YumChina

Yum China Holdings, Inc.
百勝中國控股有限公司

NYSE: YUMC HKEX: 9987

Growth Innovation Agility

2023
INTERIM REPORT

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FORWARD-LOOKING STATEMENTS

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

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements often include words such as "may," "will," "estimate," "intend," "seek," "expect," "project," "anticipate," "believe," "plan," "could," "target," "aim," "commit," "predict," "likely," "should," "forecast," "outlook," "model," "continue," "ongoing" or other similar terminology. Forward-looking statements are based on our current expectations, estimates, assumptions or projections concerning future results or events. Forward-looking statements are neither predictions nor guarantees of future events, circumstances or performance and are inherently subject to known and unknown risks, uncertainties and assumptions that could cause our actual results and events to differ materially from those indicated by those forward-looking statements. We cannot assure you that any of our expectations, estimates, assumptions or projections will be achieved. Factors that could cause actual results and events to differ materially from our expectations, estimates, assumptions or projections include (i) the risks and uncertainties described in the Risk Factors section included in the Company's 2022 annual report and (ii) the factors described in Management's Discussion and Analysis included in this interim report. You should not place undue reliance on forward-looking statements, which speak only as of the date hereof. We disclaim any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances, except as required by law.

LANGUAGE

If there is any inconsistency between the English version and Chinese version of this report, the English version shall prevail, provided that if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this report and their English translations, the Chinese names shall prevail.

EXPLANATORY NOTES

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

References to "Yum China" mean Yum China Holdings, Inc. and references to the "Company," "we," "us," and "our" mean Yum China and its subsidiaries throughout this Management's Discussion and Analysis (this "MD&A"). This MD&A contains forward-looking statements, including statements with respect to the ongoing transfer pricing audit, the retail tax structure reform, impacts of COVID-19, our growth plans, future capital resources to fund our operations and anticipated capital expenditures, share repurchases and dividends, and the impact of new accounting pronouncements not yet adopted.

Introduction

Yum China Holdings, Inc. is the largest restaurant company in China in terms of 2022 system sales, with over 13,000 restaurants covering over 1,900 cities primarily in China as of June 30, 2023. Our growing restaurant network consists of our flagship KFC and Pizza Hut brands, as well as emerging brands such as Taco Bell, Lavazza, Little Sheep and Huang Ji Huang. We have the exclusive right to operate and sublicense the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones amended in April 2022, Taco Bell brands in China (excluding Hong Kong, Macau and Taiwan), and own the intellectual property of the Little Sheep and Huang Ji Huang concepts outright. We also established a joint venture with Lavazza Group, the world-renowned family-owned Italian coffee company, to explore and develop the Lavazza coffee concept in China. KFC was the first major global restaurant brand to enter China in 1987. With more than 35 years of operations, we have developed extensive operating experience in the China market. We have since grown to become the largest restaurant company in China in terms of system sales. We believe that there are significant opportunities to further expand within China, and we intend to focus our efforts on increasing our geographic footprint in both existing and new cities.

KFC is the leading and the largest quick-service restaurant ("QSR") brand in China in terms of system sales. As of June 30, 2023, KFC operated over 9,500 restaurants in over 1,900 cities across China.

Pizza Hut is the leading and the largest casual dining restaurant ("CDR") brand in China in terms of system sales and number of restaurants. As of June 30, 2023, Pizza Hut operated over 3,000 restaurants in over 650 cities.

Overview

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

- 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 and franchise 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 restaurants typically generate ongoing franchise fees for the Company at an average rate of approximately 6% of system sales. Franchise restaurant sales are not included in Company sales in the Condensed Consolidated Statements of Income; however, the franchise fees are included in the Company's revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit growth.

- Effective January 1, 2018, the Company revised its definition of same-store sales growth to represent the estimated percentage change in sales of food of all restaurants in the Company system that have been open prior to the first day of our prior fiscal year, excluding the period during which stores are temporarily closed. We refer to these as our "base" stores. Previously, same-store sales growth represented the estimated percentage change in sales of all restaurants in the Company system that have been open for one year or more, including stores temporarily closed, and the base stores changed on a rolling basis from month to month. This revision was made to align with how management measures performance internally and focuses on trends of a more stable base of stores.

- Company sales represent revenues from Company-owned restaurants. Company Restaurant profit ("Restaurant profit") is defined as Company sales less expenses incurred directly by our Company-owned restaurants in generating Company sales, including cost of food and paper, restaurant-level payroll and employee benefits, rent, depreciation and amortization of restaurant-level assets, advertising expenses, and other operating expenses. Company restaurant margin percentage is defined as Restaurant profit divided by Company sales. 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.

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

Years to Date Ended June 30, 2023 and 2022

Results of Operations

Summary

The Company has two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of Taco Bell, Lavazza, Little Sheep, Huang Ji Huang, our delivery operating segment and our e-commerce business, and for 2022, also including COFFii & JOY and East Dawning, are combined and referred to as All Other Segments, as those operating segments are insignificant both individually and in the aggregate. Additional details on our reportable operating segments are included in Note 14.

Year to date highlights:

	% Change				
	System Sales[(a)]	Same-Store Sales[(a)]	Net New Units	Operating Profit (Reported)	Operating Profit (Ex F/X)
KFC	+24	+11	+12	+103	+116
Pizza Hut	+23	+10	+13	+120	+133
All Other Segments[(b)]	+17	+10	+2	+58	+55
Total	+24	+11	+12	+147	+164

(a) System sales and same-store sales percentages as shown in the table exclude the impact of F/X. Effective January 1, 2018, temporary store closures are normalized in the same-store sales calculation by excluding the period during which stores are temporarily closed.

(b) 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.

During the year to date ended June 30, 2023, sales rebounded significantly year-over-year. The Company's strong sales growth was driven by our continued tremendous efforts in seizing opportunities as the country pivoted from strict COVID-19 measures. Company sales for the year to date ended June 30, 2023 increased 16%, or 24% excluding the impact of F/X, driven by same-store sales growth of 11%, net unit growth in Company-owned stores and significantly reduced temporary store closures.

The increase in Operating profit, excluding the impact of F/X, was primarily driven by the increase in Company sales, ongoing benefits of cost structure rebasing and the increase in VAT deductions, partially offset by increased value promotions and wage inflation in the low single digits.

The Consolidated Results of Operations for the years to date ended June 30, 2023 and 2022 are presented below:

	Year to Date Ended		% B/(W)[a]	
	6/30/2023	6/30/2022	Reported	Ex F/X
Company sales	$ 5,289	$ 4,574	16	24
Franchise fees and income	46	43	8	16
Revenues from transactions with franchisees	182	139	31	40
Other revenues	54	40	38	48
Total revenues	$ 5,571	$ 4,796	16	24
Company restaurant expenses	$ 4,322	$ 3,978	(9)	(16)
Operating Profit	$ 673	$ 272	147	164
Interest income, net	78	26	203	208
Investment loss	(28)	(17)	(69)	(69)
Income tax provision	(196)	(86)	(128)	(141)
Equity in net earnings (losses) from equity method investments	—	(2)	90	92
Net Income — including noncontrolling interests	527	193	173	191
Net Income — noncontrolling interests	41	10	(290)	(320)
Net Income — Yum China Holdings, Inc.	$ 486	$ 183	166	184
Diluted Earnings Per Common Share	$ 1.15	$ 0.43	167	186
Effective tax rate	27.0%	30.4%		
Supplementary information — Non-GAAP Measures[b]				
Restaurant profit	$ 967	$ 596	62	73
Restaurant margin %	18.3%	13.0%	5.3 ppts.	5.3 ppts.
Adjusted Operating Profit	$ 678	$ 275		
Adjusted Net Income — Yum China Holdings, Inc.	$ 491	$ 186		
Adjusted Diluted Earnings Per Common Share	$ 1.16	$ 0.44		
Adjusted Effective Tax Rate	26.9%	30.1%		
Adjusted EBITDA	$ 927	$ 622		

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

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

Performance Metrics	Year to Date Ended 6/30/2023 % Change
System Sales Growth	15%
System Sales Growth, excluding F/X	24%
Same-Store Sales Growth	11%

Unit Count	6/30/2023	6/30/2022	% Increase
Company-owned	11,747	10,461	12
Franchisees	1,855	1,709	9
	13,602	12,170	12

2023 Outlook

The Company's fiscal year 2023 targets remain unchanged:

- To open approximately 1,100 to 1,300 net new stores.
- To make capital expenditures in the range of approximately $700 million to $900 million.

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 equity in net earnings (losses) from equity method investments, 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. We also use Restaurant profit and Restaurant margin (as defined in the Overview section within MD&A above) for the purpose of internally evaluating the performance of our Company-owned restaurants and we believe Restaurant profit and Restaurant margin provide useful information to investors as to the profitability of our Company-owned restaurants.

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

Reconciliation of GAAP Operating Profit to Restaurant Profit

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

	Year to Date Ended 6/30/2022					
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Elimination	Total
GAAP Operating Profit (Loss)	$ 342	$ 41	$ (30)	$ (81)	$ —	$ 272
Less:						
Franchise fees and income	29	4	10	—	—	43
Revenues from transactions with franchisees	15	2	18	104	—	139
Other revenues	5	4	250	19	(238)	40
Add:						
General and administrative expenses	128	57	24	83	—	292
Franchise expenses	15	2	1	—	—	18
Expenses for transactions with franchisees	14	2	15	105	—	136
Other operating costs and expenses	3	3	251	18	(240)	35
Closures and impairment expenses, net	8	1	7	—	—	16
Other expenses (income), net	51	—	—	(2)	—	49
Restaurant profit (loss)	$ 512	$ 96	$ (10)	$ —	$ (2)	$ 596
Company sales	3,562	985	27	—	—	4,574
Restaurant margin %	14.4%	9.8%	(39.1)%	N/A	N/A	13.0%

Non-GAAP Reconciliations	Year to Date Ended 6/30/2023	Year to Date Ended 6/30/2022
Reconciliation of Operating Profit to Adjusted Operating Profit		
Operating Profit	$ 673	$ 272
Special Items, Operating Profit	(5)	(3)
Adjusted Operating Profit	$ 678	$ 275
Reconciliation of Net Income to Adjusted Net Income		
Net Income — Yum China Holdings, Inc.	$ 486	$ 183
Special Items, Net Income — Yum China Holdings, Inc.	(5)	(3)
Adjusted Net Income — Yum China Holdings, Inc.	$ 491	$ 186
Reconciliation of EPS to Adjusted EPS		
Basic Earnings Per Common Share	$ 1.16	$ 0.43
Special Items, Basic Earnings Per Common Share	(0.01)	(0.01)
Adjusted Basic Earnings Per Common Share	$ 1.17	$ 0.44
Diluted Earnings Per Common Share	$ 1.15	$ 0.43
Special Items, Diluted Earnings Per Common Share	(0.01)	(0.01)
Adjusted Diluted Earnings Per Common Share	$ 1.16	$ 0.44
Reconciliation of Effective Tax Rate to Adjusted Effective Tax Rate		
Effective tax rate	27.0%	30.4%
Impact on effective tax rate as a result of Special Items	0.1%	0.3%
Adjusted effective tax rate	26.9%	30.1%

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

Reconciliation of Net Income to Adjusted EBITDA	Year to Date Ended 6/30/2023	Year to Date Ended 6/30/2022
Net Income — Yum China Holdings, Inc.	$ 486	$ 183
Net Income — noncontrolling interests	41	10
Equity in net (earnings) losses from equity method investments	—	2
Income tax provision	196	86
Interest income, net	(78)	(26)
Investment loss	28	17
Operating Profit	673	272
Special Items, Operating Profit	5	3
Adjusted Operating Profit	678	275
Depreciation and amortization	228	317
Store impairment charges	21	30
Adjusted EBITDA	$ 927	$ 622

Details of Special Items are presented below:

	Year to Date Ended 6/30/2023	Year to Date Ended 6/30/2022
Share-based compensation expense for Partner PSU Awards[1]	$ (5)	$ (3)
Special Items, Operating Profit	(5)	(3)
Tax effect on Special Items[2]	—	—
Special items, net income — including noncontrolling interests	(5)	(3)
Special items, net income — noncontrolling interests	—	—
Special Items, Net Income — Yum China Holdings, Inc.	$ (5)	$ (3)
Weighted-average Diluted Shares Outstanding (in millions)	423	427
Special Items, Diluted Earnings Per Common Share	$ (0.01)	$ (0.01)

(1) In February 2020, the Company granted Partner performance shares unit ("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.

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

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

	Year to Date Ended			
			% B/(W)	
	6/30/2023	6/30/2022	Reported	Ex F/X
Company sales	$ 4,120	$ 3,562	16	24
Franchise fees and income	32	29	11	18
Revenues from transactions with franchisees	21	15	36	46
Other revenues	9	5	101	115
Total revenues	$ 4,182	$ 3,611	16	24
Company restaurant expenses	$ 3,301	$ 3,050	(8)	(16)
G&A expenses	$ 135	$ 128	(5)	(13)
Franchise expenses	$ 16	$ 15	(1)	(9)
Expenses for transactions with franchisees	$ 18	$ 14	(32)	(41)
Other operating costs and expenses	$ 8	$ 3	(143)	(158)
Closures and impairment expenses, net	$ 9	$ 8	(15)	(21)
Other expenses, net	$ 2	$ 51	96	96
Operating Profit	$ 693	$ 342	103	116
Restaurant profit	$ 819	$ 512	60	71
Restaurant margin %	19.9%	14.4%	5.5 ppts	5.5 ppts

	Year to Date Ended 6/30/2023 % Change
System Sales Growth	16%
System Sales Growth, excluding F/X	24%
Same-Store Sales Growth	11%

Unit Count	6/30/2023	6/30/2022	% Increase
Company-owned	8,612	7,720	12
Franchisees	950	790	20
	9,562	8,510	12

Company Sales and Restaurant Profit

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

	Year to Date Ended				
Income (Expense)	6/30/2022	Store Portfolio Actions	Other	F/X	6/30/2023
Company sales	$ 3,562	$ 437	$ 408	$ (287)	$ 4,120
Cost of sales	(1,105)	(142)	(89)	88	(1,248)
Cost of labor	(914)	(92)	(75)	71	(1,010)
Occupancy and other operating expenses	(1,031)	(67)	(18)	73	(1,043)
Restaurant profit	$ 512	$ 136	$ 226	$ (55)	$ 819

The year to date increase in Company sales, excluding the impact of F/X, was primarily driven by same-store sales growth, net unit growth and significantly reduced temporary store closures. The year to date increase in Restaurant profit, excluding the impact of F/X, was primarily driven by the increase in Company sales, ongoing benefits of cost structure rebasing and the increase in VAT deductions, partially offset by increased value promotions and wage inflation in the low single digits.

