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OUR VISION

Our vision is to become the world's most innovative pioneer in the restaurant industry. Innovation and technology have been the key pillars of our business success, extending our runway for sustainable growth, enhancing the guest experience and optimizing operations and cost efficiencies.

OVERVIEW

Yum China is the largest restaurant company in China in terms of 2019 System sales, according to the F&S Report. We had US\$8.8 billion of revenue in 2019 and over 9,900 restaurants as of June 30, 2020. Our growing restaurant network consists of our flagship KFC and Pizza Hut brands, as well as emerging brands such as Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell and Lavazza.

The Company separated from YUM on October 31, 2016 and became an independent, publicly traded company. We have the exclusive right to operate and sub-license the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China, excluding Hong Kong, Taiwan and Macau. We own the intellectual property of the Little Sheep, Huang Ji Huang, COFFii & JOY and East Dawning concepts outright. KFC was the first major global restaurant brand to enter China as early as 1987. With more than 30 years of operations, we have developed extensive operating experience in the China market. We have since grown to become the largest restaurant company in China in terms of 2019 System sales, with over 9,900 restaurants covering over 1,400 cities primarily in China as of June 30, 2020.

KFC is the leading and the largest quick-service restaurant (“QSR”) brand in China in terms of 2019 System sales, according to the F&S Report. As of June 30, 2020, KFC operated over 6,700 restaurants in over 1,400 cities across China. KFC primarily competes with western QSR brands in China, such as McDonald's, Dicos and Burger King, among which we believe KFC had an approximate two-to-one lead over its nearest competitor in terms of store count as of the end of 2019.

Pizza Hut is the leading and the largest casual dining restaurant (“CDR”) brand in China in terms of 2019 System sales and number of restaurants, according to the F&S Report. As of June 30, 2020, Pizza Hut operated over 2,200 restaurants in over 500 cities across China. Measured by number of restaurants, we believe Pizza Hut had an approximate five-to-one lead over its nearest western CDR competitor in China as of the end of 2019.

We opened over 1,000 new restaurants in 2019 and an average of more than two new locations per day over the past five years. We either operate or franchise restaurant brands, and we owned and operated approximately 90% of our restaurants ourselves as of December 31, 2019, which has driven our historically attractive return on investment. We owned and operated approximately 85% of our restaurants ourselves as of June 30, 2020 after the acquisition of a controlling interest in Huang Ji Huang, a franchise-centric business.

Over the past three decades, we have built a significant lead not just in scale, but also in brand loyalty, development capabilities, innovative product offerings, industry-leading digital and delivery capabilities, a robust supply chain management system, a strong financial profile, a highly-talented workforce and a seasoned and passionate management team. We believe that these competitive strengths are difficult to replicate, allowing us to deliver superior value propositions to our guests and generate strong returns for our Shareholders. Given the strong competitive position of our core brands and commitment to innovation and digitalization in every aspect of our business, against the backdrop of China's growing

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economy, we expect to continue to drive System sales growth by both new unit growth and same-store sales growth and maintain our leading position as the largest restaurant company in China.

We are deeply committed to being a responsible company economically, socially and environmentally. Under our sustainability strategy — “Creating A Responsible Ecosystem” (CARE), we have integrated sustainability into our long-term business growth strategy — “Sustainable Platform for Growth” — consistently providing our guests with safe and high-quality products while fulfilling a commitment to sustainable economic, social and environmental development. As a result, we believe we deliver benefits to our stakeholders, including employees, guests, business partners, suppliers, community members, shareholders and others. For details, see “— Sustainability.”

COMPETITIVE STRENGTHS

Largest restaurant company in China with unparalleled scale and strong brand recognition

Yum China is the largest restaurant company in China in terms of 2019 System sales, according to the F&S Report. We had US\$8.8 billion of revenue in 2019 and over 9,900 restaurants as of June 30, 2020, covering over 1,400 cities primarily in China. Our flagship brand, KFC, was the first major global restaurant brand to enter China as early as 1987. With over 30 years of operations, we have developed extensive operating experience in the China market and have deeply ingrained our flagship KFC and Pizza Hut brands into China’s consumer culture.

