized, would affect the 2021 effective tax rate. The accrued interest and penalties related to income taxes at December 31, 2020 and 2019 are set forth below:

	2020	2019
Accrued interest and penalties	$ 5	$ 5

During 2020, 2019 and 2018, a net benefit of nil, $1 million and $1 million for interest and penalties was recognized in our Consolidated Statements of Income as components of our income tax provision, respectively.

The Company's results are subject to examination in the U.S. federal jurisdiction as well as various U.S. state jurisdictions as part of YUM's and our own income tax filings, and separately in foreign jurisdictions. Any liability arising from these examinations related to periods prior to the separation is expected to be settled among the Company, YCCL and YUM in accordance with the tax matters agreement we entered into in connection with the separation.

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

Note 17—Segment Reporting

The Company has two reportable segments: KFC and Pizza Hut. Starting from the first quarter of 2019, our COFFii & JOY concept and e-commerce business became operating segments, as their financial results started being regularly reviewed by the Company's chief operating decision maker. Our remaining operating segments, including the operations of Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell, Lavazza and Daojia, are combined and referred to as All Other Segments, as these operating segments are insignificant both individually and in the aggregate. Segment financial information for prior years has been recast due to alignment with this change in segment reporting. There was no impact on the Consolidated Financial Statements of the Company as a result of this change. See Note 1.

2020	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated[(a)]	Combined	Elimination	Consolidated
Revenues							
Revenue from external customers	$ 5,821	$ 1,730	$ 173	$ 539	$ 8,263	$ —	$ 8,263
Inter-segment revenue	—	—	32	26	58	(58)	—
Total	$ 5,821	$ 1,730	$ 205	$ 565	$ 8,321	$ (58)	$ 8,263

2019	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated[(a)]	Combined	Elimination	Consolidated
Revenues							
Revenue from external customers	$ 6,039	$ 2,054	$ 121	$ 562	$ 8,776	$ —	$ 8,776
Inter-segment revenue	1	—	37	—	38	(38)	—
Total	$ 6,040	$ 2,054	$ 158	$ 562	$ 8,814	$ (38)	$ 8,776

2018	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated[(a)]	Combined	Elimination	Consolidated
Revenues							
Revenue from external customers	$ 5,688	$ 2,111	$ 99	$ 517	$ 8,415	$ —	$ 8,415
Inter-segment revenue	—	—	16	—	16	(16)	—
Total	$ 5,688	$ 2,111	$ 115	$ 517	$ 8,431	$ (16)	$ 8,415

Operating Profit	2020	2019	2018
KFC[b]	$ 801	$ 949	$ 895
Pizza Hut	62	114	97
All Other Segments	(7)	(14)	(12)
Unallocated revenues from transactions with franchisees and unconsolidated affiliates[c]	533	558	514
Unallocated Other revenues	32	4	3
Unallocated expenses for transactions with franchisees and unconsolidated affiliates[c]	(531)	(554)	(512)
Unallocated Other operating costs and expenses	(30)	(4)	(2)
Unallocated and corporate G&A expenses	(144)	(145)	(128)
Unallocated Closures and impairment expense[d]	—	(11)	(12)
Unallocated Other income[e]	245	4	98
Operating Profit	961	901	941
Interest income, net[a]	43	39	36
Investment gain (loss)[a]	104	63	(27)
Income Before Income Taxes	$ 1,108	$ 1,003	$ 950

	Depreciation and Amortization		
	2020	2019	2018
KFC	$ 315	$ 290	$ 296
Pizza Hut	113	120	129
All Other Segments	8	5	8
Corporate and Unallocated	14	13	12
	$ 450	$ 428	$ 445

	Impairment Charges		
	2020	2019	2018
KFC[f]	$ 32	$ 16	$ 14
Pizza Hut[f]	29	20	26
All Other Segments[f]	5	2	—
Corporate and Unallocated[d]	—	11	12
	$ 66	$ 49	$ 52

	Capital Spending		
	2020	2019	2018
KFC	$ 257	$ 264	$ 292
Pizza Hut	61	71	77
All Other Segments	5	10	6
Corporate and Unallocated	96	90	95
	$ 419	$ 435	$ 470

	Total Assets	
	2020	2019
KFC[g]	$ 4,084	$ 3,160
Pizza Hut	906	950
All Other Segments	378	166
Corporate and Unallocated[h]	5,507	2,674
	$ 10,875	$ 6,950

(a) Amounts have not been allocated to any segment for performance reporting purposes.