Franchise Fees and Income/Revenues from Transactions with Franchisees

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

G&A Expenses

The year to date increase in G&A expenses, excluding the impact of F/X, was primarily driven by higher performance-based compensation and merit increases.

Other Expenses, net

The year to date decrease in Other expenses, net, excluding the impact of F/X, was primarily due to intangible assets related to reacquired franchise rights of Hangzhou KFC, Suzhou KFC and Wuxi KFC being substantially amortized as of December 31, 2022. See Note 8 for detail.

Operating Profit

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

Pizza Hut

	Year to Date Ended			
			% B/(W)	
	6/30/2023	6/30/2022	Reported	Ex F/X
Company sales	$ 1,137	$ 985	15	23
Franchise fees and income	4	4	1	8
Revenues from transactions with franchisees	2	2	11	19
Other revenues	8	4	136	154
Total revenues	$ 1,151	$ 995	16	24
Company restaurant expenses	$ 986	$ 889	(11)	(19)
G&A expenses	$ 59	$ 57	(3)	(10)
Franchise expenses	$ 2	$ 2	(3)	(10)
Expenses for transactions with franchisees	$ 2	$ 2	(11)	(19)
Other operating costs and expenses	$ 7	$ 3	(130)	(147)
Closures and impairment expenses, net	$ 5	$ 1	(603)	(657)
Operating Profit	$ 90	$ 41	120	133
Restaurant profit	$ 151	$ 96	57	67
Restaurant margin %	13.3%	9.8%	3.5 ppts	3.5 ppts

	Year to Date Ended 6/30/2023
	% Change
System Sales Growth	15%
System Sales Growth, excluding F/X	23%
Same-Store Sales Growth	10%

Unit Count	6/30/2023	6/30/2022	% Increase
Company-owned	2,925	2,573	14
Franchisees	147	138	7
	3,072	2,711	13

Company Sales and Restaurant Profit

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

	Year to Date Ended				
Income (Expense)	6/30/2022	Store Portfolio Actions	Other	F/X	6/30/2023
Company sales	$ 985	$ 137	$ 93	$ (78)	$ 1,137
Cost of sales	(305)	(43)	(26)	24	(350)
Cost of labor	(288)	(34)	(30)	23	(329)
Occupancy and other operating expenses	(296)	(29)	(3)	21	(307)
Restaurant profit	$ 96	$ 31	$ 34	$ (10)	$ 151

The year to date increase in Company sales, excluding the impact of F/X, was primarily driven by same-store sales growth, net unit growth and significantly reduced temporary store closures. The year to date increase in Restaurant profit, excluding the impact of F/X, was primarily driven by the increase in Company sales and ongoing benefits of cost structure rebasing, partially offset by wage inflation in the low single digits.

G&A Expenses

The year to date increase in G&A expenses, excluding the impact of F/X, was primarily driven by higher performance-based compensation and merit increases.

Operating Profit

The year to date 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.

All Other Segments

All Other Segments reflects the results of Taco Bell, Lavazza, Little Sheep, Huang Ji Huang, our delivery operating segment and our e-commerce business, and for 2022, also includes COFFii & JOY and East Dawning.

	Year to Date Ended			
			% B/(W)	
	6/30/2023	6/30/2022	Reported	Ex F/X
Company sales	$ 32	$ 27	20	29
Franchise fees and income	10	10	3	10
Revenues from transactions with franchisees	36	18	106	121
Other revenues	306	250	22	31
Total revenues	$ 384	$ 305	26	35
Company restaurant expenses	$ 36	$ 37	—	(7)
G&A expenses	$ 21	$ 24	13	7
Franchise expenses	$ 1	$ 1	17	12
Expenses for transactions with franchisees	$ 33	$ 15	(122)	(137)
Other operating costs and expenses	$ 303	$ 251	(21)	(29)
Closures and impairment expenses, net	$ 3	$ 7	53	49
Operating Loss	$ (13)	$ (30)	58	55
Restaurant loss	$ (4)	$ (10)	53	51
Restaurant margin %	(15.1)%	(39.1)%	24.0 ppts	24.0 ppts

	Year to Date Ended 6/30/2023 % Change
Same-Store Sales Growth	10%

Total Revenues

The year to date increase in Total revenues of all other segments, excluding the impact of F/X, was primarily driven by inter-segment revenue generated by our delivery team for services provided to KFC and Pizza Hut restaurants as a result of rising delivery sales.

Operating Loss

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

Corporate and Unallocated

	Year to Date Ended			
			% B/(W)	
	6/30/2023	6/30/2022	Reported	Ex F/X
Revenues from transactions with franchisees	$ 123	$ 104	18	26
Other revenues	$ 20	$ 19	4	11
Expenses for transactions with franchisees	$ 122	$ 105	(16)	(24)
Other operating costs and expenses	$ 18	$ 18	(3)	(10)
Corporate G&A expenses	$ 101	$ 83	(23)	(29)
Other unallocated income, net	$ (1)	$ (2)	(37)	(31)
Interest income, net	$ 78	$ 26	203	208
Investment loss	$ (28)	$ (17)	(69)	(69)
Income tax provision (See Note 13)	$ (196)	$ (86)	(128)	(141)
Equity in net earnings (losses) from equity method investments	$ —	$ (2)	90	92
Effective tax rate (See Note 13)	27.0%	30.4%	3.4%	3.4%

Revenues from Transactions with Franchisees

Revenues from transactions with franchisees primarily include revenues derived from the Company's central procurement model, whereby food and paper products are centrally purchased and then mainly sold to KFC and Pizza Hut franchisees. The year to date increase, excluding the impact of F/X, was mainly due to the increase in system sales for franchisees.

G&A Expenses

The year to date increase in Corporate G&A expenses, excluding the impact of F/X, was primarily due to higher performance-based compensation and merit increases.

Interest Income, Net

The year to date increase in interest income, net, excluding the impact of F/X, was primarily driven by higher interest rates and higher investment balance.

Investment Loss

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

Income Tax Provision

Our income tax provision primarily includes tax on our earnings generally at the Chinese statutory tax rate of 25% with certain Chinese subsidiaries qualified at preferential tax rates, withholding tax on planned or actual repatriation of earnings outside of China, Hong Kong profits tax, and U.S. corporate income tax, if any. The lower effective tax rate for the year to date ended June 30, 2023 was primarily due to a reduction in valuation allowance for improved performance at certain subsidiaries and the impact of higher pre-tax income.

Discussion of Changes of Certain Key Balance Sheet Items

Cash and Cash Equivalents

As of June 30, 2023 and December 31, 2022, the Company's cash and cash equivalents were denominated in the following currencies:

	6/30/2023	12/31/2022
RMB	$ 723	$ 571
USD	461	555
Hong Kong dollar ("HK$")	5	4
Total	$ 1,189	$ 1,130

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

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

As of June 30, 2023, the decrease of short-term investments and increase of long-term bank deposits and notes were primarily due to more investments in time deposits and bank notes with maturity over one year in order to benefit from better interest rates. See Note 12 for detail.

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

As of June 30, 2023, the decrease of ROU assets was primarily due to amortization, a higher portion of our new leases with variable lease payments and the impact of F/X. The decrease of lease liabilities was consistent with the decrease of ROU assets.

Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities primarily consisted of payables to our suppliers, landlords and employees. See Note 9 for detail. As of June 30, 2023, excluding the impact of F/X, the increase of accounts payable and other current liabilities was primarily due to settlement timing of accounts payable and dividends payable to non-controlling interests.

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 significantly impacted the Company's operations and financial results and caused significant volatility in our operations. During the year to date ended June 30, 2023, sales rebounded significantly year-over-year. The Company's strong sales growth was driven by our continued tremendous efforts in seizing opportunities as the country pivoted from strict COVID-19 measures. Margins also improved substantially, primarily benefiting from sales leveraging and ongoing benefits of cost structure rebasing efforts, which contributed to the year-over-year operating profit growth.

We continue to expect uncertain macroeconomic conditions, wage inflation over the coming quarters and potential phase-out of VAT deductions. As such, we are staying alert with vigorous scenario planning, more flexible cost structures and operational agility to capture growth opportunities and mitigate risks when needed.

Tax Examination on Transfer Pricing

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

PRC Value-Added Tax ("VAT")

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

Entities that are general VAT taxpayers are permitted to offset qualified input VAT paid to suppliers against their output VAT upon receipt of appropriate supplier VAT invoices on an entity-by-entity basis. When the output VAT exceeds the input VAT, the difference is remitted to tax authorities, usually on a monthly basis; whereas when the input VAT exceeds the output VAT, the difference is treated as a VAT asset which can be carried forward indefinitely to offset future net VAT payables. VAT related to purchases and sales which have not been settled at the balance sheet date is disclosed separately as an asset and liability, respectively, on the Condensed Consolidated Balance Sheets. At each balance sheet date, the Company reviews the outstanding balance of any VAT asset for recoverability, giving consideration to the indefinite life of VAT assets as well as its forecasted operating results and capital spending, which inherently includes significant assumptions that are subject to change. As of June 30, 2023, the Company has not made an allowance for the recoverability of VAT assets, as the balance is expected to be utilized to offset against VAT payables or be refunded in the future.

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

As the benefits of certain VAT assets are expected to be realized within one year pursuant to Circular [2022] No. 21, $303 million of VAT assets as of June 30, 2022 were reclassified from Other assets to Prepaid expenses and other current assets. As of June 30, 2023, VAT assets of $75 million, VAT assets of $5 million and net VAT payable of $5 million were recorded in Prepaid expenses and other current assets, Other assets and Accounts payable and other current liabilities, respectively, on the Condensed Consolidated Balance Sheets.

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

Pursuant to Circular [2019] No. 39, Circular [2019] No. 87 and Circular [2022] No. 11 jointly issued by relevant government authorities, including the MOF and the STA, from April 1, 2019 to December 31, 2022, general VAT taxpayers in certain industries that meet certain criteria are allowed to claim an additional 10% or 15% input VAT, which will be used to offset their VAT payables. Pursuant to Circular [2023] No. 1 jointly issued by the MOF and the STA in January 2023, such VAT policy was further extended to December 31, 2023 but the additional deduction was reduced to 5% or 10% respectively. It is uncertain whether such preferential policy will continue to be applicable upon expiration. Subsequent to the lump sum refund of VAT assets beginning on July 1, 2022 pursuant to Circular [2022] No. 21, the number of subsidiaries meeting required criteria for additional VAT deductions increased. Accordingly, we recognized such VAT deductions of $8 million in each of the third and fourth quarters of 2022, and $19 million and $9 million in the first and second quarters of 2023, respectively. The VAT deductions were recorded as a reduction to the related expense item, primarily in Company restaurant expenses included in the Condensed Consolidated Statements of Income.

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

Foreign Currency Exchange Rate

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

Condensed Consolidated Cash Flows

Our cash flows for years to date ended June 30, 2023 and 2022 were as follows:

Net cash provided by operating activities was $924 million in 2023 as compared to $609 million in 2022. The increase was primarily driven by the increase in net income along with working capital changes.

Net cash used in investing activities was $598 million in 2023 as compared to $52 million in 2022. The change was mainly due to net impact on cash flow resulting from purchases and maturities of short-term investments, long-term bank deposits and notes.

Net cash used in financing activities was $230 million in 2023 as compared to $513 million in 2022. The decrease was primarily driven by the decrease in share repurchases.

Liquidity and Capital Resources

Historically we have funded our operations through cash generated from the operation of our Company-owned stores, our franchise operations and dividend payments from our former 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, to step up investments in digitalization, automation and logistics infrastructure, to provide returns to our stockholders, as well as to explore opportunities for acquisitions or investments that build and support our ecosystem. We believe that our future cash from operations, together with our funds on hand and access to the capital markets, will provide adequate resources to fund these uses of cash, and that our existing cash, net cash from operations and credit facilities will be sufficient to fund our operations and anticipated capital expenditures for the next 12 months. We currently expect our fiscal year 2023 capital expenditures to be in the range of approximately $700 million to $900 million.

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

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

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

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

Share Repurchases and Dividends

On March 17, 2022, our Board of Directors (or the "Board") increased the share repurchase authorization by $1 billion to an aggregate of $2.4 billion. Yum China may repurchase shares under this program from time to time in the open market or, subject to applicable regulatory requirements, through privately negotiated transactions, block trades, accelerated share repurchase transactions and the use of Rule 10b5-1 trading plans. During the years to date ended June 30, 2023 and 2022, the Company repurchased 2.1 million shares of common stock for $124 million and 9.0 million shares of common stock for $400 million, respectively, under the repurchase program.

For the years to date ended June 30, 2023 and 2022, the Company paid cash dividends of approximately $108 million and $101 million, respectively, to stockholders through a quarterly dividend payment of $0.13 and $0.12 per share, respectively.

On July 31, 2023, the Board of Directors declared a cash dividend of $0.13 per share, payable on September 18, 2023, to stockholders of record as of the close of business on August 28, 2023. The total estimated cash dividend payable is approximately $54 million.

Our ability to declare and pay any dividends on our stock may be restricted by our earnings available for distribution under applicable Chinese laws. The laws, rules and regulations applicable to our Chinese subsidiaries permit payments of dividends only out of their accumulated profits, if any, determined in accordance with applicable Chinese accounting standards and regulations. Under Chinese 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 June 30, 2023, the Company had credit facilities of RMB4,596 million (approximately $634 million), comprised of onshore credit facilities of RMB3,000 million (approximately $414 million) in aggregate and offshore credit facilities of $220 million in aggregate.

The credit facilities had remaining terms ranging from less than one year to two years as of June 30, 2023. Each credit facility bears interest based on the Loan Prime Rate ("LPR") published by the National Interbank Funding Centre of the PRC, or Secured Overnight Financing Rate ("SOFR") published by the Federal Reserve Bank of New York. Each credit facility contains a cross-default provision whereby our failure to make any payment on a principal amount from any credit facility will constitute a default on other credit facilities. Some of the credit facilities contain covenants limiting, among other things, certain additional indebtedness and liens, and certain other transactions specified in the respective 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 June 30, 2023, we had outstanding bank guarantees of RMB221 million (approximately $30 million) mainly to secure our lease payments to landlords for certain Company-owned restaurants. The credit facilities were therefore reduced by the same amount. There was a RMB12-million (approximately $2 million) bank borrowing outstanding as of June 30, 2023, which was secured by a $1-million short-term investment. The bank borrowing will be due within one year and was included in Accounts payable and other current liabilities.