We operate a portfolio of iconic restaurant brands in China, including KFC and Pizza Hut, as well as brands such as Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell and Lavazza. KFC and Pizza Hut are the largest QSR and CDR brands in China in terms of System sales in 2019, respectively, according to the F&S Report, with over 6,700 restaurants and 2,200 restaurants as of June 30, 2020, respectively. KFC and Pizza Hut have built strong brand loyalty and have become household names in China through our continued commitment to exemplify and redefine best-in-class operations of QSRs and CDRs in China by focusing on menu innovation and the guest experience. We are also building emerging brands such as Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell and Lavazza, which we believe will bring further upside growth.

The self-operated restaurant chain market in China is expected to continue its fast growth at a CAGR of 9.1% from 2019 to 2024 with significant white space opportunity. According to the F&S Report, restaurant chains have a low penetration rate in China, especially in lower-tier cities, with only approximately 332 chain restaurants per million people in 2019 compared to approximately 891 in the United States, and approximately six KFCs and Pizza Huts per million people in 2019 in China compared to approximately 35 in the United States. Leveraging our brand loyalty, innovative product offerings, industry-leading digital and delivery capabilities, robust supply chain management system, seasoned and passionate senior management team and dedicated workforce, we believe that we are well-positioned to capture further opportunities in the restaurant chain market and continue our success and growth in the years to come.

Rapid and profitable growth enabled by proprietary local know-how and development capabilities

We have expanded rapidly, opening restaurants at an average of more than two new locations per day over the past five years. We have been able to achieve attractive economics while

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growing rapidly, with a Restaurant margin of 16.0% in 2019. We have also achieved favorable unit-level economics. During the Track Record Period, our new KFC and Pizza Hut restaurant units had an average cash payback period of approximately two years and three to four years, respectively, compared to the industry average of three to five years in China.

We believe that our rapid and profitable growth benefits from the proprietary local know-how and strong development capabilities and expertise we have accumulated in over 30 years of operations in China, as demonstrated in the following aspects:

- *Resilient business and expansion model.* Through the years, we have operated a proven business model that has endured economic cycles and evolving market conditions. Our expansion strategy has been systematically focused on high potential locations across city tiers, including entering new commercial areas within existing cities and new cities.
- *Scalable growth.* We have established a standardized and scalable development model for new restaurant units based on our know-how and experience. This expansion model is supported by highly experienced store network planning and site selection personnel, a nationwide supply chain network, an established staff recruitment and development program, as well as solid back office functions such as IT, finance and legal. We take into account factors such as economic and demographic conditions and prospects, consumption patterns, GDP per capita and population density of the local community, presence of activity centers such as shopping complexes, schools and residential areas that generate guest traffic and availability of other restaurants in the vicinity during our site selection process. We also consider the guest traffic and distance from existing restaurants under the same brand to reduce sales transfer that may occur from existing restaurant units. We believe our high quality personnel and excellent systems and processes ensure the efficiency and success of our restaurant network.
- *Deep guest and market insights.* We have accumulated deep insights into the tastes and preferences of the Chinese consumer base through analysis of big data collected from our over 9,900 restaurants in over 1,400 cities with two billion guest visits per year and over 265 million loyalty members as of June 30, 2020. Driven by these market insights, we are able to focus and tailor food innovation on high-potential menu items and launch successful marketing campaigns to connect to our guest base, such as our award-winning KFC Pocket Stores and privilege membership programs. Through these efforts, KFC and Pizza Hut are ingrained into the daily lives of Chinese consumers and have been established as leading restaurant brands in China.

Pioneer of an innovative restaurant model with strong digital and delivery execution, providing a superior brand value proposition to guests

We are a firm believer in innovating, disrupting and redefining the traditional restaurant model to deliver a superior value proposition to guests.

Menu innovation

Offering appealing, tasty and convenient food at great prices is our value proposition. While we are keenly aware of the strength of our core menu items, we believe that introducing new menu items that meet evolving consumer preferences and local tastes is crucial to our ability to maintain our brand excellence and broaden our brand appeal. For instance, KFC was the first western QSR brand in China to offer Chinese-style breakfast (such as congee and fried

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dough sticks) and Pizza Hut has changed 70% of its menu by upgrading existing products and adding new menu items as of June 30, 2020 as compared to those of 2017. Leveraging our local know-how and the wealth of consumer taste preference data accumulated through our many years of operations, we have become a pioneer in food innovation, pushing the boundaries of western QSR and CDR dining in China.