(b) Includes equity income from investments in unconsolidated affiliates of $63 million, $69 million and $65 million in 2020, 2019 and 2018, respectively.

(c) Primarily includes revenues and associated expenses of transactions with franchisees and unconsolidated affiliates derived from the Company's central procurement model whereby the Company centrally purchases substantially all food and paper products from suppliers then sells and delivers to KFC and Pizza Hut restaurants, including franchisees and unconsolidated affiliates. Amounts have not been allocated to any segment for purposes of making operating decisions or assessing financial performance as the transactions are deemed corporate revenues and expenses in nature.

(d) Includes impairment charges on intangible assets and goodwill attributable to the Daojia business in 2019 and 2018, respectively. See Note 5.

(e) In 2020 and 2018, the unallocated other income primarily includes gain from re-measurement of previously held equity interest in connection with the acquisition of Suzhou KFC and Wuxi KFC, respectively. See Note 5.

(f) Primarily includes store closure impairment charges, restaurant-level impairment charges resulting from our semi-annual impairment evaluation as well as our additional impairment evaluation performed in the first quarter of 2020 in response to adverse impact from the COVID-19 pandemic, and incremental restaurant-level impairment charges in the first quarter of 2019 as a result of adopting ASC 842. (See Note 12).

(g) Includes investments in unconsolidated affiliates.

(h) Primarily includes cash and cash equivalents, short-term investments, investment in equity securities, long-term time deposits and inventories that are centrally managed.

As substantially all of the Company's revenue is derived from the PRC and substantially all of the Company's long-lived assets are located in the PRC, no geographical information is presented. In addition, revenue derived from and long-lived assets located in the U.S., the Company's country of domicile, are immaterial.

Note 18—Contingencies

Indemnification of China Tax on Indirect Transfers of Assets

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

YUM concluded and we concurred that it is more likely than not that YUM will not be subject to this tax with respect to the distribution. However, given how recently Bulletin 7 was promulgated, there are significant uncertainties regarding what constitutes a reasonable commercial purpose, how the safe harbor provisions for group restructurings are to be interpreted and how the taxing authorities will ultimately view the distribution. As a result, YUM's position could be challenged by Chinese tax authorities resulting in a 10% tax assessed on the difference between the fair market value and the tax basis of the separated China business. As YUM's tax basis in the China business is minimal, the amount of such a tax could be significant.

Any tax liability arising from the application of Bulletin 7 to the distribution is expected to be settled in accordance with the tax matters agreement between the Company and YUM. Pursuant to the tax matters agreement, to the extent any

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

Guarantees for Franchisees and Unconsolidated Affiliates

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

Indemnification of Officers and Directors

The Company's amended and restated certificate of incorporation and amended and restated bylaws include provisions that require the Company to indemnify directors or officers for monetary damages for actions taken as a director or officer of the Company or while serving at the Company's request as a director or officer or another position at another corporation or enterprise, as the case may be. The Company purchases standard directors and officers insurance to cover claims or a portion of the claims made against its directors and officers. Since a maximum obligation is not explicitly stated in the Company's bylaws or in the indemnification agreements and will depend on the facts and circumstances that arise out of any future claims, the overall maximum amount of the obligations cannot be reasonably estimated. The Company has not been required to make payments related to these obligations, and the fair value for these obligations is zero as of December 31, 2020.

Legal Proceedings

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

Note 19—Selected Quarterly Financial Data (unaudited; in millions, except per share amounts)

	2020				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	$ 1,548	$ 1,692	$ 2,118	$ 2,038	$ 7,396
Franchise fees and income	35	37	40	36	148
Revenues from transactions with franchisees and unconsolidated affiliates	161	157	170	159	647
Other revenues	10	16	20	26	72
Total revenues	1,754	1,902	2,348	2,259	8,263
Restaurant profit	165	231	394	308	1,098
Operating Profit	97	128	556	180	961
Net Income—Yum China Holdings, Inc.	62	132	439	151	784
Basic earnings per common share	$ 0.16	$ 0.35	$ 1.13	$ 0.36	$ 2.01
Diluted earnings per common share	$ 0.16	$ 0.34	$ 1.10	$ 0.35	$ 1.95

