



Dear Stockholders,

In 2021, the world continued to navigate the challenges arising from the COVID-19 pandemic, which changed our lives and habits, and caused disruptions to many businesses. The restaurant industry was no exception. Nevertheless, Yum China stayed agile, remained laser-focused on execution, and delivered solid results. Our core capabilities held strong: operational excellence, a robust supply chain and industry-leading digital capabilities protected our business from major disruptions. Our store development and people development capabilities enabled us to open new stores at a record pace amid regional outbreaks. I want to express to our employees once again my deepest gratitude for their dedication and their tireless efforts to make these results possible.

Winston Churchill once said, “Never let a good crisis go to waste.” I have been reflecting on what we can learn from these challenges and how Yum China can emerge even stronger. I would summarize the learnings in three letters:

RGM. RGM stands for **R**estaurant **G**eneral **M**anagers — our most important employees; and for **R**esilience, **G**rowth and **M**oat — our strategic framework.

Fortifying Resilience

Yum China has a **track record of delivering solid financial results**. Before the pandemic, from 2016 to 2019, total revenues grew at a CAGR of 7% and operating profit grew at a CAGR of 12%. We generated \$5.6 billion in operating cash flows in the last five years, of which \$2.2 billion was generated during the pandemic period. We have maintained a strong balance sheet. Sufficient liquidity allows us to deal with contingencies, honor payments on time, and invest for growth, while still returning capital to shareholders.

The past two years have demonstrated the **resilience of our operations and business model**. Our teams have overcome operational challenges time and again, managing to keep most of our stores open to serve our customers and communities through all the disruptions. Our supply chain team has managed complexities and ensured supplies to our 11,000+ store network. Our marketing team has acted quickly to adjust marketing promotions to drive sales and capture the shift to off-premises consumption. Our hybrid delivery model has

enabled us to grow delivery sales by 60% over 2019, while dine-in foot traffic has been severely impacted. Our operations team and other support functions have worked seamlessly to ensure excellent execution.

Our operating results improved significantly in the first half of 2021, when the COVID-19 situation was relatively stable. In the second half of the year, our business was significantly affected by regional outbreaks and more stringent public health measures. For the full year, we generated operating profit of \$1.4 billion and adjusted operating profit of \$766 million. Adjusted operating profit grew 5% year-over-year, despite receiving \$90 million less one-time relief from the government and landlords than we did in 2020. These solid results reflect the resilience of our business and the tremendous efforts of our teams.

Looking ahead, we will continue to fortify our core capabilities to be even more resilient, so that we can thrive in good times and bad. We will also continue to strengthen the fundamentals of our brands to unlock their growth potential.



\$ 9.9 billion

Total Revenues

\$ 1.4 billion

Operating Profit

\$ 766 million

**Adjusted
Operating Profit**

\$ 1.1 billion

**Operating
Cash Flows**

“\$” 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. This letter also refers to adjusted operating profit, a non-GAAP financial measure; refer to “Non-GAAP Measures” beginning on page 68 of our Annual Report on Form 10-K for additional information.