Our menu innovation process involves introducing a substantial number of new menu items each year, many of which start out as seasonal, regional or limited offerings. New menu items are market-tested and analyzed, with successful items considered for inclusion in our core menu. In 2019 alone, we developed over 1,900 menu item prototypes and launched around 400 new and improved products across all of our brands. Our menu innovation endeavors are supported by a dedicated food innovation team of approximately 40 professionals and a world-class 27,000 square-foot innovation center in Shanghai for the development of new recipes, cooking methods and menu concepts. Moreover, our world-class supply chain enables us to procure high quality ingredients at competitive prices, giving us the flexibility to offer a wide range of menu items.

In addition to offering an innovative menu, we also seek to offer guests a superior value propositions, such as the KFC bucket, combo meals and special offers for loyalty program members. In 2019, we launched various value meal campaigns, such as KFC's Crazy Thursday campaign, which offers core products at attractive prices on Thursdays to all guests, and Pizza Hut's "Two dishes for 99 RMB" (mainly pizza and steak menu items) and "Scream Wednesday" for loyalty program members, which have been widely popular. Scream Wednesday offers core products at attractive prices, including pizzas, steak and dessert options, and has received positive consumer feedback. We have also tied in menu innovation with our value campaigns, such as designing special items, including special edition pizza, piloted appetizers and drinks for "Scream Wednesday."

Digitalization

We are a digital leader in the PRC restaurant industry. We seek to apply tech-enabled enhancements to provide guests with a personalized and enriched dining experience and to increase our operational efficiency across the board.

Our guest-oriented digital technologies and features include proprietary app technologies, digital/mobile and AI-enabled menus, and digital and facial recognition payment, details of which are described below:

- *Proprietary apps.* Our KFC and Pizza Hut Super Apps offer guests a multi-faceted, fully-digitized dining experience, and have been instrumental in our ability to increase guest loyalty, improve the dining experience, and better target our marketing activities. As of December 31, 2019, the KFC and Pizza Hut Super Apps were, by far, the most downloaded apps in the PRC restaurant industry and had the highest number of MAUs among our peers. As of June 30, 2020, our loyalty programs had over 240 million members and over 75 million members for KFC and Pizza Hut, respectively. KFC member sales represented 63% of KFC's System sales and Pizza Hut member sales represented 49% of Pizza Hut's System sales in the six months ended June 30, 2020.
- *Digital/mobile and AI-enabled menus.* We were one of the earliest adopters of mobile ordering among restaurant chains in China. In 2019, digital orders accounted for approximately 55% of KFC and Pizza Hut Company sales, indicating the popularity of this function among our guests. In January 2019, KFC introduced AI-enabled menus to recommend personalized menu items and discounts to guests based on their ordering patterns and taste preferences.

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- *Digital and facial recognition payment.* We were among the first restaurant chains in China to offer digital payment options, including a proprietary in-house payment solution, YUMC Pay. 97% of payments were made through digital form for the six months ended June 30, 2020, which primarily includes mobile applications and aggregators' platforms, reflecting our ability to harness the power of technology in our business model. We were also the first in the world to commercially implement facial recognition payment technologies, "Smile to Pay", in 2017 in collaboration with Alipay. Following positive guest feedback, we have since implemented "Smile to Pay" in approximately 1,000 KFC restaurants across China as of June 30, 2020.

These technologies have also enabled us to streamline our operations and enhance operational efficiency. For example, digital ordering and payment technologies have allowed us to optimize restaurant staffing and reduce associated costs for ordering and cash management. In addition to these technologies, we are also focusing on applying the latest technologies to supply chain management, operations and staff management to improve the employee experience and our management efficiency.

Delivery

As early as 2010, we identified delivery as a significant growth driver and began to offer delivery services, first through our own delivery platform, and later, in 2015, also through partnering with third-party delivery aggregators to generate traffic. In 2019, we enjoyed one of the highest delivery sales contributions among restaurant chains in China, according to the F&S Report, with such sales accounting for 21% of total Company sales for the same year.

We also distinguish ourselves by being one of the few restaurant chains in China with a significant online platform to generate traffic. Our hybrid model of working with third-party delivery aggregators also enables us to increase traffic. We deploy dedicated riders to deliver KFC or Pizza Hut orders originated from our own platform and aggregators' platforms. We believe that dedicated riders have enabled us to gain greater control over delivery quality and improve our ability to make timely deliveries during peak hours. Moreover, we have applied AI-enabled delivery technologies to increase delivery efficiency and, in turn, guest satisfaction.