	2019				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	$ 2,089	$ 1,926	$ 2,097	$ 1,813	$ 7,925
Franchise fees and income	39	36	38	35	148
Revenues from transactions with franchisees and unconsolidated affiliates	170	154	172	158	654
Other revenues	6	8	12	23	49
Total revenues	2,304	2,124	2,319	2,029	8,776
Restaurant profit	386	283	372	225	1,266
Operating Profit	303	204	300	94	901
Net Income—Yum China Holdings, Inc.	222	178	223	90	713
Basic earnings per common share	$ 0.59	$ 0.47	$ 0.59	$ 0.24	$ 1.89
Diluted earnings per common share	$ 0.57	$ 0.46	$ 0.58	$ 0.23	$ 1.84

Note 20—Subsequent Events

Cash Dividend

On February 3, 2021, the Company announced that the board of directors declared a cash dividend of $0.12 per share on Yum China’s common stock, payable as of the close of business on March 25, 2021, to stockholders of record as of the close of business on March 3, 2021. Total estimated cash dividend payable is approximately $50 million.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

ITEM 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Management's Report on Internal Controls Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including the CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As permitted, our management excluded Suzhou KFC and Huang Ji Huang, both acquired during 2020, from the scope of its assessment of the effectiveness of internal control over financial reporting as of December 31, 2020. Suzhou KFC's total assets, excluding goodwill and net intangible assets which were included within the scope of assessment, and total revenues represented 1.4% and 2.1% of the Company's total consolidated assets and total consolidated revenues, respectively, as of and for the year ended December 31, 2020. Huang Ji Huang's total assets, excluding goodwill and intangible assets which were included within the scope of assessment, and total revenues represented 1.0% and less than 1.0% of the Company's total consolidated assets and total consolidated revenues, respectively, as of and for the year ended December 31, 2020.

Based on our evaluation under the framework in *Internal Control—Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

KPMG Huazhen LLP, an independent registered public accounting firm, has audited the Consolidated Financial Statements included in this Annual Report on Form 10-K and the effectiveness of our internal control over financial reporting as of December 31, 2020 and has issued their report, included herein.

Changes in Internal Control over Financial Reporting

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

ITEM 9B. Other Information.

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance.

Information regarding the Company's Audit Committee and the Audit Committee financial expert, the Company's code of conduct and background of the directors appearing under the captions "Governance of the Company" and "Election of Directors" is incorporated herein by reference to the 2021 Proxy Statement.

Information regarding executive officers of the Company is incorporated by reference from Part I of this Form 10-K.

ITEM 11. Executive Compensation.

Information regarding executive and director compensation and the Company's Compensation Committee appearing under the captions "Executive Compensation", "2020 Director Compensation" and "Governance of the Company" is incorporated herein by reference to the 2021 Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information regarding equity compensation plans and security ownership of certain beneficial owners and management appearing under the captions "Executive Compensation" and "Stock Ownership Information" is incorporated herein by reference to the 2021 Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

Information regarding certain relationships and related transactions and information regarding director independence appearing under the caption "Governance of the Company" is incorporated herein by reference to the 2021 Proxy Statement.

ITEM 14. Principal Accountant Fees and Services.

Information regarding principal accountant fees and services and audit committee pre-approval policies and procedures appearing under the caption "Ratification of Independent Auditor" is incorporated herein by reference to the 2021 Proxy Statement.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

(a) (1) Financial Statements: Consolidated Financial Statements filed as part of this report are listed under Part II, Item 8 of this Form 10-K.

(2) Financial Statement Schedules: No schedules are required because either the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements thereto filed as a part of this Form 10-K.

(3) Exhibits: The exhibits listed in the accompanying Exhibit Index are filed as part of this Form 10-K. The Index to Exhibits specifically identifies each management contract or compensatory plan required to be filed as an exhibit to this Form 10-K.

Yum China Holdings, Inc.
Exhibit Index
(Item 15)