Material Cash Requirements

Operating and Finance Leases Obligations

As of June 30, 2023, undiscounted future lease payments amounted to $2,656 million, including $273 million in the remainder of 2023. These obligations relate primarily to over 11,000 properties in China for our Company-owned restaurants. See Note 11 for additional information.

Purchase Obligations

As of June 30, 2023, future purchase obligations amounted to $413 million, which relate primarily to capital expenditure commitment for infrastructure, as well as supply and service agreements. We have excluded agreements that are cancelable without penalty or have a remaining term not in excess of one year. Such commitments are generally near term in nature, will be funded from operating cash flows, and are not significant to the Company's overall financial position.

Transition Tax

As of June 30, 2023, the Company had transition tax payable of $27 million, of which $12 million is payable within the next 12 months. This amount represents transition tax payable on the deemed repatriation of accumulated undistributed foreign earnings after utilizing existing qualified foreign tax credits, which is to be paid over a maximum of eight years beginning in 2018.

Off-Balance Sheet Arrangements

See the Guarantees section of Note 15 for discussion of our off-balance sheet arrangements.

Contingent Liabilities

We had no material contingent obligations as of June 30, 2023. Please see Note 15 for further discussion.

Gearing Ratio

The gearing ratio of the Company, which was calculated by dividing total interest-bearing loans by total equity as of the end of the period, was nil as of June 30, 2023 and December 31, 2022, respectively, as we only had $2 million outstanding bank borrowing as of both June 30, 2023 and December 31, 2022, respectively.

Pledge of Assets

The Company is required to place bank deposits or purchase insurance in order to secure the balance of prepaid stored-value cards issued by the Company pursuant to regulatory requirements $21 million of time deposits in Short-term investments and $27 million of time deposits in Long-term bank deposits and notes were restricted for use as of June 30, 2023, and $81 million of time deposits in Long-term bank deposits and notes was restricted for use as of December 31, 2022. The decrease was primarily due to insurance purchased by the Company to secure a portion of prepaid stored-value card. Please see Note 12 for further discussion. As of June 30, 2023, we also had $1 million short-term deposits pledged to secure the $2 million outstanding bank borrowing.

Significant Investments Held

None of our investments held constituted significant investments required to be disclosed pursuant to Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules"). Refer to Note 3 for our business acquisitions and equity investments.

Future Plans for Material Investments and Capital Assets

We currently expect our fiscal year 2023 capital expenditures will be in the range of approximately $700 million to $900 million. Please see Liquidity and Capital Resources section for further discussion.

Material Acquisitions and Disposal of Subsidiaries and Joint Venture

During the years to date ended June 30, 2023 and 2022, we did not have any material acquisitions and disposals of subsidiaries and joint venture.

Employee Remuneration Policy

The Company had more than 430,000 employees as of June 30, 2023, and substantially all of them are based in China. Given the nature of its operations, approximately 90% of the Company's employees were restaurant crew members. Approximately 72% of crew members worked part-time, of whom many attended university at the same time, and were paid on an hourly basis. The working hours of part-time employees varied significantly.

For the year to date ended June 30, 2023, the Company has incurred total staff costs (including salaries, allowances, benefits in kind, performance related bonuses, share-based compensation expense and social benefit contributions) of approximately $1,378 million.

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

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

See Note 2 for details of recently adopted accounting pronouncements.

New Accounting Pronouncements Not Yet Adopted

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842) — Common Control Arrangements* ("ASU 2023-01"). It requires all lessees, including public business entities, to amortize leasehold improvements associated with common control leases over their useful life to the common control group and account for them as a transfer of assets between entities under common control through an adjustment to equity when the lessee no longer controls the use of the underlying asset. ASU

2023-01 is effective for the Company from January 1, 2024, with early adoption permitted. We are currently evaluating the impact the adoption of this standard may have on our financial statements.

Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Rate Risk

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

As substantially all of the Company's assets are located in China, the Company is exposed to movements in the RMB foreign currency exchange rate. For the year to date ended June 30, 2023, the Company's Operating profit would have decreased by approximately $64 million, if the RMB weakened 10% relative to the US$. This estimated reduction assumes no changes in sales volumes or local currency sales or input prices.

Commodity Price Risk

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

Investment Risk

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

OTHER INFORMATION

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

As of June 30, 2023, the interests and short positions of the directors and chief executive of the Company in the common stock or ordinary shares, shares underlying other securities of the Company, and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions as set out in Appendix 10 to the Hong Kong Listing Rules (the "Model Code") were as follows:

(i) Interest in the Shares of the Company

Name of Director	Nature of Interest	Number of Shares[1]	Approximate Percentage of Holding[2]
Joey Wat	Beneficial owner	1,321,143[3]	0.32%
	Interest of controlled corporation[4]	118,462	0.03%
	Founder of a Discretionary Trust[5]	100,000	0.02%
Peter A. Bassi	Trustee[6]	50,246	0.02%
Edouard Ettedgui	Beneficial owner	41,548	0.01%
Fred Hu	Beneficial owner	53,539	0.01%
	Interest of controlled corporation[7]	12,035,635	2.88%
Ruby Lu	Beneficial owner	48,902	0.01%
Zili Shao	Beneficial owner	42,087	0.01%
William Wang	Beneficial owner	40,560	0.01%
Min (Jenny) Zhang	Interest of controlled corporation[8]	7,430	0.00%
Christina Xiaojing Zhu	Beneficial owner	5,513	0.00%

(1) Representing long position.

(2) The calculation is based on the total number of 417,352,861 Shares in issue as of June 30, 2023.

(3) Includes (i) 36,682 Shares owned by Ms. Joey Wat, (ii) 1,284,521 Shares issuable (a) upon the exercise of outstanding stock appreciation rights, based on the closing price of the Shares traded on the New York Stock Exchange on June 30, 2023; (b) upon the vesting of restricted stock units and corresponding dividend equivalent units; and (c) upon the vesting of performance stock units and dividend equivalent units, assuming maximum payouts pursuant to their award agreements.

(4) The Shares were held by Best Ease International Limited, a company incorporated in British Virgin Islands which is wholly owned by Ms. Joey Wat.

(5) The Shares were held by Darby Settlement Trust, a discretionary trust established by Ms. Joey Wat as a founder.

(6) The Shares were held by Bassi Family Trust, of which Mr. Peter A. Bassi is a trustee.

(7) The Shares were held directly by Pollos Investment L.P. ("Pollos Investment"). The limited partnership interests of Pollos Investment are ultimately owned by a private fund for which an affiliate of Mr. Fred Hu is special limited partner ("Special Limited Partner"). Mr. Fred Hu is a shareholder of the parent company of the general partner of the Special Limited Partner and is therefore deemed to be interested in the Shares.

(8) The Shares were held by WMJ Investing Limited, a company incorporated in British Virgin Islands which is controlled by Ms. Min (Jenny) Zhang.

(9) Mr. Cyril Han and Mr. Louis T. Hsieh stepped down as directors of the Company at the Company's annual meeting of stockholders held on May 25, 2023 (Hong Kong time). Mr. David Hoffmann was appointed as a director of the Company by the Board on July 14, 2023.

(ii) Interest in the Shares of Associated Corporations

Name of Director	Name of Associated Corporation	Nature of Interest	Number of Shares[1]	Approximate Percentage of Holding[2]
Joey Wat	Y&L Coffee Limited ("Y&L")	Beneficial owner	1,000,000[3]	0.37%

(1) Representing long position.

(2) The calculation is based on the total number of 267,052,046 shares in issue as of June 30, 2023.

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

Substantial Shareholders' Interest and Short Position in Shares and Underlying Shares

As of June 30, 2023, so far as was known to the directors or chief executive of the Company, the following persons (other than the directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares which would be required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholder	Nature of Interest	Number of Shares[(1)]	Approximate Percentage of Holding[(2)]
Invesco Advisers, Inc.[(3)]	Investment manager	32,625,786	7.82%
Invesco Developing Markets Fund[(3)]	Beneficial owner	24,264,486	5.81%
BlackRock, Inc.[(4)]	Interest in controlled corporations	28,848,559	6.91%
		51,700 (S)	0.01% (S)
JPMorgan Chase & Co.[(5)]	Interest in controlled corporations	3,888,417	0.93%
		3,372,883 (S)	0.81% (S)
	Investment manager	15,071,163	3.61%
	Person having a security interest in shares	32,293	0.01%
	Trustee	26,618	0.01%
	Approved lending agent	24,807,139	5.94%

(1) Unless otherwise specified, the Shares are long position. (S) denotes short position.

(2) The calculation is based on the total number of 417,352,861 Shares in issue as of June 30, 2023.

(3) Invesco Developing Markets Fund directly held 24,264,486 Shares. Invesco Developing Markets Fund is an investment company registered with the SEC and is advised by Invesco Advisers, Inc. Invesco Advisers, Inc. is the principal U.S. investment advisory subsidiary of Invesco Ltd. and is registered with the SEC as an investment adviser. For the purpose of the SFO, Invesco Advisers, Inc. is deemed to be interested in the Shares held by Invesco Developing Markets Fund.

Together with various other funds and accounts which Invesco Advisers, Inc. acts as investment adviser, as of June 30, 2023, Invesco Advisers, Inc. was in control of an aggregate of 32,625,786 Shares as investment manager. For the purpose of the SFO, Invesco Advisers, Inc. is deemed to be interested in the 32,625,786 Shares.

(4) According to the shareholding disclosures notice regarding the relevant event dated June 16, 2023 submitted by BlackRock, Inc. to the Hong Kong Stock Exchange, an aggregated 28,848,559 Shares (long position) and 51,700 Shares (short position) of the Company are held by BlackRock, Inc. Among them, 45,400 Shares (short position) are physically settled listed derivatives and 141,051 Shares (long position) are cash settled unlisted derivatives.

(5) According to the shareholding disclosures notice regarding the relevant event dated April 26, 2023 submitted by JPMorgan Chase & Co. to the Hong Kong Stock Exchange, an aggregated 43,825,630 Shares (long position), 3,372,883 Shares (short position) and 24,807,139 Shares (lending pool) of the Company are held by JPMorgan Chase & Co. Among them, 14,006 Shares (short position) are physically settled unlisted derivatives, 401,177 Shares (long position) and 122,622 Shares (short position) are cash settled unlisted derivatives, and 3 Shares (short position) are convertible instruments which are listed derivatives.

Long Term Incentive Plans and Directors' Rights to Acquire Shares

In connection with the Company's voluntary conversion of its secondary listing status to a primary listing status on The Stock Exchange of Hong Kong Limited, the Company's stockholders approved the Yum China Holdings, Inc. 2022 Long Term Incentive Plan (the "2022 Plan"). The 2022 Plan replaced the Yum China Holdings, Inc. Long Term Incentive Plan (the "2016 Plan") and became effective on October 24, 2022. Under the 2022 Plan, the Company may grant (i) non-qualified stock options; (ii) incentive stock options (within the meaning of Section 422 of the Internal Revenue Code); (iii) stock appreciation rights ("SARs"); (iv) "Full Value Awards" (including restricted stock, restricted stock units ("RSUs"), performance shares and performance units ("PSUs")); and (v) cash incentive awards.

(i) 2022 Plan

At the beginning of the six months ended June 30, 2023 (the "Reporting Period"), 30,706,464 Shares remained available for future issuances under the 2022 Plan in accordance with its terms. At the end of the Reporting Period, 28,950,059 Shares remained available for future issuances under the 2022 Plan in accordance with its terms.

During the Reporting Period, details of the movements of the awards granted under the 2022 Plan required to be reported on an individual basis were as follows:

		PSUs(1)							
Name of grantee	Grant date (Month/Date/Year)	Closing price on the day prior to grant date for awards granted during the Reporting Period(2)	Grant date fair value for awards granted during the Reporting Period(3)	Unvested as at the beginning of the Reporting Period	Granted during the Reporting Period	Vested during the Reporting Period	Cancelled/ Lapsed during the Reporting Period	Unvested as at the end the Reporting Period	Closing price on the day prior to vesting date during the Reporting Period
Joey Wat (Director and Chief Executive Officer)	2/9/2023(4)	$ 60.01	$ 5,000,099	—	64,338	—	—	64,338	—

(1) No purchase price is required for accepting the awards granted. Number of PSUs reported excludes dividend equivalent units.

(2) The stated price was the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date on which the PSUs were granted.

(3) This amount represents aggregate fair value of the PSUs on the date of the grant. The grant date fair value of the PSU awards with performance conditions has been determined based on the closing price of the Shares traded on the New York Stock Exchange on the date of the grant. The grant date fair value of the PSU awards with market conditions has been determined based on the outcome of a Monte-Carlo simulation model with the following assumptions: risk-free interest rate of 4.2% and expected volatility of 39.3%.

(4) Contingent on continuing service, the PSUs are scheduled to vest if performance goals relating to relative total shareholder return ("rTSR") against the constituents of the MSCI China Index and select strategic imperatives are achieved during the performance period from January 1, 2023 to December 31, 2025. Based on performance, payout may range from 0% to 200% of the target number of shares subject to the PSUs.

		RSUs[1]							
Name of grantee	Grant date (Month/Date/ Year)	Closing price on the day prior to grant date for awards granted during the Reporting Period[2]	Grant date fair value for awards granted during the Reporting Period[3]	Unvested as at the beginning of the Reporting Period	Granted during the Reporting Period	Vested during the Reporting Period	Cancelled/ Lapsed during the Reporting Period	Unvested as at the end the Reporting Period	Closing price on the day prior to vesting date during the Reporting Period
Joey Wat (Director and Chief Executive Officer)	2/9/2023[4]	$ 60.01	$ 5,000,033	—	80,464	—	—	80,464	—

(1) No purchase price is required for accepting the awards granted. Number of RSUs reported excludes dividend equivalent units.

(2) The stated price was the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date on which the RSUs were granted.

(3) This amount represents aggregate fair value of the RSUs on the date of the grant. The grant date fair value of the RSUs has been determined based on the closing price of the Shares traded on the New York Stock Exchange on the date of grant.