We continue to optimize our delivery services by creating synergies between brick-and-mortar restaurant units and delivery services, taking advantage of our extensive restaurant network in China to improve efficiency and increase margins. We also seek to implement innovative delivery strategies to capture business opportunities. In 2017, we began to collaborate with China Railway to deliver KFC digital orders on certain train routes. Further, in response to the COVID-19 outbreak, in January 2020, KFC and Pizza Hut were among the earliest restaurant brands in China to roll out contactless delivery nationwide. This arrangement helps us reduce the risk of disease transmission and protect our guests, staff and riders, while driving delivery sales.

Highest commitment to food safety with world-class supply chain management and operations

Food quality and safety are our highest priority. Our unwavering commitment to food safety is reflected in our holistic multi-level quality assurance system covering all major aspects of our operations, including suppliers, logistics, restaurants and delivery. Key features of our quality assurance system include the following:

- *Stringent oversight.* We maintain a Food Safety Committee at the Board level. The Food Safety Committee assists the Board in its oversight of the Company's

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practices, programs, procedures and initiatives relating to food safety, and is responsible for monitoring trends, issues and concerns affecting our food safety practices, and the risks arising therefrom, in light of our overall efforts related to food safety. Each restaurant general manager is responsible for day-to-day food quality and safety management at his/her restaurant unit. Area managers will also check the implementation of food safety and quality related standards and measures. Our quality assurance department conducts on-site inspection at each restaurant on a regular basis.

- *Comprehensive control measures.* We are relentless in ensuring quality in every aspect of our operations. We have stipulated detailed food quality inspection standards for each type of food and beverage offered in our restaurants to ensure the highest quality. We perform stringent selection, training, evaluation and audit of upstream suppliers. Moreover, we monitor all participants along our entire supply chain with over 25 sets of quality assurance modules, close to 900 raw material inspections, 40 key processes, 200 checkpoints, 2,000 types of logistics center and truck audits and over 17,000 types of restaurant food safety-related excellence checks.
- *Robust supply chain infrastructure.* We have built a world-class in-house supply chain infrastructure for better control and assurance over food safety, which we believe distinguishes us from our peers, many of which outsource their supply chain solutions to third parties. Our nationwide supply chain network includes 25 logistics centers, six consolidation centers and over 2,100 refrigerated trucks with cold-chain storage and transportation capabilities, ensuring that our food is delivered efficiently and with high quality consistency.
- *Investment in technology and design.* We invest heavily in our supply chain management system and restaurant design and equipment. Our integrated supply chain management systems allow for systematic monitoring, from tracing food ingredients to their source to real-time central monitoring of our logistics and transportation network. We have also invested in top-of-the-line equipment, such as high-quality refrigerators, in every single restaurant unit, and restaurant and kitchen design to enhance food safety and reduce human error.

Strong financial performance

We believe we set ourselves apart from competitors by achieving strong and steady growth without sacrificing financial performance, especially considering the size of our 9,954-strong restaurant network. Key indicators of our strong financial performance include the following:

- *Sustained business growth.* Our restaurant network expanded by approximately 2,500 net units from the Spin-off in October 2016 to June 30, 2020. Our revenue and operating profit increased at CAGRs of 7% and 12%, respectively, from 2016 to 2019. Our System sales, reflecting the results of Company-owned restaurants and franchise and unconsolidated affiliate restaurants, achieved growth in every quarter since the Spin-off and up to the year-end of 2019.
- *Same-store sales growth.* Our same-store sales grew at an average of 3% each year from 2016 to 2019⁽¹⁾, benefitting from our focus on innovating in food and strengthening our value proposition, daypart opportunities, digital experience and delivery. KFC delivered strong sales performance in 2019, marking the fourth year

(1) Percentage here excludes the impact of foreign exchange translation.

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of positive same-store sales growth. In 2019, we continued to make progress with the Pizza Hut revitalization program, which focuses on fixing the fundamentals, including investing in product upgrades and enhancing digital capabilities through expanding our digital user base while strengthening delivery core capabilities and enhancing our asset portfolio to drive growth. This enabled Pizza Hut to achieve same-store sales growth in 2019.