Exhibit Number	Description of Exhibits
2.1**	Separation and Distribution Agreement, dated as of October 31, 2016, by and among Yum! Brands, Inc., Yum Restaurants Consulting (Shanghai) Company Limited and Yum China Holdings, Inc. (incorporated by reference to Exhibit 2.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
3.1	Amended and Restated Certificate of Incorporation of Yum China Holdings, Inc. (incorporated by reference to Exhibit 3.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
3.2	Amended and Restated Bylaws of Yum China Holdings, Inc. (incorporated by reference to Exhibit 3.2 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
4.1	Form of Replacement Warrant issued to Pollos Upside L.P. (as transferee of Warrant No.1 and No. 2 issued to Pollos Investment L.P. on January 9, 2017) (incorporated by reference to Exhibit 4.4 to Yum China Holdings, Inc.'s Annual Report on Form 10-K filed on February 27, 2020).
4.2	Form of Replacement Warrant issued to API (Hong Kong) Investment Limited.*
4.3	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (incorporated by reference to Exhibit 4.5 of Yum China Holdings, Inc.'s Annual Report on Form 10-K filed February 27, 2020).
10.1	Master License Agreement, dated as of October 31, 2016, by and between Yum! Restaurants Asia Pte. Ltd. and Yum Restaurants Consulting (Shanghai) Company Limited (incorporated by reference to Exhibit 10.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
10.2	Tax Matters Agreement, dated as of October 31, 2016, by and among Yum! Brands, Inc., Yum China Holdings, Inc. and Yum Restaurants Consulting (Shanghai) Company Limited (incorporated by reference to Exhibit 10.2 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
10.3	Employee Matters Agreement, dated as of October 31, 2016, by and between Yum! Brands, Inc. and Yum China Holdings, Inc. (incorporated by reference to Exhibit 10.3 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
10.4	Name License Agreement, dated as of October 31, 2016, by and between Yum! Brands, Inc. and Yum China Holdings, Inc. (incorporated by reference to Exhibit 10.5 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
10.5	Guaranty of Master License Agreement, dated as of October 31, 2016, by Yum China Holdings, Inc. (incorporated by reference to Exhibit 10.6 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
10.6	Investment Agreement, dated as of September 1, 2016, by and among Yum! Brands, Inc., Yum China Holdings, Inc. and Pollos Investment L.P. (incorporated by reference to Exhibit 10.11 to Amendment No. 5 to Yum China Holdings, Inc.'s Registration Statement on Form 10, filed on September 16, 2016).

Exhibit Number	Description of Exhibits
10.7	Investment Agreement, dated as of September 1, 2016, by and among Yum! Brands, Inc., Yum China Holdings, Inc. and API (Hong Kong) Investment Limited (incorporated by reference to Exhibit 10.12 to Amendment No. 5 to Yum China Holdings, Inc.'s Registration Statement on Form 10, filed on September 16, 2016).
10.8	Letter Agreement, dated as of October 7, 2016, by and among Yum! Brands, Inc., Yum China Holdings, Inc., API (Hong Kong) Investment Limited and Pollos Investment L.P. (incorporated by reference to Exhibit 10.9 to Yum China Holdings, Inc.'s Annual Report on Form 10-K filed on March 8, 2017).
10.9	Shareholders Agreement, dated as of November 1, 2016, by and among Yum China Holdings, Inc., Pollos Investment L.P. and API (Hong Kong) Investment Limited (incorporated by reference to Exhibit 10.7 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
10.10	Form of Yum China Holdings, Inc. Indemnification Agreement (incorporated by reference to Exhibit 10.10 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
10.11	Yum China Holdings, Inc. Long Term Incentive Plan (incorporated by reference to Exhibit 10.7 to Amendment No. 5 to Yum China Holdings, Inc.'s Registration Statement on Form 10, filed on September 16, 2016). †
10.12	Yum China Holdings, Inc. Leadership Retirement Plan (incorporated by reference to Exhibit 10.8 to Amendment No. 5 to Yum China Holdings, Inc.'s Registration Statement on Form 10, filed on September 16, 2016). †
10.13	Form of Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.10 to Amendment No. 5 to Yum China Holdings, Inc.'s Registration Statement on Form 10, filed on September 16, 2016). †
10.14	Form of Stock Appreciation Right Agreement (incorporated by reference to Exhibit 10.9 to Amendment No. 5 to Yum China Holdings, Inc.'s Registration Statement on Form 10, filed on September 16, 2016). †
10.15	Letter of Understanding issued by Yum China Holdings, Inc. to Johnson Huang, dated as of February 6, 2017 (incorporated by reference to Exhibit 10.21 to Yum China Holdings, Inc.'s Annual Report on Form 10-K filed on March 8, 2017). †
10.16	Transition Agreement, dated as of September 29, 2017, by and between Yum China Holdings, Inc. and Micky Pant (incorporated by reference to Exhibit 10.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on October 5, 2017). †
10.17	Letter of Understanding, dated as of September 29, 2017, by and between Yum China Holdings, Inc. and Joey Wat (incorporated by reference to Exhibit 10.2 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on October 5, 2017). †
10.18	Yum China Holdings, Inc. Performance Share Unit Plan (incorporated by reference to Exhibit 10.1 to Yum China Holdings, Inc.'s Quarterly Report on Form 10-Q filed on May 4, 2018). †
10.19	Performance Share Unit Award Notice issued by Yum China Holdings, Inc. to Joey Wat, dated as of March 2, 2018 (incorporated by reference to Exhibit 10.2 to Yum China Holdings, Inc.'s Quarterly Report on Form 10-Q filed on May 4, 2018). †
10.20	Term Employment Agreement, dated as of March 22, 2019, by and between Yum China Holdings, Inc. and Shella Ng (incorporated by reference to Exhibit 10.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on March 22, 2019). †