(4) Contingent on continuing service, the RSUs will vest on equal installments on each of the first three anniversaries of the date of grant.

Director Retainer

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

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

Employee Directors. Employee directors do not receive additional compensation for serving on the Board.

Non-Employee Directors Retainer. Our non-employee directors were each compensated with an annual retainer equal to $315,000, payable in Company common stock or, if requested by a director, up to one-half in cash. The annual retainers were paid in June 2023 to compensate the directors for their services from June 1, 2023 to May 31, 2024.

Board Chair Retainer. In addition to the annual retainer paid to all non-employee directors, the Chairman of the Board (Dr. Hu) received an additional annual stock retainer of $225,000.

Committee Chair and Member Retainer. The Chairperson of the Audit Committee (Mr. Bassi) received an additional annual stock retainer of $35,000. Each member of the Audit Committee (Mr. Shao and Ms. Zhang) received an additional annual stock retainer of $17,500. The Chairperson of the Compensation Committee (Ms. Lu) received an additional annual stock retainer of $25,000. Each member of the Compensation Committee (Mr. Ettedgui, Mr. Wang and Ms. Zhang) received an additional annual stock retainer of $12,500. The Chairperson of the Nominating and Governance Committee (Dr. Hu) received an additional annual stock retainer of $20,000. Each member of the Nominating and Governance Committee (Mr. Ettedgui, Ms. Lu and Ms. Zhang) received an additional annual stock retainer of $10,000. The Chairperson of the Food Safety and Sustainability Committee (Mr. Shao) received an additional annual stock retainer of $20,000. Each members of the Food Safety and Sustainability Committee (Mr. Bassi and Mr. Ettedgui) received an additional annual stock retainer of $10,000.

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

Name	Date of grant (Month/Date/Year)	Closing price on the day prior to grant date for awards granted during the Reporting Period[1]	Stock Awards ($)[2]	Number of shares of common stock granted[3]
Peter A. Bassi	6/1/2023	$ 56.46	227,500	3,982[4]
Edouard Ettedgui			190,000	3,325
Fred Hu			560,000	9,802
Ruby Lu			350,000	6,126
Zili Shao			195,000	3,413
William Wang			327,500	5,732
Min (Jenny) Zhang			197,500	2,360[5]
Christina Xiaojing Zhu			315,000	5,513
Total			2,362,500	40,253

(1) The stated price was the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date on which the shares of common stock were granted.

(2) Representing the grant date fair value for annual stock retainer awards granted.

(3) Each director received Shares determined by dividing the applicable annual retainer by the closing price of the Shares traded on the New York Stock Exchange on the date of grant, which was $57.13, with any fractional shares paid in cash rather than equity.

(4) Mr. Bassi received an additional award in the amount of $50,000 for his contribution to a project in 2022 at the request of the Board, of which 50% was paid in cash and 50% was paid in stock.

(5) Number of shares granted net of tax liabilities associated with stock retainer.

(6) Mr. Cyril Han and Mr. Louis T. Hsieh stepped down as directors of the Company at the Company's annual meeting of stockholders held on May 25, 2023 (Hong Kong time). Their retainers were paid by the Company in June 2022 for their services from June 2022 to May 2023.

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

SARs[(1)]

Grantees by category	Grant date (Month/ Date/Year)	Closing price on the day prior to grant day for awards granted during the Reporting Period[(2)]	Grant date fair value for awards granted during the Reporting Period ($ in thousands)[(3)]	Exercise price	Outstanding at the beginning of the Reporting Period (shares in thousands)	Granted during the Reporting Period (shares in thousands)	Exercised during the Reporting Period (shares in thousands)	Cancelled/ Lapsed during the Reporting Period (shares in thousands)	Outstanding at the end of the Reporting Period (shares in thousands)	Closing price on the day prior to exercise date during the Reporting Period
Other employees of the Company	2/9/2023[(4)]	$ 60.01	$ 8,499	$ 62.14	—	345	—	6	339	—

(1) Exercise period is 10 years from the date of grant. No purchase price is required for accepting the awards granted.

(2) The stated price was the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date on which the SARs were granted.

(3) The amounts reported in this column represent the aggregate grant date fair value of the SAR awards, calculated in accordance with ASC 718. The Company estimated the fair value of each SAR award granted to the Company's employees as of the date of grant, using the Black-Scholes option-pricing model with the following assumptions: risk-free interest rate of 3.9%, expected term of 6.5 years, expected volatility of 36.3%, and expected dividend yield of 0.8%.

(4) Vesting in equal installments of 25%, beginning on the first anniversary of the grant date.

PSUs[(1)]

Grantees by category	Grant date (Month/ Date/Year)	Closing price on the day prior to grant date for awards granted during the Reporting Period[(2)]	Grant date fair value for awards granted during the Reporting Period ($ in thousands)[(3)]	Unvested as at the beginning of the Reporting Period (shares in thousands)	Granted during the Reporting Period (shares in thousands)	Vested during the Reporting Period (shares in thousands)	Cancelled/ Lapsed during the Reporting Period (shares in thousands)	Unvested as at the end the Reporting Period (shares in thousands)	Closing price on the day prior to vesting date during the Reporting Period
Other employees of the Company	11/3/2022[(4)]	N/A	N/A	33	—	—	4	29	—
	2/9/2023[(5)]	$ 60.01	$ 5,493	—	71	—	—	71	—
Total			$ 5,493	33	71	—	4	100	

(1) No purchase price is required for accepting the awards granted. Number of PSUs reported excludes dividend equivalent units.

(2) The stated price was the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date on which the PSUs were granted.

(3) This amount represents aggregate fair value of the PSUs on the date of the grant. The grant date fair value of the PSU awards with performance conditions has been determined based on the closing price of the Shares traded on the New York Stock Exchange on the date of the grant. The grant date fair value of the PSU awards with market conditions has been determined based on the outcome of a Monte-Carlo simulation model with the following assumptions: risk-free interest rate of 4.2% and expected volatility of 39.3%.

(4) Contingent on continuing service, PSU awards are scheduled to vest if performance goals relating to store count, revenue and operating profit are achieved during the performance period from January 1, 2022 to December 31, 2023, and the performance period from January 1, 2024 to December 31, 2025. Based on performance, payout may range from 0% to 200% of the target number of shares subject to the PSUs.

(5) Contingent on continuing service, the PSUs are scheduled to vest if performance goals relating to rTSR against the constituents of the MSCI China Index and select strategic imperatives are achieved during the performance period from January 1, 2023 to December 31, 2025. Based on performance, payout may range from 0% to 200% of the target number of shares subject to the PSUs.

RSUs[(1)]

Grantees by category	Grant date (Month/Date/Year)	Closing price on the day prior to grant date for awards granted during the Reporting Period[(2)]	Grant date fair value for awards granted during the Reporting Period ($ in thousands)[(3)]	Unvested as at the beginning of the Reporting Period (shares in thousands)	Granted during the Reporting Period (shares in thousands)	Vested during the Reporting Period (shares in thousands)	Cancelled/ Lapsed during the Reporting Period (shares in thousands)	Unvested as at the end the Reporting Period (shares in thousands)	Closing price on the day prior to vesting date during the Reporting Period
Other employees of the Company	11/3/2022[(4)]	N/A	N/A	4	—	—	—	4	—
	2/9/2023[(5)]	$ 60.01	$ 20,653	—	332	—	2	330	—
	2/28/2023[(6)]	$ 59.05	$ 3,085	—	53	—	2	51	—
Total			23,738	4	385	—	4	385	

(1) No purchase price is required for accepting the awards granted. Number of RSUs reported excludes dividend equivalent units.

(2) The stated price was the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the dates on which the RSUs were granted.

(3) This amount represents aggregate fair value of the RSUs on the date of the grant. The grant date fair value of the RSUs has been determined based on the closing price of the Shares traded on the New York Stock Exchange on the date of grant.

(4) Contingent on continuing service, the RSUs will vest on equal installments on each of the first three anniversaries of grant date.

(5) Contingent on continuing service, the RSUs will vest on equal installments on each of the first three or four anniversaries of grant date, or 50% on each of the second and third anniversaries of the grant date.

(6) Contingent on continuing service, the RSUs will cliff vest on the third anniversary of grant date.

The number of shares that may be issued in respect of awards granted during the Reporting Period, including SARs, RSUs and PSUs, under the 2022 Plan represented 0.2% of the weighted average number of Shares in the Reporting Period. For this calculation, (1) the number of Shares which may be issued pursuant to the SARs granted during the Reporting Period were based on the New York Stock Exchange closing price as of June 30, 2023; and (2) the number of Shares which may be issued pursuant to the PSUs granted during the Reporting Period assumed maximum payouts pursuant to the relevant award agreements.

(ii) 2016 Plan

The 2016 Plan was adopted at the time of the Company's spin-off from Yum! Brands, Inc. ("YUM"). Upon the 2022 Plan becoming effective on October 24, 2022, no new awards would be further granted under the 2016 Plan, but the 2016 Plan continues to govern awards previously granted under the 2016 Plan. Similar to the 2022 Plan, awards under the 2016 Plan included stock options, incentive options, SARs, restricted stock, stock units, RSUs, performance shares, performance units, and cash incentive awards.

During the Reporting Period, details of the movements of the awards granted under the 2016 Plan required to be reported on an individual basis were as follows:

SARs(1)

Name of grantee	Grant date (Month/Date/Year)	Exercise price	Outstanding at the beginning of the Reporting Period	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled/Lapsed during the Reporting Period	Outstanding at the end of the Reporting Period	Closing price on the day prior to exercise date during the Reporting Period(2)
Joey Wat	2/6/2015	$ 22.32	27,063	—	27,063	—	—	$ 60.93
(Director and Chief	3/25/2015	$ 23.90	32,309	—	32,309	—	—	$ 61.18
Executive Officer)	2/5/2016	$ 21.06	41,316	—	41,316	—	—	$ 61.18
	11/11/2016	$ 26.98	48,846	—	48,846	—	—	$ 61.18
	2/10/2017	$ 26.56	111,774	—	31,577	—	80,197	$ 61.18
	2/9/2018	$ 40.29	186,151	—	—	—	186,151	—
	2/7/2019	$ 41.66	186,100	—	—	—	186,100	—
	2/7/2020	$ 42.71	187,063	—	—	—	187,063	—
	2/5/2021	$ 57.39	171,989	—	—	—	171,989	—
	2/10/2022	$ 50.16	208,969	—	—	—	208,969	—
Total			1,201,580	—	181,111	—	1,020,469	

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

(2) The stated price was the closing price or weighted average closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the dates on which the SARs were exercised.

		PSUs[(1)]					
Name of grantee	Grant date (Month/Date/Year)	Unvested as at the beginning of the Reporting Period	Granted during the Reporting Period	Vested during the Reporting Period	Cancelled/ Lapsed during the Reporting Period	Unvested as at the end of the Reporting Period	Closing price on the day prior to vesting date during the Reporting Period
Joey Wat	2/7/2020[(2)]	312,666	—	—	—	312,666	—
(Director and Chief	2/5/2021[(3)]	20,523	—	—	—	20,523	—
Executive Officer)	5/25/2021[(3)]	26,137	—	—	—	26,137	—
	2/10/2022[(4)]	28,597	—	—	—	28,597	—
Total		387,923	—	—	—	387,923	

(1) No purchase price is required for accepting the awards granted. Number of PSUs reported excludes dividend equivalent units.

(2) PSU awards are scheduled to vest based on absolute Company stock price hurdles, adjusted total revenue growth, adjusted EBITDA growth and transformational objectives, as defined in the underlying equity award agreement, over the January 1, 2020 through December 31, 2023 performance period, subject to the grantee's continued employment through the last day of the performance period except as otherwise provided for in the underlying equity award agreement upon a qualifying termination of employment. Based on performance, payout may range from 0% to 200% of the target number of shares subject to the PSUs.

(3) PSU awards are scheduled to vest based on the Company's achievement of rTSR against the constituents of the MSCI China Index, the Company's adjusted total revenue growth and adjusted diluted earnings per common share growth as defined in the underlying equity award agreement, over the January 1, 2021 through December 31, 2023 performance period, subject to the grantee's continued employment through the last day of the performance period except as otherwise provided for in the underlying equity award agreement upon a qualifying termination of employment. Based on performance, payout may range from 0% to 200% of the target number of shares subject to the PSUs.

(4) PSU awards are scheduled to vest based on the Company's achievement of the rTSR against the constituents of the MSCI China Index goal over the January 1, 2022 through December 31, 2024 performance period, subject to the grantee's continued employment through the last day of the performance period except as otherwise provided for in the underlying equity award agreement upon a qualifying termination of employment. Based on performance, payout may range from 0% to 200% of the target number of shares subject to the PSUs.

RSUs[1]

Name of grantee	Grant date (Month/Date/ Year)	Unvested as at the beginning of the Reporting Period	Granted during the Reporting Period	Vested during the Reporting Period	Cancelled/ Lapsed during the Reporting Period	Unvested as at the end of the Reporting Period	Closing price on the day prior to vesting date during the Reporting Period[2]
Joey Wat	2/5/2021[3]	43,562	—	—	—	43,562	—
(Director and Chief Executive Officer)	2/10/2022[4]	25,918	—	6,479	—	19,439	$ 62.14
Total		69,480	—	6,479	—	63,001	

(1) No purchase price is required for accepting the awards granted. Number of RSUs reported excludes dividend equivalent units.

(2) The stated price was the closing price of the Shares traded on the New York Stock Exchange on the trading day immediately prior to the date on which the RSUs were vested.

(3) Cliff vesting on the third anniversary of the grant date.

(4) Vesting in equal installments of 25%, beginning on the first anniversary of the grant date.

During the Reporting Period, details of the movements of the awards granted under the 2016 Plan not required to be reported on an individual basis were as follows, with number of awards reported in thousands:

Options/SARs[1]

Grantees by category	Grant date (Month/Date/ Year)	Exercise price for awards outstanding as at the beginning of the Reporting Period[2]	Outstanding as at the beginning of the Reporting Period (shares in thousands)	Granted during the Reporting Period (shares in thousands)	Exercised during the Reporting Period (shares in thousands)	Cancelled/ Lapsed during the Reporting Period (shares in thousands)	Outstanding as at the end of the Reporting Period (shares in thousands)	Closing price on the day prior to exercise date during the Reporting Period[3]
Other employees of the Company	From 2/6/2013 to 2/10/2022	$19.00 to $57.39	6,581	—	255	19	6,307	$ 60.58
Employees of YUM	From 2/6/2013 to 10/1/2016	$19.00 to $27.41	1,822	—	445	2	1,375	$ 60.71
Total			8,403	—	700	21	7,682	

(1) SAR awards granted to employees of the Company typically have a graded vesting schedule of 25% per year over four years and expire 10 years after grant. Outstanding options/SARs held by employees of YUM were fully vested. No purchase price is required for accepting the awards granted.