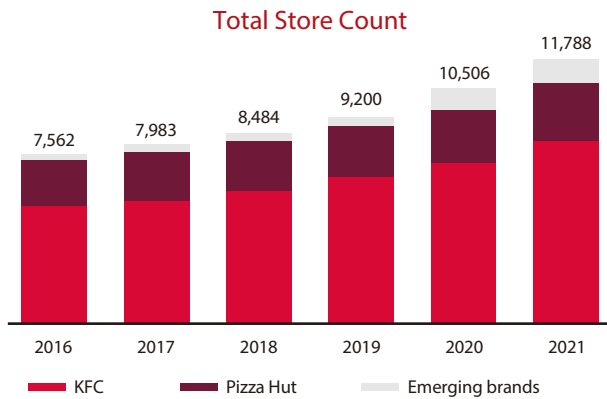


Average
5
new stores
per day

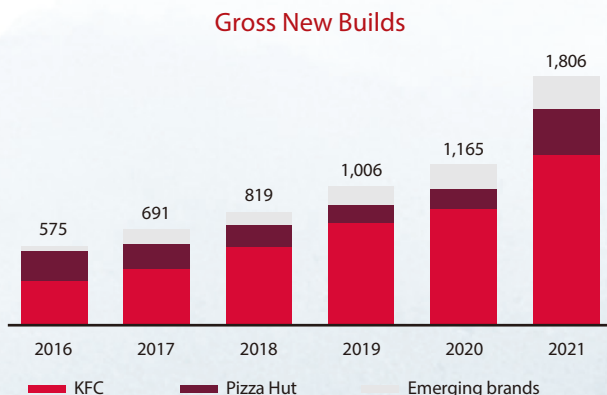


Accelerating Growth

Over the past five years, we **accelerated expansion of our store footprint**, opening approximately 5,500 gross new stores. By the end of 2021, we had 11,788 stores, 55% more than five years ago.



In 2021, with record openings of 1,806 gross new stores, we opened an average of five stores a day. But we are not just opening stores, we are opening quality stores. Our disciplined approach and systematic evaluation of each new store, combined with store format innovation, have enabled us to maintain **healthy store payback** periods of two years for KFC and three years for Pizza Hut.



We see tremendous growth opportunities in China, with continued urbanization, rising incomes, and lower store penetration than in more mature markets. We plan to expand our restaurant footprint further in existing cities and penetrate further into lower-tier cities. KFC and Pizza Hut will continue to lead the way on store growth among our brands. KFC has a presence in over 1,600 cities across China, yet there remain 1,100 cities where potential entry looks attractive. Even more cities remain untapped for Pizza Hut.

While still at an early stage in their development, our **emerging brands** are proving to be exciting growth opportunities. In particular, we are encouraged by the progress of our coffee businesses:

- K-Coffee remained a popular choice for consumers, with 170 million cups sold in 2021, over 20% more than a year ago.
- As we continued to fine-tune the business model of COFFii & JOY, same-store sales grew over 30% in 2021.
- Since opening the first Lavazza store in 2020, we have grown to 58 stores, covering all tier 1 cities and select tier 2 cities. We will focus on building brand awareness, improving the business model and driving sales.



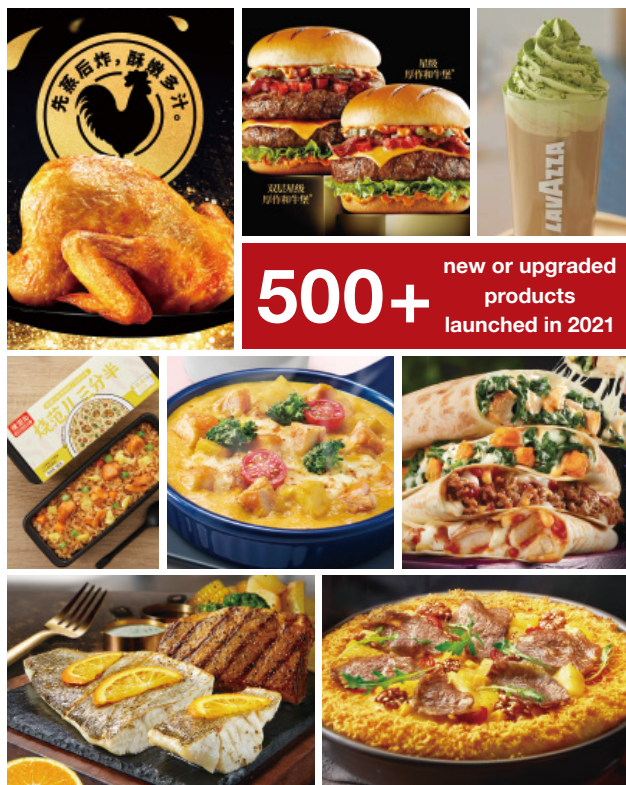
Taco Bell grew from 12 to 37 stores in 2021. We are continuing to refine its business model to make the brand more relevant to Chinese consumers. I am confident that there is great potential for Taco Bell in China.

Huang Ji Huang and Little Sheep have been operating in a particularly tough environment for the past two years, given their greater reliance on dine-in. We will continue to focus on strengthening the fundamentals of both brands.

