Joey Wat

Chief Executive Officer

Dear Stockholders,

2022 brought us unprecedented challenges. In just 12 months, we managed sporadic COVID outbreaks, entire city lockdowns, nationwide infections, and the sudden lifting of COVID-related restrictions. Yet throughout this trying period, we outperformed the restaurant industry in China, overcoming challenges with **resilience**, **agility**, and **innovations**.

We delivered total revenue of $9.57 billion for the full year, a 3% decline year over year in reported currency, or a 1% increase at constant foreign exchange rates. Despite the deleveraging impact from our top-line, we managed to increase our restaurant margin to 14.1%, leveraging multiple cost initiatives in materials, labor, rental, etc. We generated $1.41 billion in cash flows from operations and $734 million in free cash flow. Our strong balance sheet enabled us to return $668 million to shareholders in cash dividends and share repurchases. We continued to **expand aggressively**, opening 1,159 net new stores in 2022. Total store count reached 12,947 units at year end.

1,159
Net New Stores

$ 9.57 billion
Total Revenues

$ 442 million
Net Income

$ 734 million
Free Cash Flow*

This seems to me to be an opportune time to reflect on how we fared during the pandemic, why, and what we might learn about how we should adapt our strategies as the environment turns more benign.

My key learnings are that 1) we are emerging from the pandemic in a much-strengthened competitive position; 2) we are doing so partly because of the decisions taken and extraordinary efforts exerted by Yum China teams over the past three years, and partly because of key capabilities built over the several preceding years; and 3) we are well positioned to grow – profitably and with compounding competitive advantage, to capture the ample opportunities that China's rapidly reviving prosperity will afford us.

* Net cash from operating activities minus capital expenditure

1,500+ **new and upgraded products launched in 2020-2022**

Reflection

The resilience Yum China displayed during the pandemic did not emerge suddenly when called for; rather, it resulted from many years of capability building and culture shaping. Important steps that come to mind are:

- It all starts with the food – **delicious, innovative and fairly-priced food** is the irreducible minimum of any restaurant operation. Upgrading our offering was the first step in turning around KFC in the past and Pizza Hut more recently. We ended up building an innovation machine that keeps our menus fresh to this day. In the past three years, we launched over 1,500 new and upgraded products. Examples include Juicy whole chicken and Wagyu/Angus beef burger at KFC, and Durian pizza at Pizza Hut.

- We made significant investments in digital technology to improve operating transparency and efficiency. **Digital capability** has also suffused and transformed many facets of the company, from our supply chain to our kitchens to our customer-facing apps and screens. AI-powered smart ordering, real time inventory management, dynamic delivery coverage, robotic servers . . . the list goes on and on.

- We opened new logistics centers (bringing our total to 33) to further increase our flexibility, and invested in our **supply chain** management system to make it more robust. When the Shanghai lockdown cut off truck access, we added rail and sea freight to ensure distribution of key supplies. Our store inventory system afforded us the visibility to enable real-time sales forecasting and smart inventory replenishment. These capabilities helped lessen disruptions even during lockdowns and minimize wastage.

Pokemon–Psyduck Music Box

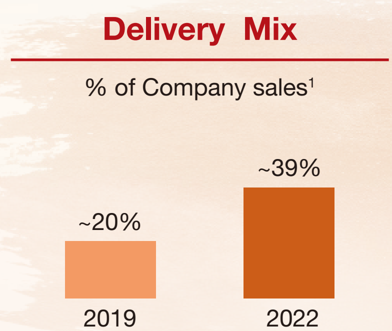
Genshin Impact Campaign

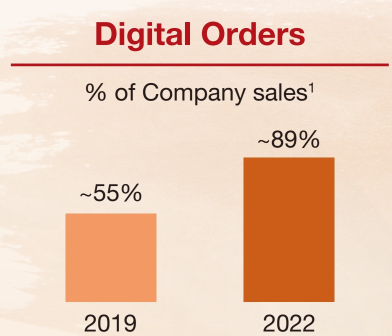
- We led with our **humanity** and reinforced a strong set of values embracing a genuine caring for our employees, customers, and our communities. While we did so without expectation of return, it paid off handsomely. Early on, we fed hospital workers and the neediest for free; the goodwill generated helped us keep many stores open. We doubled down on our commitment to our people, determining to lay no one off, increasing the medical coverage for eligible staff and their families, and provided them with food and medical supplies during lockdowns. Our employees reciprocated with fierce commitment to the company, exerting heroic efforts throughout the pandemic, and especially during lockdowns.