(2) The weighted average exercise price of SARs held by other employees of the Company as at the end of the Reporting Period was $37.18. The weighted average exercise price of options/SARs held by employees of YUM as at the end of the Reporting Period was $21.74.

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

PSUs[1]

Grantees by category	Grant date (Month/Date/ Year)	Unvested as at the beginning of the Reporting Period	Granted during the Reporting Period	Vested during the Reporting Period	Cancelled/ Lapsed during the Reporting Period	Unvested as at the end of the Reporting Period	Closing price on the day prior to vesting date during the Reporting Period
Other employees of the Company	From 2/7/2020 to 2/10/2022	654	—	—	—	654	—

(1) The PSU awards are based on the Company's achievement of one or more performance goals, including rTSR against the constituents of the MSCI China Index and absolute Company stock price hurdle, and will cliff vest only if threshold performance goals are achieved over a three or four-year performance period. No purchase price is required for accepting the awards granted. Number of PSUs reported excludes dividend equivalent units.

RSUs[1]

Grantees by category	Grant date (Month/Date/ Year)	Unvested as at the beginning of the Reporting Period	Granted during the Reporting Period	Vested during the Reporting Period	Cancelled/ Lapsed during the Reporting Period	Unvested as at the end of the Reporting Period	Closing price on the day prior to vesting date during the Reporting Period[2]
Other employees of the Company	From 2/7/2020 to 9/1/2022	801	—	100	18	683	$ 60.34

(1) RSU awards generally vest over three or four years, with either cliff vesting at 100% on the third anniversary of the grant date or graded vesting on anniversary dates. No purchase price is required for accepting the awards granted. Number of RSUs reported excludes dividend equivalent units.

(2) The stated price was the weighted average closing price of the Shares traded on the New York Stock Exchange on the trading days immediately prior to the dates on which the RSUs vested.

Compliance with Corporate Governance Code

The Board believes that good corporate governance is a critical factor in achieving business success and in fulfilling the Board's responsibilities to stockholders. The Board has adopted Corporate Governance Principles which are intended to embody the governance principles and procedures by which the Board functions. These principles are available on the Company's website. Our Corporate Governance Principles and practices are in line with the principles in the Corporate Governance Code (the "Corporate Governance Code") as set out in Part 2 of Appendix 14 to the Hong Kong Listing Rules.

During the year to date ended June 30, 2023, we have complied with all the code provisions of the Corporate Governance Code, save for the following.

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

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

Model Code for Securities Transactions

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

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

Disclosure of Updated Director Information

Ms. Ruby Lu was appointed as an independent director on the board of directors of Volvo Car AB (STO: VOLCAR-B) in April 2023.

Set out below is the updated Director information disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules since the date of the Company's 2022 annual report:

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

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

During the year to date ended June 30, 2023, the Company repurchased 2.1 million shares of common stock on the New York Stock Exchange for an aggregate consideration of $124 million. All shares repurchased under the current and previous authorizations were retired and resumed the status of authorized and unissued shares of common stock. We have used share repurchases as a means of returning cash to stockholders. Details of the Shares repurchased are as follows:

Month of Repurchase	No. of Shares Repurchased* (thousands)	Price paid per share		Aggregate Consideration (US$ millions)
		Highest US$	Lowest US$	
January	337	62.43	55.81	20
February	316	63.01	56.97	19
March	376	64.56	57.78	23
April	303	64.65	59.82	19
May	365	64.42	54.93	22
June	361	60.44	55.87	21
Total	2,057			124

*: Shares may not add due to rounding.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year to date ended June 30, 2023.

Audit Committee Review of Financial Statements

The Audit Committee of the Company has reviewed the Condensed Consolidated Financial Statements and interim results of the Company for the year to date ended June 30, 2023. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with members of senior management and the external auditor of the Company, KPMG.

Scope of Work of the Company's Auditor

The Condensed Consolidated Financial Statements of the Company and its subsidiary companies for the year to date ended June 30, 2023 have been reviewed by the Company's auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 — "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the Hong Kong Institute of Certified Public Accountants for the Hong Kong filing.

Important Events after the Reporting Period

Save as disclosed in Note 16 to the Condensed Consolidated Financial Statements, no important events affecting the Company occurred since June 30, 2023 and up to the date of this report.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

(Incorporated in Delaware, United States of America)

Introduction

We have reviewed the interim financial information of Yum China Holdings, Inc. and its subsidiaries ("the Company") set out on pages 38 to 72, which comprises the condensed consolidated balance sheet as at June 30, 2023, the condensed consolidated statement of income, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of equity and condensed consolidated statement of cash flows for the six-month period then ended and notes to the condensed consolidated financial statements. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and U.S. generally accepted accounting principles. The directors are responsible for the preparation and presentation of the interim financial information in accordance with U.S. generally accepted accounting principles.

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

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity,* issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information as at June 30, 2023 is not prepared, in all material respects, in accordance with U.S. generally accepted accounting principles.

KPMG
Certified Public Accountants

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

August 9, 2023

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Statements of Income (Unaudited)

Yum China Holdings, Inc.
(in US$ millions, except per share data)

	Year to Date Ended	
	6/30/2023	6/30/2022
Revenues		
Company sales	$ 5,289	$ 4,574
Franchise fees and income	46	43
Revenues from transactions with franchisees	182	139
Other revenues	54	40
Total revenues	5,571	4,796
Costs and Expenses, Net		
Company restaurants		
Food and paper	1,608	1,419
Payroll and employee benefits	1,348	1,216
Occupancy and other operating expenses	1,366	1,343
Company restaurant expenses	4,322	3,978
General and administrative expenses	316	292
Franchise expenses	19	18
Expenses for transactions with franchisees	175	136
Other operating costs and expenses	48	35
Closures and impairment expenses, net	17	16
Other expenses, net	1	49
Total costs and expenses, net	4,898	4,524
Operating Profit	673	272
Interest income, net	78	26
Investment loss	(28)	(17)
Income Before Income Taxes and Equity in Net Earnings (Losses) from Equity Method Investments	723	281
Income tax provision	(196)	(86)
Equity in net earnings (losses) from equity method investments	—	(2)
Net income — including noncontrolling interests	527	193
Net income — noncontrolling interests	41	10
Net Income — Yum China Holdings, Inc.	$ 486	$ 183
Weighted-average common shares outstanding (in millions):		
Basic	418	423
Diluted	423	427
Basic Earnings Per Common Share	$ 1.16	$ 0.43
Diluted Earnings Per Common Share	$ 1.15	$ 0.43

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

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

	Year to Date Ended	
	6/30/2023	6/30/2022
Net income — including noncontrolling interests	$ 527	$ 193
Other comprehensive loss, net of tax of nil:		
Foreign currency translation adjustments	(245)	(267)
Comprehensive income (loss) — including noncontrolling interests	282	(74)
Comprehensive income (loss) — noncontrolling interests	9	(29)
Comprehensive Income (Loss) — Yum China Holdings, Inc.	$ 273	$ (45)

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Cash Flows (Unaudited)

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

	Year to Date Ended	
	6/30/2023	6/30/2022
Cash Flows — Operating Activities		
Net income — including noncontrolling interests	$ 527	$ 193
Depreciation and amortization	228	317
Non-cash operating lease cost	202	230
Closures and impairment expenses	17	16
Investment loss	28	17
Equity in net (earnings) losses from equity method investments	—	2
Distributions of income received from equity method investments	8	—
Deferred income taxes	13	(7)
Share-based compensation expense	29	21
Changes in accounts receivable	2	(17)
Changes in inventories	1	59
Changes in prepaid expenses, other current assets and VAT assets	19	24
Changes in accounts payable and other current liabilities	54	(51)
Changes in income taxes payable	25	6
Changes in non-current operating lease liabilities	(193)	(198)
Other, net	(36)	(3)
Net Cash Provided by Operating Activities	924	609
Cash Flows — Investing Activities		
Capital spending	(332)	(347)
Purchases of short-term investments, long-term bank deposits and notes	(2,172)	(2,145)
Maturities of short-term investments, long-term bank deposits and notes	1,904	2,461
Acquisition of business, net of cash acquired	—	(23)
Other, net	2	2
Net Cash Used in Investing Activities	(598)	(52)
Cash Flows — Financing Activities		
Repurchase of shares of common stock	(122)	(400)
Cash dividends paid on common stock	(108)	(101)
Dividends paid to noncontrolling interests	(28)	(23)
Contributions from noncontrolling interests	35	18
Payment of acquisition related holdback	(3)	(6)
Other, net	(4)	(1)
Net Cash Used in Financing Activities	(230)	(513)
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	(37)	(33)
Net Increase in Cash, Cash Equivalents and Restricted Cash	59	11
Cash, Cash Equivalents, and Restricted Cash — Beginning of Period	1,130	1,136
Cash, Cash Equivalents, and Restricted Cash — End of Period	$ 1,189	$ 1,147
Supplemental Cash Flow Data		
Cash paid for income tax	175	93
Non-cash Investing and Financing Activities		
Capital expenditures included in accounts payable and other current liabilities	153	141

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Balance Sheets

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

	6/30/2023 (Unaudited)	12/31/2022
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,189	$ 1,130
Short-term investments	1,762	2,022
Accounts receivable, net	59	64
Inventories, net	396	417
Prepaid expenses and other current assets	281	307
Total Current Assets	3,687	3,940
Property, plant and equipment, net	2,049	2,118
Operating lease right-of-use assets	2,066	2,219
Goodwill	1,891	1,988
Intangible assets, net	148	159
Long-term bank deposits and notes	1,179	680
Equity investments	323	361
Deferred income tax assets	72	113
Other assets	260	248
Total Assets	11,675	11,826
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	2,064	2,098
Income taxes payable	88	68
Total Current Liabilities	2,152	2,166
Non-current operating lease liabilities	1,773	1,906
Non-current finance lease liabilities	41	42
Deferred income tax liabilities	350	390
Other liabilities	142	162
Total Liabilities	4,458	4,666
Redeemable Noncontrolling Interest	12	12
Equity		
Common stock, $0.01 par value; 1,000 million shares authorized; 417 million shares and 419 million shares issued and outstanding at June 30, 2023 and December 31, 2022, respectively	4	4
Additional paid-in capital	4,396	4,390
Retained earnings	2,465	2,191
Accumulated other comprehensive loss	(316)	(103)
Total Yum China Holdings, Inc. Stockholders' Equity	6,549	6,482
Noncontrolling interests	656	666
Total Equity	7,205	7,148
Total Liabilities, Redeemable Noncontrolling Interest and Equity	$ 11,675	$ 11,826

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Equity (Unaudited)

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

	Yum China Holdings, Inc.									
	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Treasury Stock		Noncontrolling	Total	Redeemable Noncontrolling
	Shares*	Amount	Capital	Earnings	(Loss) Income	Shares	Amount	Interests	Equity	Interest
Balance at December 31, 2022	419	$ 4	$ 4,390	$ 2,191	$ (103)	—	$ —	$ 666	$ 7,148	$ 12
Net Income				486				41	527	—
Foreign currency translation adjustments					(213)			(32)	(245)	—
Comprehensive income									282	—
Cash dividends declared ($0.26 per common share)				(108)					(108)	
Distributions to/contributions from noncontrolling interests								(19)	(19)	
Repurchase and retirement of shares	(2)	—	(21)	(104)		—	—		(125)	
Exercise and vesting of share-based awards	1	—	(2)						(2)	
Share-based compensation			29					—	29	
Balance at June 30, 2023	417	$ 4	$ 4,396	$ 2,465	$ (316)	—	$ —	$ 656	$ 7,205	$ 12
Balance at December 31, 2021	449	$ 4	$ 4,695	$ 2,892	$ 268	(21)	$ (803)	$ 852	$ 7,908	$ 14
Net Income				183				10	193	—
Foreign currency translation adjustments					(228)			(39)	(267)	—
Comprehensive loss									(74)	—
Cash dividends declared ($0.24 per common share)				(101)					(101)	
Distributions to/contributions from noncontrolling interests								(63)	(63)	
Repurchase and retirement of shares	(30)	—	(312)	(891)		21	803		(400)	
Exercise and vesting of share-based awards	1	—	(2)						(2)	
Share-based compensation			21						21	
Acquisition of noncontrolling interest									—	(1)
Balance at June 30, 2022	420	$ 4	$ 4,402	$ 2,083	$ 40	—	$ —	$ 760	$ 7,289	$ 13

*: Shares may not add due to rounding.

See accompanying Notes to Condensed Consolidated Financial Statements.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

Note 1 — Description of Business

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

The Company owns, franchises or has ownership in entities that own and operate restaurants (also referred to as "stores" or "units") under the KFC, Pizza Hut, Taco Bell, Lavazza, Little Sheep and Huang Ji Huang concepts (collectively, the "concepts"). In connection with the separation of the Company in 2016 from its former parent company, Yum! Brands, Inc. ("YUM"), a master license agreement was entered into between Yum Restaurants Consulting (Shanghai) Company Limited ("YCCL"), a wholly-owned indirect subsidiary of the Company and YUM, through YRI China Franchising LLC, a subsidiary of YUM, effective from January 1, 2020 and previously through Yum! Restaurants Asia Pte. Ltd., another subsidiary of YUM, from October 31, 2016 to December 31, 2019, for the exclusive right to use and sublicense the use of intellectual property owned by YUM and its subsidiaries for the development and operation of the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones amended in April 2022, Taco Bell brands and their related marks and other intellectual property rights for restaurant services in the People's Republic of China (the "PRC" or "China"), excluding Hong Kong, Macau and Taiwan. The term of the license is 50 years from October 31, 2016 for the KFC and Pizza Hut brands and, subject to achieving certain agreed-upon milestones, 50 years from April 15, 2022 for the Taco Bell brand, with automatic renewals for additional consecutive renewal terms of 50 years each, subject only to us being in "good standing" and unless we give notice of our intent not to renew. In exchange, we pay a license fee to YUM equal to 3% of net system sales from both our Company and franchise restaurants. We own the intellectual property of Little Sheep and Huang Ji Huang and pay no license fee related to these concepts.