Widening Strategic Moat

Many competitive advantages underpin our success — unparalleled scale, extensive operating experience, advanced innovation capabilities, world-class supply chain management, and industry-leading digital capabilities. We intend to continue to widen our strategic moat.

We are committed to offering tasty food and great value through **product innovation**. In 2021, we again launched over 500 new and upgraded products. At KFC, we not only strengthened offerings of chicken products e.g., by introducing whole chicken and crispy chicken bone, we also added Angus and Wagyu beef burgers as permanent menu items. At Pizza Hut, we expanded the price range of our pizza offerings with more affordable options. We also introduced premium products such as Beef Wellington at very reasonable price points. At both KFC and Pizza Hut, we created new retail products (ready-to-cook, ready-to-heat and ready-to-eat) designed to capture higher demand for at-home consumption. With our extensive store network and online channels, we are well positioned to capitalize on this trend.



Our **world-class supply chain management** enabled our accelerated store growth and shielded us from material disruption throughout the pandemic. As we continue to grow our store network, it is essential that we expand our supply chain network apace. In 2021, we broke ground on new logistics centers in Chengdu and Jiangsu. We plan to reach 45 to 50 logistics centers over the next five years, enabling more extensive coverage across China. We are also transforming our supply chain with end-to-end intelligence enabled by advanced technologies such as the Internet of Things (IoT), Artificial Intelligence (AI) and automation.

Digital is another core growth enabler of Yum China — driving both sales and productivity.

Powered by mobile ordering and self-ordering kiosks, digital sales exceeded \$7 billion, or over 85% of Company sales, in 2021. With 360 million members at the end of 2021, member sales accounted for approximately 60% of KFC and Pizza Hut total system sales. Our powerful digital capabilities and membership program enable us to reach our customers faster, serve them better, and at lower costs. Going forward, we are intent on building a customer-centric digital ecosystem to give our customers the service they deserve.

We are also actively applying digitization and automation to transform our back-of-house operations. With the help of technology, we have maintained a relatively stable base of employees, even as we have added more stores over the past few years. Going forward, we will continue to develop our back-of-house system, Super Brain, to streamline processes and aid our RGMs in making informed and timely decisions. We will also look for areas that we can automate to improve efficiency. To enhance digital solutions for our operations, we opened our digital R&D center in China in 2021. We also partner with industry experts to capture cutting-edge technologies.



>\$7 billion
Digital Sales

~86%
of Company Sales

Mission as a responsible corporate citizen

In these uncertain times, it is especially important to shoulder our responsibilities of being a corporate citizen, helping our employees and giving back to the communities we serve.

People

Our people are our **most important asset**. As we continue to expand, it is imperative to grow our people capabilities. We strive to develop high-caliber talent by empowering employees with individual skills and capabilities. We have a robust talent development strategy to build a leadership pipeline. Our systematic career planning program assists employees at all levels in progressing along their career development paths.

In appreciation of our front-line employees who have risen to meet the challenges of the pandemic, we have upgraded the medical insurance coverage of our RGMs, restaurant management teams and supervisors. These enhanced benefits cover around 100,000 frontline employees and their family members.



We are committed to fostering a **safe, inclusive and diverse organization**. We have set up 23 Angel Restaurants in China, striving to provide equal job opportunities for staff with special needs. At the end of 2021, women represented 65% of our total workforce and held 53% of our senior management level positions. In 2022, Yum China was certified a Top Employer in China and named to the Bloomberg Gender-Equality Index, both for the fourth consecutive year.

Community

We have a strong belief in **giving back to the communities** in which we work and live. During the pandemic, we ensured the continuity of vital services by keeping our restaurants open wherever possible. We provided donations, free meals, and volunteer service to medical workers on the frontline. We donated nearly 250,000 free meals to front-line workers in 2020 and 2021.

As a restaurant company, we are actively looking for opportunities for food waste reduction. Since 2020, our pilot food bank project, which provides unsold products to neighboring residents in need, has expanded to over 120 food banks in 27 cities across China.