- *Strong profitability.* We have achieved healthy profit growth and solid margin expansion. From 2017 to 2019, our operating profit increased from US\$778 million to US\$901 million and net income increased from US\$398 million to US\$713 million, respectively, and we achieved Adjusted Operating Profit⁽²⁾ CAGR and Adjusted Net Income⁽²⁾ CAGR of 8.5% and 14.2%, respectively. During the same period, our operating profit as a percentage of total revenue increased from 10.0% to 10.3% and our net income as a percentage of total revenue increased from 5.1% to 8.1%, and our Adjusted Operating Profit⁽²⁾ as a percentage of total revenue increased from 10.0% to 10.4% and our Adjusted Net Income⁽²⁾ as a percentage of total revenue increased from 7.2% to 8.3%. Our track record of improving our margin profile is supported by our strong restaurant-level profitability. Average cash payback periods of our KFC and Pizza Hut units were approximately two years and three to four years, respectively.
- *Strong cash flow.* Our net cash provided by operating activities increased by 34% from US\$884 million in 2017 to US\$1,185 million in 2019, reflecting our strong earnings and profitability, and providing solid support for our continued growth.

Seasoned and passionate senior management team and committed restaurant management team empowered by a culture of founder’s mentality and the spirit of innovation

We are led by a world-class and passionate senior management team of industry veterans with an average of over 20 years of restaurant, retail and technology experience. Their deep expertise in and foresight on the evolving restaurant industry, and continued focus on innovation and revolutionizing the restaurant business model have laid the foundation for our success.

We believe that our employees are the heart and soul of our operations and the driving force of our growth. We seek to empower our employees by encouraging a founder’s mentality and the spirit of innovation and adopting a “fair, care and pride” people philosophy. By doing so, we have been able to develop and maintain a committed and loyal group of approximately 10,000 RGMs, who are vital to our operations, which we believe enables us to retain know-how and talent within our operations and ensure quality consistency of our restaurants.

Our commitment to employees is reflected by the numerous awards we have received, including the Top Employer China for 2020 awarded by the Top Employers Institute and the 2018 Best Community Program awarded at the Global CSR Summit. In addition, we were among the first companies in the PRC to be included in the 2019 Bloomberg Gender Equality Index.

(2) See “Financial Information — Non-GAAP Measures” for definitions and reconciliations of the most directly comparable U.S. GAAP financial measures to the non-GAAP measures.

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

Continue to strategically expand our restaurant network

We are confident in the long-term market opportunities in China. We believe we have the potential to grow to 20,000 restaurants or more in the future, or over two times our restaurant count as of year-end 2019 and we are currently tracking over 800 cities that do not have a KFC or Pizza Hut restaurant.

- *Further expand geographical coverage.* According to the F&S Report, restaurant chains have a low penetration rate in China, especially in lower-tier cities, with only approximately 332 chain restaurants per million people in 2019 compared to approximately 891 in the United States. Given the rapidly expanding middle class and dining out population as a result of continued economic growth and urbanization, we believe there are significant opportunities to expand within China, and we intend to focus our efforts on increasing our geographic footprint in both existing and new cities.
- *Restaurant development pipeline.* We are keen to explore various new restaurant formats to support further expansion, including different store designs or service models aimed at addressing the needs of different guests and for different occasions, such as drive-thru restaurants and less capital-intensive models. We believe that our first-mover advantage and in-depth local know-how will help us build robust development pipelines to seize the market opportunities.
- *Franchise opportunity.* While we continue to focus on the operation of our self-owned restaurant units, we will also continue to seek franchise opportunities for both our core and emerging brands. As of June 30, 2020, approximately 15% of our restaurants were operated by franchisees after consolidation of Huang Ji Huang. We anticipate high franchisee demand for our brands, supported by strong unit economics, operational consistency, and multiple store formats to drive restaurant growth. While the franchise market in China is still in an early stage compared to developed markets, we plan to continue to develop our franchisee-owned store portfolio over time, especially in select channels such as gas stations.
- *Grow emerging brands.* Our key growth strategy for emerging brands, such as Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell and Lavazza, focuses on exploring suitable business models to achieve sustainable growth. In addition, we plan to continue our efforts in product innovation and operational enhancement for these emerging brands to potentially scale-up operations in the future.

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

- *Food innovation and value proposition.* We will continue to focus on food innovation and strengthen our value proposition. We are keenly aware of the strength of our core menu items. At the same time, we seek to continue to introduce innovative menu items to meet evolving consumer preferences and local tastes, drive guest engagement and continue to broaden our brand appeal. Each of our restaurant brands has proprietary menu items, and emphasizes the preparation

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of food with high quality ingredients. We will continue to develop unique recipes and special seasonings to provide appealing, tasty and convenient food choices at competitive prices. In addition, KFC plans to continue focusing on value with product offerings such as the bucket and increased combo options throughout the day, and Pizza Hut plans to continue its multiple value campaigns. We believe our continued food innovation and value proposition are pivotal to enhancing our unit-level performance by driving order frequency and order ticket size.