In 1987, KFC was the first major global restaurant brand to enter China. As of June 30, 2023, there were over 9,500 KFC stores in China. We maintain a controlling interest of 58%, 70%, 83%, 92% and approximately 60% in the entities that own and operate the KFCs in and around Shanghai, Beijing, Wuxi, Suzhou and Hangzhou, respectively.

The first Pizza Hut in China opened in 1990. As of June 30, 2023, there were over 3,000 Pizza Hut restaurants in China.

In the second quarter of 2020, the Company partnered with Luigi Lavazza S.p.A. ("Lavazza Group"), the world renowned family-owned Italian coffee company, and entered into a joint venture to explore and develop the Lavazza coffee concept in China. In September 2021, the Company and Lavazza Group entered into agreements for the previously formed joint venture ("Lavazza joint venture") to accelerate the expansion of Lavazza coffee shops in China. Upon execution of these agreements, the Company controls and consolidates the joint venture with its 65% equity interest. The acquisition was considered immaterial.

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

As part of our strategy to drive growth from off-premise occasions, we also developed our own retail brand operations, Shaofaner, which sells packaged foods through online and offline channels. The operating results of Shaofaner are included in our e-commerce business operating segment.

The Company has two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of Taco Bell, Lavazza, Little Sheep, Huang Ji Huang, our delivery operating segment and our e-commerce business, are combined and referred to as All Other Segments, as those operating segments are insignificant both individually and in the aggregate. For 2022, All Other Segments also included COFFii & JOY and East Dawning. The Company decided to wind down the operations of the East Dawning brand in 2021, and closed all stores by March 2022. In addition, the Company decided to wind down the operations of COFFii & JOY and closed all stores in 2022. Additional details on our segment reporting are included in Note 14.

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

Note 2 — Basis of Presentation

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

We have prepared the Condensed Consolidated Financial Statements in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") and disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The Condensed Consolidated Financial Statements include all normal and recurring adjustments considered necessary to present fairly our financial position as of June 30, 2023, and our results of operations, comprehensive income, cash flows and statements of equity for the years to date ended June 30, 2023 and 2022. Our results of operations, comprehensive income and cash flows for these interim periods are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2022 Annual Report on Form 10-K as filed with the SEC and the Company's 2022 Hong Kong Annual Report as filed with the HKEX.

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

Certain comparative items in the Condensed Consolidated Financial Statements have been reclassified to conform to the current period's presentation to facilitate comparison.

Recently Adopted Accounting Pronouncements

In October 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2021-08 *Business Combinations (Topic 805) — Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* ("ASU 2021-08"). It requires issuers to apply ASC 606 *Revenue from Contracts with Customers* to recognize and measure contract assets and contract liabilities from contracts with customers acquired in a business combination. We adopted this standard on January 1, 2023, and such adoption did not have a material impact on our financial statements.

In March 2022, the FASB issued ASU 2022-01 *Fair Value Hedging — Portfolio Layer Method* ("ASU 2022-01"), which allows entities to expand their use of the portfolio layer method for fair value hedges of interest rate risk. Under the guidance, entities can hedge all financial assets under the portfolio layer method and designate multiple hedged layers within a single closed portfolio. The guidance also clarifies the accounting for fair value hedge basis adjustments in portfolio layer hedges and how these adjustments should be disclosed. We adopted this standard on January 1, 2023, and such adoption did not have a material impact on our financial statements.

In March 2022, the FASB issued ASU 2022-02 *Financial Instrument — Credit Losses* ("ASU 2022-02"), amending ASC 310 to eliminate the recognition and measurement guidance for a troubled debt restructuring for creditors that have adopted ASC 326 and requiring them to make enhanced disclosures about loan modifications for borrowers experiencing financial difficulty. The guidance also requires entities to present gross write-offs by year of origination in their vintage disclosures. We adopted this standard on January 1, 2023, and such adoption did not have a material impact on our financial statements.

In June 2022, the FASB issued ASU 2022-03 *Fair Value Measurement — Fair Value Measurement of Equity Securities Subject to Contractual Sale Restriction* ("ASU 2022-03"), clarifying that a contractual restriction on sales of an equity security is not considered part of the unit of account of the equity security, and therefore, is not considered when measuring fair value. The guidance also clarifies that a contractual sales restriction should not be recognized as a separate unit of account. We adopted this standard on January 1, 2023, and such adoption did not have a material impact on our financial statements.

In September 2022, the FASB issued ASU 2022-04 *Liabilities — Disclosure of Supplier Finance Program Obligations* ("ASU 2022-04"), requiring entities that use supplier finance programs in connection with the purchase of goods and services to disclose the key terms of the programs and information about their obligations outstanding at the end of the reporting period. We adopted this standard on January 1, 2023, and such adoption did not have a material impact on our financial statements.

Note 3 — Business Acquisitions and Equity Investments

Consolidation of Hangzhou KFC and Equity Investment in Hangzhou Catering

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

As a result of the acquisition of Hangzhou KFC, $66 million of the purchase price was allocated to the reacquired franchise right, which is amortized over the remaining franchise contract period of 1 year.

In addition to its equity interest in Hangzhou KFC, Hangzhou Catering operates approximately 60 Chinese dining restaurants under four time-honored brands and a food processing business. The Company applies the equity method of accounting to the 28% equity interest in Hangzhou Catering excluding the Hangzhou KFC business and classified this investment in Equity investments based on its then fair value. The Company elected to report its share of Hangzhou Catering's financial results with a one-quarter lag because its results are not available in time for the Company to record them in the concurrent period. The Company's equity losses from Hangzhou Catering, net of taxes, were immaterial for both the years to date ended June 30, 2023 and 2022, and included in Equity in net earnings (losses) from equity method investments in our Condensed Consolidated Statement of Income. As of June 30, 2023 and December 31, 2022, the carrying amount of the Company's equity method investment in Hangzhou Catering was $39 million and $37 million, respectively, exceeding the Company's interest in Hangzhou Catering's underlying net assets by $24 million and $26 million, respectively. Substantially all of this difference was attributable to its self-owned properties and impact of related deferred tax liabilities determined upon acquisition, which is being depreciated over a weighted-average remaining useful life of 20 years.

Consolidation of Suzhou KFC

In the third quarter of 2020, the Company completed the acquisition of an additional 25% equity interest in Suzhou KFC for cash consideration of $149 million, increasing its equity interest to 72%, and thus the Company obtained control over Suzhou KFC and started to consolidate its results from the acquisition date.

As a result of the acquisition of Suzhou KFC, $61 million of the purchase price was allocated to the reacquired franchise right, which is amortized over the remaining franchise contract period of 2.4 years.

In December 2022, the Company acquired an additional 20% equity interest in Suzhou KFC for cash consideration of $115 million, bringing its total ownership to 92%. As the Company has previously obtained control of Suzhou KFC, this transaction was accounted for as an equity transaction. Upon completion of the transaction, the excess of purchase consideration over the carrying amount of the non-controlling interests was $15 million, which was recorded in Additional paid-in capital.

As a result of the acquisitions of all former unconsolidated affiliates that operate our concepts by December 2021, the Company consolidated their results since their respective acquisition dates, and therefore we no longer have franchise fees and expenses and revenues and expenses from transactions with unconsolidated affiliates for the years to date ended June 30, 2023 and 2022.

Fujian Sunner Development Co., Ltd. ("Sunner") Investment

In the first quarter of 2021, the Company acquired a 5% equity interest in Sunner, a Shenzhen Stock Exchange-listed company, for a total consideration of approximately $261 million. Sunner is China's largest white-feathered chicken producer and the Company's largest poultry supplier. The Company then accounted for the equity securities at fair value based on their closing market price on each measurement date.

In May 2021, a senior executive of the Company was nominated and appointed to Sunner's board of directors upon Sunner's shareholder approval. Through this representation, the Company participates in Sunner's policy making process. The representation on the board, along with the Company being one of Sunner's significant shareholders, provides the Company with the ability to exercise significant influence over the operating and financial policies of Sunner. As a result, the Company started to apply the equity method of accounting to the investment in May 2021 based on its then fair value. The Company elected to report its share of Sunner's financial results with a one-quarter lag because Sunner's results are not available in time for the Company to record them in the concurrent period. In the years to date ended June 30, 2023 and 2022, the Company's equity income from Sunner, net of taxes, was immaterial, which was included in Equity in net earnings (losses) from equity method investments in our Condensed Consolidated Statement of Income.

The Company purchased inventories of $256 million and $191 million for the years to date ended June 30, 2023 and 2022, respectively. The Company's accounts payable and other current liabilities due to Sunner were $60 million and $53 million as of June 30, 2023 and December 31, 2022, respectively.

As of June 30, 2023 and December 31, 2022, the Company's investment in Sunner was classified in Equity investments and the carrying amounts were $216 million and $227 million, respectively, exceeding the Company's interest in Sunner's underlying net assets by $149 million and $157 million, respectively. As of June 30, 2023 and December 31, 2022, $16 million and $18 million of these basis differences were related to finite-lived intangible assets determined upon acquisition, respectively, which are being amortized over the estimated useful life of 20 years. The remaining differences were related to goodwill and indefinite-lived intangible assets, which are not subject to amortization, as well as deferred tax liabilities impact. As of June 30, 2023 and December 31, 2022, the market value of the Company's investment in Sunner was $164 million and $214 million based on its quoted closing price, respectively.

Meituan Dianping ("Meituan") Investment

In the third quarter of 2018, the Company subscribed for 8.4 million, or less than 1%, of the ordinary shares of Meituan, an e-commerce platform for services in China, for a total consideration of approximately $74 million, when it launched its initial public offering on the HKEX in September 2018. In the second quarter of 2020, the Company sold 4.2 million of the ordinary shares of Meituan.

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

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

	Year to Date Ended	
	6/30/2023	6/30/2022
Unrealized losses recorded on equity securities still held as of the end of the period	$ (29)	$ (18)

Note 4 — Revenue Recognition

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

Company Sales

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

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

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

Franchise Fees and Income

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

Revenues from Transactions with Franchisees

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

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

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

Other Revenues

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

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

Loyalty Programs

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

Disaggregation of Revenue

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

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

	Year to Date Ended 6/30/2022						
Revenues	**KFC**	**Pizza Hut**	**All Other Segments**	**Corporate and Unallocated**	**Combined**	**Elimination**	**Consolidated**
Company sales	$ 3,562	$ 985	$ 27	$ —	$ 4,574	$ —	$ 4,574
Franchise fees and income	29	4	10	—	43	—	43
Revenues from transactions with franchisees	15	2	18	104	139	—	139
Other revenues	5	4	250	19	278	(238)	40
Total revenues	$ 3,611	$ 995	$ 305	$ 123	$ 5,034	$ (238)	$ 4,796

Accounts Receivable

Accounts receivable primarily consist of trade receivables and royalties from franchisees, and are generally due within 30 days of the period in which the corresponding sales occur. Our provision of credit losses for accounts receivable is based upon the current expected credit losses ("CECL") model. The CECL model requires an estimate of the credit losses expected over the life of accounts receivable since initial recognition, and accounts receivable with similar risk characteristics are grouped together when estimating CECL. In assessing the CECL, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical credit loss experience, adjusted for relevant factors impacting collectability and forward-looking information indicative of external market conditions. While we use the best information available in making our determination, the ultimate recovery of recorded receivables is also dependent upon future economic events and other conditions that may be beyond our control. Accounts receivable that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts. As of June 30, 2023 and December 31, 2022, the ending balances of provision for accounts receivable were both $2 million, and amounts of accounts receivable past due were immaterial.

Costs to Obtain Contracts

Costs to obtain contracts consist of upfront franchise fees that we paid to YUM prior to the separation in relation to initial fees or renewal fees we received from franchisees, as well as license fees that are payable to YUM in relation to our deferred revenue of prepaid stored-value products, privilege membership programs and customer loyalty programs. They meet the requirements to be capitalized as they are incremental costs of obtaining contracts with customers and the Company expects to generate future economic benefits from such costs incurred. Such costs to obtain contracts are included in Other assets on the Condensed Consolidated Balance Sheets and are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. Subsequent to the separation, we are no longer required to pay YUM initial or renewal fees that we receive from franchisees. 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 both $6 million at June 30, 2023 and December 31, 2022, respectively.

Contract Liabilities

Contract liabilities at June 30, 2023 and December 31, 2022 were as follows:

	6/30/2023	12/31/2022
Contract liabilities		
— Deferred revenue related to prepaid stored-value products	$ 133	$ 139
— Deferred revenue related to upfront franchise fees	32	32
— Deferred revenue related to customer loyalty programs	22	23
— Deferred revenue related to privilege membership programs	19	16
Total	$ 206	$ 210

Contract liabilities primarily consist of deferred revenue related to prepaid stored-value products, privilege membership programs, customer loyalty programs and upfront franchise fees. Deferred revenue related to prepaid stored-value products, privilege membership programs and customer loyalty programs is included in Accounts payable and other current liabilities in the Condensed Consolidated Balance Sheets. Deferred revenue related to upfront franchise fees that we expect to recognize as revenue in the next 12 months is included in Accounts payable and other current liabilities, and the remaining balance is included in Other liabilities in the Condensed Consolidated Balance Sheets. Revenue recognized that was included in the contract liability balance at the beginning of each period amounted to $81 million and $86 million for the years to date ended June 30, 2023 and 2022, respectively. Changes in contract liability balances were not materially impacted by business acquisition, change in estimate of transaction price or any other factors during any of the periods presented.

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

Note 5 — Earnings Per Common Share ("EPS")

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

	Year to Date Ended	
	6/30/2023	6/30/2022
Net Income — Yum China Holdings, Inc.	$ 486	$ 183
Weighted-average common shares outstanding (for basic calculation)[(a)]	418	423
Effect of dilutive share-based awards[(a)]	5	4
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)[(a)]	423	427
Basic Earnings Per Common Share	$ 1.16	$ 0.43
Diluted Earnings Per Common Share	$ 1.15	$ 0.43
Share-based awards excluded from the diluted EPS computation[(b)]	2	4

(a) As a result of the separation, shares of Yum China common stock were distributed to YUM's shareholders of record as of October 19, 2016 and were included in the calculated weighted-average common shares outstanding. Holders of outstanding YUM equity awards generally received both adjusted YUM awards and Yum China awards, or adjusted awards of either YUM or Yum China in their entirety. Any subsequent exercise of these awards, whether held by the Company's employees or YUM's employees, would increase the number of common shares outstanding. The incremental shares arising from outstanding equity awards are included in the computation of diluted EPS, if there is dilutive effect.