Environment

Environmental responsibility is deeply ingrained throughout Yum China's value chain. We make every effort to minimize environmental impact, and our efforts have been recognized. We received an "A" rating in the latest MSCI Environmental, Social and Governance (ESG) Ratings and received one of the best scores in the Restaurant & Leisure Facilities Industry in the 2021 S&P Global Corporate Sustainability Assessment (CSA).

In 2021, we took an important and bold step forward by **committing to Science-Based Target initiatives**, including a goal to reach net zero value chain greenhouse gas (GHG) emissions by 2050. We are in the process of tracking and surveying GHG emissions for our entire value chain — comprising our own operations, franchisees, and upstream suppliers — in preparation for setting reduction targets and roadmaps. It will be a long journey, and we do not have all the solutions yet. But we are committed to making continuous progress because our responsibilities to future generations demand it.

Member of

Dow Jones Sustainability Indices

Powered by the S&P Global CSA

MSCI
ESG RATINGS



CCC B BB BBB A AA AAA



中国杰出雇主
CHINA
2022

CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS





Joey Wat

Chief Executive Officer
Yum China Holdings, Inc.

Governance

Corporate governance has been a “secret ingredient” in our success. Incorporated in Delaware, Yum China upholds a **high standard of governance policies and practices**. All of my fellow board members are independent directors. They bring experience and skills from a wide range of companies and a diverse mix of regional, industry and professional expertise to Yum China. I would like to thank them for their wise counsel over the past few years, and I look forward to their continued engagement in making Yum China even stronger.

In March 2022, the U.S. Securities and Exchange Commission named Yum China a Commission-Identified Issuer under the Holding Foreign Companies Accountable Act (the “Act”). As a result, under the current terms of the Act we face possible delisting from the New York Stock Exchange in 2024. We have been working diligently and acting in the best interests of shareholders. We completed our secondary listing on the Hong Kong Stock Exchange in 2020. Shares listed on both stock exchanges are fully fungible and can be repositioned within a few days. Regardless of the final outcome of the Act, Yum China is committed to upholding the highest standards of corporate governance, business conduct and regulatory compliance.

Confident in the long-term opportunities despite near-term challenges

As I write this letter, China is battling its biggest COVID-19 outbreak yet. The situation has rapidly deteriorated since the beginning of March 2022. The highly transmissible Omicron variant has been surging across China, spreading to many provinces, including the economically important regions of Guangdong, Shanghai, Shandong and Jilin. In March alone, case counts including asymptomatic cases have surpassed that of the previous two years since COVID-19 first emerged. Stricter preventive health measures and containment measures have been imposed nationwide, including partial or complete city lockdowns with residents ordered to stay home. Our restaurant operations have been significantly impacted. But we are not standing still. We have been focusing on **execution and keeping our restaurants**

open wherever and whenever it is possible and safe to do so. We have taken immediate actions to drive off-premise sales and control costs, such as promoting bulk orders for community delivery, simplifying menus and optimizing staff scheduling.

I am confident that our team can and will continue to hold the fort for our customers and shareholders by leveraging the experience gained from handling the various curve balls that have come our way over the years. I am equally confident that our solid business fundamentals will catapult us to new heights, once the world gets back to “normal”.

Looking ahead, although we will continue to face near-term volatility and uncertainty, we have conviction that **long-term opportunities in China remain highly attractive**. In 2022, we are targeting 1,000 to 1,200 net new units. We expect capital investment to be in the range of \$800 million to \$1 billion, with more than half covering store opening and remodeling, while still providing for stepped-up investment in supply chain, infrastructure and digital. We also are committed to returning excess cash to shareholders: we resumed dividends in the fourth quarter of 2020 and share repurchases in the third quarter of 2021. In March 2022, the board of directors approved a further increase in the share repurchase authorization by \$1 billion to an aggregate of \$2.4 billion. The board’s approval demonstrates Yum China’s strong free cash flow generation capability and a powerful balance sheet.

I am confident that, with our **proven resiliency and strong capabilities**, Yum China is well-positioned to capture growth potential and generate shareholder value in the years ahead. Thank you for your trust and partnership; we are excited to continue on this journey with you.

Joey Wat
Chief Executive Officer