- *Daypart opportunities.* We believe there are significant daypart opportunities across our brands. For example, KFC expanded its freshly ground coffee (“**K-coffee**”) offerings in breakfast and afternoon dayparts, and Pizza Hut continued its focus on breakfast and business lunch to further grow same-store sales.
- *Best in-store experience.* We continuously look for ways to improve the guest experience. For example, we plan to continue to invest in refurbishing our restaurants. Our brands also look to improve efficiency to drive sales growth. For instance, we have simplified menus and fine-tuned our digital menu boards and in-store self-service order devices. We are also expanding our delivery business through our proprietary smartphone applications and pre-order services. To further enhance the guest experience, we are also evaluating the possibility of adopting other digital initiatives in our restaurants and will continue to invest in this area.

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

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

- *Digital.* As of June 30, 2020, our loyalty programs had over 240 million members and over 75 million members for KFC and Pizza Hut, respectively, and 97% of payments were made through digital form for the six months ended June 30, 2020. The programs have been effective in increasing order frequency and enhancing guest loyalty. Going forward, we will continue to leverage our powerful digital ecosystem to drive sales, improve the guest experience and increase operational efficiency. We plan to increase our investment in end-to-end digitalization, automation and AI, to more effectively connect online traffic with our offline assets. To improve our operational efficiency, we will focus on connecting our front-end, guest facing systems to back-end systems such as operations and supply chain.
- *Delivery.* China is a world leader in the emerging O2O market. This is where digital online ordering technologies interact with traditional brick and mortar retail to enhance the customer experience. According to the F&S Report, the food delivery service market in terms of gross transaction value in China is expected to double in size from 2019 to 2024. We see considerable growth potential in the delivery market by aligning our proven restaurant operation capabilities with our delivery network that offers consumers the ability to order restaurant food anywhere. Going forward, we will continue to optimize our delivery service by adopting innovative technologies, rolling out new delivery menu items and developing novel delivery service concepts, such as our rainy-day delivery menu.

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Strategically expand our restaurant portfolio

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

We are also building a coffee portfolio to capture today's underserved coffee market in China across different customer segments, including K-Coffee which offers convenience and value, balanced by our newly incubated concept COFFii & JOY which offers an artisanal coffee experience. In 2019, we sold 137 million cups of coffee at KFC, representing a 48% increase from 2018. We are also partnering with a global coffee brand, Lavazza, to explore and develop the Lavazza coffee shop concept in China.

Prudently pursue investments in high-quality assets

Our investment strategy primarily focuses on two areas, brands, and enablers that empower our brands (e.g. ecosystem, technology). We continue to identify and evaluate investment opportunities in high-quality brands to capture growth opportunities and a larger share of customer stomach. Also, we look for potential opportunities for enabler investments, to build our strategic moat and further enhance our competitiveness. We will prudently assess investment targets based on each candidate's strategic value, brand equity, business scale and financial performance, amongst other factors. As of the Latest Practicable Date, other than those disclosed in this prospectus, we did not have any specific acquisition or investment targets and were not in negotiations with any specific acquisition or investment targets.

RESTAURANT BRANDS

We had over 9,900 restaurants as of June 30, 2020 and US\$8.8 billion of revenue in 2019. Our growing restaurant network consists of our flagship KFC and Pizza Hut brands, as well as emerging brands such as Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell and Lavazza. The following table sets forth a breakdown of our revenue by segments for the period indicated. For details of our segment reporting, see "Appendix I — Accountants' Report" to this prospectus.

	For the year ended December 31,			For the six months ended June 30,						
	2019	2018	2017	2020	2019					
						<i>(unaudited)</i>				
	<i>(in millions of U.S. dollars, except percentages)</i>									
KFC	6,040	68.8%	5,688	67.6%	5,066	65.2%	2,576	70.5%	3,050	68.9%
Pizza Hut	2,054	23.4%	2,111	25.1%	2,093	26.9%	748	20.5%	1,053	23.8%
All other segments ⁽¹⁾	158	1.8%	115	1.4%	106	1.4%	78	2.1%	64	1.4%
Corporate and unallocated ⁽²⁾	562	6.4%	517	6.1%	504	6.5%	271	7.4%	280	6.3%
Subtotal	8,814	100.4%	8,431	100.2%	7,769	100.0%	3,673	100.5%	4,447	100.4%
Elimination	(38)	(0.4)%	(16)	(0.2)%	—	—	(17)	(0.5)%	(19)	(0.4)%
Total revenues	8,776	100.0%	8,415	100.0%	7,769	100.0%	3,656	100.0%	4,428	100.0%