(b) These outstanding stock appreciation rights ("SARs"), restricted stock units ("RSUs") and performance stock units ("PSUs") were excluded from the computation of diluted EPS because to do so would have been antidilutive for the periods presented, or because certain PSUs are contingently issuable based on the achievement of performance and market conditions, which have not been met as of June 30, 2023 and 2022.

Note 6 — Equity

Share Repurchase and Retirement

Our Board of Directors has authorized an aggregate of $2.4 billion for our share repurchase program. During the years to date ended June 30, 2023 and 2022, the Company repurchased 2.1 million shares of common stock for $124 million and 9.0 million shares of common stock for $400 million, respectively, under the repurchase program. The total repurchase cost included $2 million settled subsequent to June 30, 2023, for shares repurchased with trade dates on and prior to June 30, 2023. As of June 30, 2023, approximately $1.0 billion remained available for future share repurchases under the authorization.

The Inflation Reduction Act of 2022 ("IRA"), which is discussed further in Note 13, imposes an excise tax of 1% on net share repurchases that occur after December 31, 2022. Estimated excise tax on net share repurchases was recognized as part of the cost of the shares repurchased, which amounted to $1 million for the year to date ended June 30, 2023.

Note 7 — Items Affecting Comparability of Net Income

Impact of COVID-19 Pandemic

Starting in the first quarter of 2020, the COVID-19 pandemic significantly impacted the Company's operations and caused significant volatility in our operations. During the year to date ended June 30, 2023, sales rebounded significantly year-over-year. The Company's strong sales growth was driven by our continued tremendous efforts in seizing opportunities as the country pivoted from strict COVID-19 measures. Margins also improved substantially, primarily benefiting from sales leveraging and ongoing benefits of cost structure rebasing efforts, which contributed to the year-over-year operating profit growth. Operating profit was $673 million and $272 million for the years to date ended June 30, 2023 and 2022, respectively.

Fair Value Changes for Investment in Equity Securities

In September 2018, we invested in the equity securities of Meituan, the fair value of which is determined based on the closing market price for the shares at the end of each reporting period, with subsequent fair value changes recorded as Investment loss in our Condensed Consolidated Statements of Income. We recorded related pre-tax unrealized investment loss of $29 million and $18 million for the years to date ended June 30, 2023 and 2022, respectively.

See Note 3 for additional information on our investment in Meituan.

Note 8 — Other Expenses, net

	Year to Date Ended	
	6/30/2023	6/30/2022
Amortization of reacquired franchise rights[a]	$ 2	$ 50
Foreign exchange impact and others	(1)	(1)
Other expenses, net	$ 1	$ 49

(a) As a result of the acquisition of Hangzhou KFC, Suzhou KFC and Wuxi KFC, $66 million, $61 million and $61 million of the purchase price were allocated to intangible assets related to reacquired franchise rights, respectively, which are being amortized over the remaining franchise contract period of 1 year, 2.4 years and 5 years. The above reacquired franchise rights were substantially amortized as of December 31, 2022 and resulted in the decrease of amortization expenses in the year to date ended June 30, 2023.

Note 9 — Supplemental Balance Sheet Information

Accounts Receivable, net	6/30/2023	12/31/2022
Accounts receivable, gross	$ 61	$ 66
Allowance for doubtful accounts	(2)	(2)
Accounts receivable, net	$ 59	$ 64

The Company generally allows a credit period within 30 days of the period in which the corresponding sales occur to its customers. An aging analysis of accounts receivable as of June 30, 2023 and December 31, 2022, based on the date of delivering goods and services, is as follows:

	6/30/2023	12/31/2022
Within 30 days	$ 53	$ 56
31–90 days	6	7
Over 91 days	2	3
Total	$ 61	$ 66

Prepaid Expenses and Other Current Assets	6/30/2023	12/31/2022
VAT assets	$ 75	$ 88
Receivables from payment processors and aggregators	44	53
Interest receivables	38	31
Deposits, primarily lease deposits	24	24
Dividends receivable from equity method investees	8	6
Other prepaid expenses and current assets	92	105
Prepaid expenses and other current assets	$ 281	$ 307

Property, Plant and Equipment ("PP&E")	6/30/2023	12/31/2022
Buildings and improvements, and construction in progress	$ 2,837	$ 2,912
Finance leases, primarily buildings	62	62
Machinery and equipment	1,594	1,612
PP&E, gross	4,493	4,586
Accumulated depreciation	(2,444)	(2,468)
PP&E, net	$ 2,049	$ 2,118

Equity Investments	6/30/2023	12/31/2022
Investment in equity method investees	$ 257	$ 266
Investment in equity securities	66	95
Equity investments	$ 323	$ 361

Other Assets	6/30/2023	12/31/2022
Land use right	$ 115	$ 123
Long-term deposits, primarily lease deposits	86	90
Prepayment for acquisition of PP&E[(a)]	30	6
Costs to obtain contracts	6	6
VAT assets	5	5
Others	18	18
Other assets	$ 260	$ 248

(a) The increase was primarily due to a prepayment made in relation to the acquisition of a building located in Shanghai to house the Company's headquarters and flagship stores, which is currently expected to be delivered to the Company around 2026.

Accounts Payable and Other Current Liabilities	6/30/2023	12/31/2022
Accounts payable	$ 740	$ 727
Operating lease liabilities	404	448
Accrued compensation and benefits	290	285
Contract liabilities	179	182
Accrued capital expenditures	153	181
Dividends payable	88	51
Accrued marketing expenses	85	72
Other current liabilities	125	152
Accounts payable and other current liabilities	$ 2,064	$ 2,098

An aging analysis of the accounts payable as of June 30, 2023 and December 31, 2022 is as follows:

	6/30/2023	12/31/2022
Within 60 days	$ 736	$ 722
Over 60 days	4	5
Total	$ 740	$ 727

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

Other Liabilities	6/30/2023	12/31/2022
Accrued income tax payable	$ 35	$ 52
Contract liabilities	27	28
Other non-current liabilities	80	82
Other liabilities	$ 142	$ 162

Note 10 — 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, 2022				
Goodwill, gross	$ 2,379	$ 1,893	$ 19	$ 467
Accumulated impairment losses[a]	(391)	—	—	(391)
Goodwill, net	1,988	1,893	19	76
Effect of currency translation adjustments	(97)	(92)	(1)	(4)
Balance as of June 30, 2023				
Goodwill, gross	2,282	1,801	18	463
Accumulated impairment losses[a]	(391)	—	—	(391)
Goodwill, net	$ 1,891	$ 1,801	$ 18	$ 72

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

Intangible assets, net as of June 30, 2023 and December 31, 2022 are as follows:

	6/30/2023				12/31/2022			
	Gross Carrying Amount[a]	Accumulated Amortization[a]	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	$ 263	$ (259)	$ —	$ 4	$ 276	$ (271)	$ —	$ 5
Huang Ji Huang franchise related assets	21	(4)	—	17	22	(3)	—	19
Daojia platform	16	(4)	(12)	—	16	(4)	(12)	—
Customer-related assets	12	(10)	(2)	—	12	(9)	(2)	1
Others	8	(5)	—	3	9	(5)	—	4
	$ 320	$ (282)	$ (14)	$ 24	$ 335	$ (292)	$ (14)	$ 29
Indefinite-lived intangible assets								
Little Sheep trademark	$ 50	$ —	$ —	$ 50	$ 52	$ —	$ —	$ 52
Huang Ji Huang trademark	74	—	—	74	78	—	—	78
	$ 124	$ —	$ —	$ 124	$ 130	$ —	$ —	$ 130
Total intangible assets	$ 444	$ (282)	$ (14)	$ 148	$ 465	$ (292)	$ (14)	$ 159

(a) Changes in gross carrying amount and accumulated amortization include the effect of currency translation adjustments.

(b) Accumulated impairment losses represent impairment charges on intangible assets acquired from Daojia primarily attributable to the Daojia platform.

Amortization expense for finite-lived intangible assets was $3 million and $52 million for the years to date ended June 30, 2023 and 2022, respectively. The decrease in amortized expense for finite-lived intangible assets in 2023 was primarily due to certain reacquired franchise rights being substantially amortized as of December 31, 2022 (See Note 8 for details). As of June 30, 2023, expected amortization expense for the unamortized finite-lived intangible assets is approximately $1 million for the remainder of 2023, and $2 million in each of 2024, 2025, 2026 and 2027.

Note 11 — Leases

As of June 30, 2023, we leased over 11,000 properties in China for our Company-owned restaurants. We generally enter into lease agreements for our restaurants with initial terms of 10 to 20 years. Most of our lease agreements contain termination options that permit us to terminate the lease agreement early if the restaurant's unit contribution is negative for a specified period of time. We generally do not have renewal options for our leases. Such options are accounted for only when it is reasonably certain that we will exercise the options. The rent under the majority of our current restaurant lease agreements is generally payable in one of three ways: (i) fixed rent; (ii) the higher of a fixed base rent or a percentage of the restaurant's sales; or (iii) a percentage of the restaurant's sales. Most leases require us to pay common area maintenance fees for the leased property. In addition to restaurants leases, we also lease office spaces, logistics centers and equipment. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In limited cases, we sub-lease certain restaurants to franchisees in connection with refranchising transactions or lease our properties to other third parties. The lease payments under these leases are generally based on the higher of a fixed base rent or a percentage of the restaurant's annual sales. Income from sub-lease agreements with franchisees or lease agreements with other third parties are included in Franchise fees and income and Other revenues, respectively, within our Condensed Consolidated Statements of Income.

Supplemental Balance Sheet	6/30/2023	12/31/2022	Account Classification
Assets			
Operating lease right-of-use assets	$ 2,066	$ 2,219	Operating lease right-of-use assets
Finance lease right-of-use assets	38	38	PP&E, net
Total leased assets[(a)]	$ 2,104	$ 2,257	
Liabilities			
Current			
Operating lease liabilities	$ 404	$ 448	Accounts payable and other current liabilities
Finance lease liabilities	5	5	Accounts payable and other current liabilities
Non-current			
Operating lease liabilities	1,773	1,906	Non-current operating lease liabilities
Finance lease liabilities	41	42	Non-current finance lease liabilities
Total lease liabilities[(a)]	$ 2,223	$ 2,401	

	Year to Date Ended		
Summary of Lease Cost	**6/30/2023**	**6/30/2022**	**Account Classification**
Operating lease cost	$ 261	$ 300	Occupancy and other operating expenses, G&A or Franchise expenses
Finance lease cost			
Amortization of leased assets	2	2	Occupancy and other operating expenses
Interest on lease liabilities	1	1	Interest income, net
Variable lease cost[(b)]	201	159	Occupancy and other operating expenses or Franchise expenses
Short-term lease cost	8	7	Occupancy and other operating expenses or G&A
Sub-lease income	(11)	(13)	Franchise fees and income or Other revenues
Total lease cost	$ 462	$ 456	

(a) As of June 30, 2023, the decrease of right-of-use ("ROU") assets was primarily due to amortization, a higher portion of our new leases with variable lease payments and the impact of foreign currency translation. The decrease of lease liabilities was consistent with the decrease of ROU assets.

(b) The Company was granted $10 million and $14 million in lease concessions from landlords related to the effects of the COVID-19 pandemic during the years to date ended June 30, 2023 and 2022, respectively. The lease concessions were primarily in the form of rent reduction over the period of time when the Company's restaurant business was adversely impacted. The Company applied the interpretive guidance in a FASB staff question-and-answer document issued in April 2020 and elected: (1) not to evaluate whether a concession received in response to the COVID-19 pandemic is a lease modification and (2) to assume such concession was contemplated as part of the existing lease contract with no contract modification. Such concession was recognized as negative variable lease cost in the period the concession was granted.

	Year to Date Ended	
Supplemental Cash Flow Information	**6/30/2023**	**6/30/2022**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 275	$ 278
Operating cash flows from finance leases	1	1
Financing cash flows from finance leases	2	2
Right-of-use assets obtained in exchange for lease liabilities[c]:		
Operating leases	$ 153	$ 23
Finance leases	3	3

(c) This supplemental non-cash disclosure for ROU assets obtained in exchange for lease liabilities includes an increase in lease liabilities associated with obtaining new ROU assets of $171 million and $123 million for the years to date ended June 30, 2023 and 2022, respectively, as well as adjustments to lease liabilities or ROU assets due to modification or other reassessment events, which resulted in a $15 million and $97 million decrease in lease liabilities for the years to date ended June 30, 2023 and 2022, respectively.

Lease Term and Discount Rate	**6/30/2023**	**6/30/2022**
Weighted-average remaining lease term (years)		
Operating leases	7.1	7.1
Finance leases	11.2	11.4
Weighted-average discount rate		
Operating leases	5.0%	5.3%
Finance leases	5.1%	5.3%

Summary of Future Lease Payments and Lease Liabilities

Maturities of lease liabilities as of June 30, 2023 were as follows:

	Amount of Operating Leases	Amount of Finance Leases	Total
Remainder of 2023	$ 270	$ 3	$ 273
2024	447	6	453
2025	390	6	396
2026	343	6	349
2027	289	5	294
Thereafter	857	34	891
Total undiscounted lease payment	2,596	60	2,656
Less: imputed interest[d]	419	14	433
Present value of lease liabilities	$ 2,177	$ 46	$ 2,223

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

As of June 30, 2023, we have additional lease agreements that have been signed but not yet commenced, with total undiscounted minimum lease payments of $132 million. These leases will commence between the third quarter of 2023 and 2026 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 bank deposits and notes, accounts receivable, accounts payable, and lease liabilities, and the carrying values of these assets and liabilities approximate their fair value in general.

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

The following table is a summary of our financial assets measured on a recurring basis or disclosed at fair value and the level within the fair value hierarchy in which the measurement falls. The Company classifies its cash equivalents, short-term investments, long-term bank deposits and notes, and investment in equity securities within Level 1 or

Level 2 in the fair value hierarchy because it uses quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value, respectively. No transfers among the levels within the fair value hierarchy occurred during the years to date ended June 30, 2023 and 2022.