2020-2022 were difficult years for everyone especially for restaurant companies. But at Yum China, we were profitable all twelve quarters, and we improved every aspect of our competitiveness. We did so by staying nimble, by exercising creativity and discipline. Here are just a few of the highlights:

- We **adapted our operations** to meet consumers where they were. As dine-in traffic was severely impacted, we pivoted quickly to off-premises alternatives, which now represent around two-thirds of our sales. **Delivery** grew from approximately 20% of sales in 2019 to 39% in 2022; **digital ordering** reached 89%. Our earlier investments in digital were critical enablers. Innovation also played a key role: we launched new retail packaged food to capture at-home demand, and community purchasing during the Shanghai lockdown. At one point during the Shanghai city-wide lockdown, we achieved 40-50% of pre-lockdown sales with just 10-15% of our stores operating.

Integrated Community Purchasing for all Yum China brands





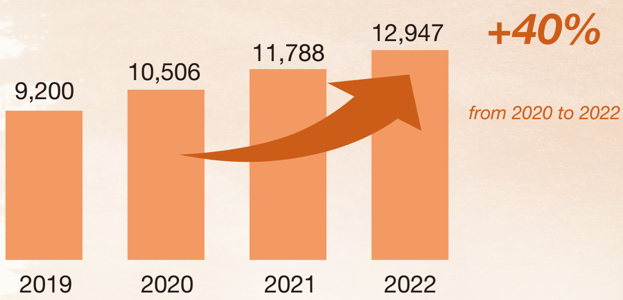
[1] Includes KFC and Pizza Hut.

- By **rebasing cost structures** and implementing austerity measures, we cushioned shocks created by the volatile market situation. We optimized labor scheduling and leveraged technologies to improve productivity. We reduced our "occupancy & other" costs by securing more favorable lease terms, moving to variable rent arrangements and reducing capex per store (and thus depreciation) on new builds and remodels.

- We designed **a broad range of store formats** to suit local conditions, which allowed us to optimize store size, reduce the upfront investment cost and streamline operations. This led to **healthy new store paybacks**, enhanced restaurant margins – and the capacity and appetite to **up the pace of growth**. Plus, the introduction of smaller store formats allowed us to accommodate the growth of delivery and takeaway. We increased our store count by about 40% (3,800 net new stores), while closing around 1,000 less productive locations, from 2020 to 2022.

Over the last three years, we have capitalized on our relative strength, built our competitive position and laid the foundation for a future of sustained profitable growth. At the same time we returned over $1 billion through share repurchases and dividends to our shareholders. We also rewarded our shareholders with leading total shareholder returns ("TSR") relative to the constituents of the MSCI China Index and MSCI China Consumer Discretionary Index, as well as by outperforming the TSR of the S&P 500 Consumer Discretionary Index, over the three-year period from 2020 to 2022.

Total Store Count



Looking Ahead

It has become clear to us that our **RGM – Resilience, Growth, Moat** – strategy is a winning one. Most of the initiatives we plan for 2023 and beyond envision us continuing on our present path, but at an accelerating rate.

- Our most immediate goal is to **drive sales**. As China recovers from the pandemic, we expect volumes to recover, though perhaps with a different mix between dine-in, takeaway, and delivery than before. We are prepared for whatever shape the post-COVID world may take.

- We will continue to **introduce new, delicious food** with great value-for-money, explore how we can better exploit dayparts, and boost traffic with targeted marketing and promotions.

- We are **targeting 1,100-1,300 net new store** openings for 2023 (footprint growth of ~10%), some to add density in existing cities and some to penetrate into new cities. We see plenty of white space remaining to be filled, and we are confident we can do so profitably.

- We will continue to **invest in digital and supply chain** capabilities to further reinforce our moat and propel growth. We will also carefully evaluate investment opportunities in ESG to drive sustainability.

We are encouraged by early signs of sales recovery during the Chinese New Year holiday, but we believe cautious optimism remains the prudent stance. Macroeconomic headwinds and many challenges still lie ahead. We are well prepared for a wide range of scenarios, both to capitalize on growth opportunities and to mitigate risks as necessary. The road to full recovery may be bumpy and non-linear, but we are ready for it. We are focused on achieving long-term, sustainable and profitable growth for our shareholders and stakeholders.

Thanks to all for your support.

Joey Wat
Chief Executive Officer

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