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- (1) Representing revenue we generated from Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell, Daojia, and our e-commerce business.
- (2) Primarily includes revenues from transactions with franchisees and unconsolidated affiliates derived from our central procurement model whereby food and paper products are centrally purchased and then mainly sold to KFC and Pizza Hut franchisees and unconsolidated affiliates. They represent amounts that have not been allocated to any segment for performance reporting purposes.

KFC

KFC is the leading and the largest QSR brand in China in terms of 2019 System sales, according to the F&S Report. Founded in Corbin, Kentucky in the U.S. by Colonel Harland D. Sanders in 1939, KFC opened its first restaurant in Beijing, China as early as 1987. As of June 30, 2020, there were over 6,700 KFC restaurants in over 1,400 cities across China. In addition to the Original Recipe® chicken, KFC in China has an extensive menu featuring pork, seafood, rice dishes, fresh vegetables, soups, congee, desserts and many others, including freshly ground coffee. KFC also seeks to increase revenue from different dayparts with breakfast, coffee, dessert and delivery. KFC primarily competes with western QSR brands in China, such as McDonald's, Dicos and Burger King, among which we believe KFC had an approximate two-to-one lead over its nearest competitor in terms of store count as of the end of 2019.

Pizza Hut

Pizza Hut is the leading and the largest CDR brand in China in terms of 2019 System sales and number of restaurants as of December 31, 2019, according to the F&S Report, offering multiple dayparts, including breakfast, lunch, afternoon tea and dinner. Since opening its first China restaurant unit in Beijing in 1990, Pizza Hut grown rapidly. As of June 30, 2020, there were over 2,200 Pizza Hut restaurants in over 500 cities across China. Pizza Hut in China has an extensive menu offering a broad variety of pizzas, steaks, entrees, pasta, rice dishes, appetizers, beverages and desserts. Measured by number of restaurants, we believe Pizza Hut had an approximate five-to-one lead over its nearest western CDR competitor in China as of the end of 2019.

Other Brands

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

- *Little Sheep.* Little Sheep, with its roots in Inner Mongolia, China, specializes in “Hot Pot” cooking, which is very popular in China, particularly during the winter months. Little Sheep had over 260 restaurant units in both China and international markets as of June 30, 2020. Of these, over 240 restaurant units were franchise restaurants.
- *Huang Ji Huang.* In April 2020, we completed the acquisition of a controlling interest in Huang Ji Huang. Founded in 2004, Huang Ji Huang had over 600 restaurants in China and internationally as of June 30, 2020. Huang Ji Huang primarily operates a franchise model and is an industry-leading simmer pot brand. To the best knowledge of the Company, none of the core connected persons at the level of the Company is a controlling shareholder of the seller of Huang Ji Huang.
- *COFFii & JOY.* COFFii & JOY is a coffee concept developed by us in 2018, featuring specialty coffee. As of June 30, 2020, there were 55 COFFii & JOY units in China.

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- *East Dawning.* East Dawning is a Chinese QSR brand located predominantly in bustling transportation hubs. As of June 30, 2020, there were 11 East Dawning restaurant units across China.
- *Taco Bell.* Taco Bell is the world's leading western QSR brand specializing in Mexican-style food, including tacos, burritos, quesadillas, salads, nachos and similar items. We opened our first Taco Bell restaurant in Shanghai, China in December 2016. As of June 30, 2020, there were nine Taco Bell restaurant units in China.
- *Lavazza.* In April 2020, we partnered with Lavazza Group, the world-renowned family-owned Italian coffee company, and established a joint venture, to explore and develop the Lavazza coffee shop concept in China. As the first step, a new Lavazza flagship store was opened in Shanghai, China.

RESTAURANTS NETWORK

With over 30 years of operations, we have developed extensive operating experience in the China market. We have since grown to become the largest restaurant company in China in terms of 2019 System sales, with over 9,900 restaurants covering over 1,400 cities primarily in China as of June 30, 2020.