	Balance at June 30, 2023	Fair Value Measurement or Disclosure at June 30, 2023		
		Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	$ 381		$ 381	
Fixed income debt securities[a]	50		50	
Money market funds	10	10		
Total cash equivalents	441	10	431	—
Short-term investments:				
Time deposits[b]	1,155		1,155	
Fixed income debt securities[a]	420		420	
Structured deposits	180		180	
Variable return investments	7	7		
Total short-term investments	1,762	7	1,755	—
Long-term bank deposits and notes:				
Time deposits[b]	875		875	
Fixed income bank notes[a]	304		304	
Total long-term bank deposits and notes	1,179	—	1,179	—
Equity investments:				
Investment in equity securities	66	66		
Total	$ 3,448	$ 83	$ 3,365	$ —

	Balance at December 31, 2022	Fair Value Measurement or Disclosure at December 31, 2022		
		Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	$ 355		$ 355	
Fixed income debt securities[a]	129	29	100	
Money market funds	59	59		
Total cash equivalents	543	88	455	—
Short-term investments:				
Time deposits	1,434		1,434	
Fixed income debt securities[a]	500		500	
Structured deposits	88		88	
Total short-term investments	2,022	—	2,022	—
Long-term bank deposits and notes:				
Time deposits[b]	680		680	
Equity investments:				
Investment in equity securities	95	95		
Total	$ 3,340	$ 183	$ 3,157	$ —

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

(b) The Company is required to place bank deposits or purchase insurance to secure the balance of prepaid stored-value cards issued by the Company pursuant to regulatory requirements. $21 million of time deposits in Short-term investments and $27 million of time deposits in Long-term bank deposits and notes were restricted for use as of June 30, 2023, and $81 million of time deposits in Long-term bank deposits and notes was restricted for use as of December 31, 2022. The decrease was primarily due to insurance purchased by the Company to secure a portion of prepaid stored-value cards.

Non-Recurring Fair Value Measurements

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

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

As of each relevant measurement date, the fair value of restaurant-level assets, if determined to be impaired, are primarily represented by the price market participant would pay to sub-lease the operating lease ROU assets and acquire the 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 a sub-lease of each of the properties in its existing state with vacant possession. By making reference to lease transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for any difference in factors such as location and property size.

The following table presents amounts recognized from all non-recurring fair value measurements based on unobservable inputs (Level 3) during the years to date ended June 30, 2023 and 2022. These amounts exclude fair value measurements made for restaurants that were subsequently closed or refranchised prior to those respective period-end dates.

	Year to Date Ended		
	6/30/2023	6/30/2022	Account Classification
Restaurant-level impairment[(a)]	$ 14	$ 15	Closure and impairment expenses, net

(a) Restaurant-level impairment charges are recorded in Closures and impairment expenses, net and resulted mainly from our semi-annual impairment evaluation of long-lived assets of individual restaurants that were being operated at the time of impairment and had not been offered for refranchising. After considering the impairment charges recorded during the corresponding periods, the fair value of such assets as of June 30, 2023 and 2022 was $55 million and $67 million, respectively.

Note 13 — Income Taxes

	Year to Date Ended	
	6/30/2023	6/30/2022
Income tax provision	$ 196	$ 86
Effective tax rate	27.0%	30.4%

The lower effective tax rate for the year to date ended June 30, 2023 was primarily due to a reduction in valuation allowance for improved performance at certain subsidiaries and the impact of higher pre-tax income.

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

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

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

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

Note 14 — Segment Reporting

We have two reportable segments: KFC and Pizza Hut. Our remaining non-reportable operating segments, including the operations of Taco Bell, Lavazza, Little Sheep, Huang Ji Huang, our delivery operating segment and our e-commerce business, and for 2022, also including COFFii & JOY and East Dawning, are combined and referred to as All Other Segments, as these operating segments are insignificant both individually and in aggregate.

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

	Year to Date Ended 6/30/2022						
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated[a]	Combined	Elimination	Consolidated
Revenues							
Revenue from external customers	$ 3,611	$ 995	$ 75	$ 115	$ 4,796	$ —	$ 4,796
Inter-segment revenue	—	—	230	8	238	(238)	—
Total	$ 3,611	$ 995	$ 305	$ 123	$ 5,034	$ (238)	$ 4,796

	Year to Date Ended	
	6/30/2023	6/30/2022
Operating Profit (Loss)		
KFC	$ 693	$ 342
Pizza Hut	90	41
All Other Segments	(13)	(30)
Unallocated revenues from transactions with franchisees[b]	123	104
Unallocated other revenues	20	19
Unallocated expenses for transactions with franchisees[b]	(122)	(105)
Unallocated other operating costs and expenses	(18)	(18)
Unallocated and corporate G&A expenses	(101)	(83)
Unallocated other income, net	1	2
Operating Profit	$ 673	$ 272
Interest income, net[a]	78	26
Investment loss[a]	(28)	(17)
Income Before Income Taxes and Equity in Net Earnings (Losses) from Equity Method Investments	$ 723	$ 281

	Year to Date Ended	
	6/30/2023	6/30/2022
Impairment Charges		
KFC[c]	$ 12	$ 19
Pizza Hut[c]	5	5
All Other Segments[c]	4	6
	$ 21	$ 30

	Total Assets	
	6/30/2023	12/31/2022
KFC	$ 5,002	$ 5,296
Pizza Hut	834	880
All Other Segments	356	381
Corporate and Unallocated[(d)]	5,483	5,269
	$ 11,675	$ 11,826

(a) Amounts have not been allocated to any segment for performance reporting purposes.

(b) Primarily includes revenues and associated expenses of transactions with franchisees derived from the Company's central procurement model whereby the Company centrally purchases substantially all food and paper products from suppliers then sells and delivers to KFC and Pizza Hut restaurants, including franchisees. Amounts have not been allocated to any segment for purposes of making operating decisions or assessing financial performance as the transactions are deemed corporate revenues and expenses in nature.

(c) Primarily includes store closure impairment charges and restaurant-level impairment charges resulting from our semi-annual impairment evaluation.

(d) Primarily includes cash and cash equivalents, short-term investments, long-term bank deposits and notes, equity investments, inventories that are centrally managed and PP&E that are not specifically identifiable within each segment.

As substantially all of the Company's revenue is derived from the PRC and substantially all of the Company's long-lived assets are located in the PRC, no geographical information is presented. In addition, revenue derived from and long-lived assets located in the U.S., the Company's country of domicile, are immaterial.

Note 15 — Contingencies

Indemnification of China Tax on Indirect Transfers of Assets

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

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

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

Guarantees for Franchisees

From time to time, we have guaranteed certain lines of credit and loans of franchisees. As of June 30, 2023, no guarantees were outstanding for franchisees.

Legal Proceedings

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

Note 16 — Subsequent Events

Cash Dividend

On July 31, 2023, the Company announced that the Board of Directors declared a cash dividend of $0.13 per share on Yum China's common stock, payable on September 18, 2023, to stockholders of record as of the close of business on August 28, 2023. Total estimated cash dividend payable is approximately $54 million.

Note 17 — Reconciliation between U.S. GAAP and International Financial Reporting Standards

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

(i) Reconciliation of Condensed Consolidated Statements of Income:

	For the year to date ended June 30, 2023						
		IFRS adjustments					
	Amounts as reported under U.S. GAAP	Lease[a]	Share-based compensation[b]	Deferred taxes on share-based compensation[c]	Long-lived assets impairment[d]	Direct Marketing Costs[f]	Amounts under IFRS
Revenues							
Franchise fees and income	$ 46	$ (2)					$ 44
Revenues from transactions with franchisees	182					(1)	181
Total revenues	5,571	(2)	–	–	–	(1)	5,568
Costs and Expenses, Net							
Company restaurants							
Occupancy and other operating expenses	1,366	(36)			(2)	(23)	1,305
Company restaurant expenses	4,322	(36)	–	–	(2)	(23)	4,261
General and administrative expenses	316	(2)	1				315
Franchise expenses	19	(2)					17
Expenses for transactions with franchisees	175					(1)	174
Closures and impairment expenses, net	17	1			1		19
Total costs and expenses, net	4,898	(39)	1	–	(1)	(24)	4,835
Operating Profit	673	37	(1)	–	1	23	733
Interest income (expense), net	78	(57)					21
Income Before Income Taxes and Equity in Net Earnings (Losses) from Equity Method Investments	723	(20)	(1)	–	1	23	726
Income tax provision	(196)	5		(3)	–	(5)	(199)
Net income — including noncontrolling interests	527	(15)	(1)	(3)	1	18	527
Net income — noncontrolling interests	41	(1)	–		–	–	40
Net Income — Yum China Holdings, Inc.	$ 486	$ (14)	$ (1)	$ (3)	$ 1	$ 18	$ 487

	For the year to date ended June 30, 2022						
		IFRS adjustments					
	Amounts as reported under U.S. GAAP	Lease[(a)]	Share-based compensation[(b)]	Deferred taxes on share-based compensation[(c)]	Long-lived assets impairment[(d)]	Direct Marketing Costs[(f)]	Amounts under IFRS
Revenues							
Franchise fees and income	$ 43	$ (3)					$ 40
Revenues from transactions with franchisees	139					(4)	135
Total revenues	4,796	(3)	–	–	–	(4)	4,789
Costs and Expenses, Net							
Company restaurants							
Occupancy and other operating expenses	1,343	(38)			(4)	(59)	1,242
Company restaurant expenses	3,978	(38)	–	–	(4)	(59)	3,877
General and administrative expenses	292	(2)	–				290
Franchise expenses	18	(3)					15
Expenses for transactions with franchisees	136				–	(4)	132
Closures and impairment expenses, net	16	3			(1)	–	18
Total costs and expenses, net	4,524	(40)	–		(5)	(63)	4,416
Operating Profit	272	37	–	–	5	59	373
Interest income (expense), net	26	(70)					(44)
Income Before Income Taxes and Equity in Net Earnings (Losses) from Equity Method Investments	281	(33)	–	–	5	59	312
Income tax provision	(86)	8		(1)	(1)	(15)	(95)
Net income – including noncontrolling interests	193	(25)	–	(1)	4	44	215
Net income – noncontrolling interests	10	–			–	–	10
Net Income – Yum China Holdings, Inc.	$ 183	$ (25)	$ –	$ (1)	$ 4	$ 44	$ 205

(ii) Reconciliation of Condensed Consolidated Balance Sheets

	As of June 30, 2023							
		IFRS adjustments						
	Amounts as reported under U.S. GAAP	Lease[a]	Share-based compensation[b]	Deferred taxes on share-based compensation[c]	Long-lived assets impairment[d]	Redeemable noncontrolling interest[e]	Direct Marketing Costs[f]	Amounts under IFRS
Current Assets								
Accounts receivable, net	$ 59	$ 5						$ 64
Total Current Assets	3,687	5	–	–	–	–	–	3,692
Property, plant and equipment, net	2,049	(9)			(10)			2,030
Operating lease right-of-use assets	2,066	(71)						1,995
Deferred income taxes	72			6	2			80
Other assets	260	10						270
Total Assets	**11,675**	**(65)**	**–**	**6**	**(8)**	**–**	**–**	**11,608**
Current Liabilities								
Accounts payable and other current liabilities	2,064	–					(23)	2,041
Total Current Liabilities	2,152	–	–	–	–	–	(23)	2,129
Non-current operating and finance lease liabilities	1,814	2						1,816
Deferred income tax liabilities	350	(16)					5	339
Other liabilities	142					12		154
Total Liabilities	4,458	(14)	–	–	–	12	(18)	4,438
Redeemable Noncontrolling Interest	12					(12)		–
Equity								
Additional paid-in capital	4,396		4	14	–			4,414
Retained earnings	2,465	(41)	(4)	(8)	(8)		18	2,422
Accumulated other comprehensive loss	(316)	2			1			(313)
Total Yum China Holdings, Inc. Stockholders' Equity	6,549	(39)	–	6	(7)	–	18	6,527
Noncontrolling interests	656	(12)			(1)			643
Total Equity	7,205	(51)	–	6	(8)	–	18	7,170
Total Liabilities, Redeemable Noncontrolling Interest and Equity	**$ 11,675**	**$ (65)**	**$ –**	**$ 6**	**$ (8)**	**$ –**	**$ –**	**$ 11,608**

	As of December 31, 2022						
		IFRS adjustments					
	Amounts as reported under U.S. GAAP	Lease[(a)]	Share-based compensation[(b)]	Deferred taxes on share-based compensation[(c)]	Long-lived assets impairment[(d)]	Redeemable noncontrolling interest[(e)]	Amounts under IFRS
Current Assets							
Accounts receivable, net	$ 64	$ 5					$ 69
Total Current Assets	3,940	5	–	–	–	–	3,945
Property, plant and equipment, net	2,118	(9)			(12)		2,097
Operating lease right-of-use assets	2,219	(54)					2,165
Deferred income taxes	113			6	3		122
Other assets	343	9					352
Total Assets	**11,826**	**(49)**	**–**	**6**	**(9)**	**–**	**11,774**
Current Liabilities							
Accounts payable and other current liabilities	2,098	1					2,099
Total Current Liabilities	2,166	1	–	–	–	–	2,167
Non-current operating and finance lease liabilities	1,948	2					1,950
Deferred income tax liabilities	390	(11)					379
Other liabilities	162					12	174
Total Liabilities	4,666	(8)	–	–	–	12	4,670
Redeemable Noncontrolling Interest	12					(12)	–
Equity							
Additional paid-in capital	4,390		3	11	–		4,404
Retained earnings	2,191	(27)	(3)	(5)	(9)		2,147
Accumulated other comprehensive loss	(103)	(5)			1		(107)
Total Yum China Holdings, Inc. Stockholders' Equity	6,482	(32)	–	6	(8)	–	6,448
Noncontrolling interests	666	(9)			(1)		656
Total Equity	7,148	(41)	–	6	(9)	–	7,104
Total Liabilities, Redeemable Noncontrolling Interest and Equity	**$ 11,826**	**$ (49)**	**$ –**	**$ 6**	**$ (9)**	**$ –**	**$ 11,774**

Notes:

(a) Lease

Lease Amortization

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

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

Sublease classification

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

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

(b) Share-based compensation

Share-based compensation with graded vesting feature

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

Share-based compensation with IPO condition

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

(c) Deferred taxes on share-based compensation

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

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

(d) Long-lived assets impairment

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

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

(e) Redeemable non-controlling interest

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

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

(f) Direct Marketing Costs

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

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

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