Exhibit Number	Description of Exhibits
10.21	Post-Termination Agreement, effective October 16, 2019, by and between Yum China Holdings, Inc. and Jacky Lo (incorporated by reference to Exhibit 10.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on September 6, 2019). †
10.22	Employment Letter, effective September 16, 2019, by and between Yum China Holdings, Inc. and Andy Yeung (incorporated by reference to Exhibit 10.2 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on September 6, 2019). †
10.23	Yum China Holdings, Inc. Change in Control Severance Plan (incorporated by reference to Exhibit 10.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on October 2, 2019). †
10.24	Confirmatory License Agreement, dated January 1, 2020, by and between by and between Yum Restaurants Consulting (Shanghai) Company Limited and YRI China Franchising LLC. *
10.25	Form of Yum China Holdings, Inc. Long Term Incentive Plan Performance Share Units Agreement (Annual PSU Grants) (incorporated by reference to Exhibit 10.1 to Yum China Holding, Inc.'s Quarterly Report on Form 10-Q filed on May 8, 2020). †
10.26	Form of Yum China Holdings, Inc. Long Term Incentive Plan Performance Share Units Agreement (Partner PSU Awards) (incorporated by reference to Exhibit 10.2 to Yum China Holding, Inc.'s Quarterly Report on Form 10-Q filed on May 8, 2020). †
10.27	Form of Yum China Holdings, Inc. Long Term Incentive Plan Restricted Stock Units Agreement (incorporated by reference to Exhibit 10.3 to Yum China Holding, Inc.'s Quarterly Report on Form 10-Q filed on May 8, 2020). †
10.28	Form of Yum China Holdings, Inc. Stock Appreciation Rights Agreement (incorporated by reference to Exhibit 10.4 to Yum China Holding, Inc.'s Quarterly Report on Form 10-Q filed on May 8, 2020). †
21.1	Subsidiaries of Yum China Holdings, Inc.*
23.1	Consent of Independent Registered Public Accounting Firm.*
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document *
101.SCH	Inline XBRL Taxonomy Extension Schema Document *
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document *

Exhibit Number	Description of Exhibits
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document *
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document *
104	Cover Page Interactive Data File—the cover page XBRL tags are embedded within the Inline XBRL document *

* Filed or furnished herewith.

** Certain schedules and exhibits to this agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedules and/or exhibits will be furnished to the Securities and Exchange Commission upon request.

† Indicates a management contract or compensatory plan.

ITEM 16. Form 10-K Summary.

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

YUM CHINA HOLDINGS, INC.

By: /s/ Joey Wat

Joey Wat
Chief Executive Officer

Date: February 26, 2021

Form 10-K

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Joey Wat Joey Wat	Chief Executive Officer and Director (principal executive officer)	February 26, 2021
/s/ Andy Yeung Andy Yeung	Chief Financial Officer (principal financial officer)	February 26, 2021
/s/ Xueling Lu Xueling Lu	Controller (controller and principal accounting officer)	February 26, 2021
/s/ Peter A. Bassi Peter A. Bassi	Director	February 26, 2021
/s/ Christian L. Campbell Christian L. Campbell	Director	February 26, 2021
/s/ Ed Yiu-Cheong Chan Ed Yiu-Cheong Chan	Director	February 26, 2021
/s/ Edouard Ettedgui Edouard Ettedgui	Director	February 26, 2021
/s/ Cyril Han Cyril Han	Director	February 26, 2021
/s/ Louis T. Hsieh Louis T. Hsieh	Director	February 26, 2021
/s/ Fred Hu Fred Hu	Director	February 26, 2021
/s/ Ruby Lu Ruby Lu	Director	February 26, 2021
/s/ Zili Shao Zili Shao	Director	February 26, 2021
/s/ William Wang William Wang	Director	February 26, 2021

[THIS PAGE INTENTIONALLY LEFT BLANK]

百勝
YumChina

百勝

YumChina