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In the six months ended June 30, 2020, and the year ended December 31, 2019, 2018 and 2017, we opened 348, 1,006, 819 and 691 new restaurant units, respectively, of which 307, 742, 566 and 408 were KFC restaurant units and 19, 132, 157 and 180 were Pizza Hut restaurant units, respectively. In April 2020, we completed the Huang Ji Huang acquisition, which had over 600 restaurant units as of June 30, 2020. The majority of the Company-owned restaurant units opened during the Track Record Period had an initial monthly breakeven period of approximately one to three months. During the same period, our new KFC and Pizza Hut restaurant units had an average cash payback period of approximately two years and three to four years, respectively. The following table sets forth the total number of restaurant units and their movement for the period indicated.

	For the six months ended June 30,	For the year ended December 31,		
	2020	2019	2018	2017
Number of restaurant units at the beginning of the period				
KFC	6,534	5,910	5,488	5,224
Pizza Hut	2,281	2,240	2,195	2,081
Other brands ⁽²⁾	385	334	300	257
Total	9,200	8,484	7,983	7,562
Number of new restaurant units opened or acquired during the period				
KFC	307	742	566	408
Pizza Hut	19	132	157	180
Other brands ⁽²⁾	648 ⁽¹⁾	132	96	103
Total	974	1,006	819	691
Number of restaurant units closed during the period ⁽³⁾				
KFC	92	118	144	144
Pizza Hut	42	91	112	66
Other brands ⁽²⁾	86	81	62	60
Total	220	290	318	270
Number of restaurant units at the end of the period				
KFC	6,749	6,534	5,910	5,488
Pizza Hut	2,258	2,281	2,240	2,195
Other brands ⁽²⁾	947	385	334	300
Total	9,954	9,200	8,484	7,983

(1) Including the restaurants of Huang Ji Huang as a result of the acquisition.

(2) Other brands include Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell and Lavazza restaurant units.

(3) Our restaurant closures during the Track Record Period were primarily due to termination or non-renewal of leases, store relocations and other commercial reasons, including closure of under-performing stores.

As of June 30, 2020, 1,527 of our 9,954 restaurants were franchise restaurants, among which 571 were KFC restaurants, 108 were Pizza Hut restaurants and over 600 were Huang Ji

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Huang restaurants. For details, see “— Operational Management — Franchise Restaurants Management.” In addition, as of the same date, approximately 10% of our restaurants were unconsolidated affiliates. All of these restaurants were KFC restaurants, representing approximately 14% of total KFC restaurants as of June 30, 2020. These unconsolidated affiliates are held by PRC joint venture entities partially owned by us, which helped KFC establish its initial presence in certain regions of China. Set forth below is a breakdown of our restaurant unit count for the period indicated.

	As of June 30,	As of December 31,		
	2020	2019	2018	2017
Company-owned				
KFC	5,231	5,083	4,597 ⁽¹⁾	4,112
Pizza Hut	2,150	2,178	2,188	2,166
Other brands	98	94	47	29
<i>Subtotal</i>	<u>7,479</u>	<u>7,355</u>	<u>6,832</u>	<u>6,307</u>
Unconsolidated affiliates				
KFC	947	896	811 ⁽¹⁾	891
Pizza Hut	—	—	—	—
Other brands	—	—	—	—
<i>Subtotal</i>	<u>947</u>	<u>896</u>	<u>811</u>	<u>891</u>
Franchises				
KFC	571	555	502	485
Pizza Hut	108	103	52	29
Other brands	848	291	287	271
<i>Subtotal</i>	<u>1,527</u>	<u>949</u>	<u>841</u>	<u>785</u>
Others ⁽²⁾	1	—	—	—
Total	<u>9,954</u>	<u>9,200</u>	<u>8,484</u>	<u>7,983</u>

(1) During the first quarter of 2018, we completed the acquisition of an additional 36% interest in an unconsolidated affiliate (“**Wuxi KFC**”) that operates KFC stores in and around Wuxi, China, increasing our equity interest to 83% and allowing us to consolidate Wuxi KFC. As a result of the acquisition of Wuxi KFC as disclosed in Note 1 of “Appendix I — Accountants’ Report,” the restaurant units of Wuxi KFC have been transferred from unconsolidated affiliates to Company-owned.

(2) Representing the Lavazza flagship store we opened in Shanghai, China.

In April 2020, we entered into a definitive agreement to acquire an additional 25% equity interest in Suzhou KFC, for cash consideration of US\$149 million. Upon closing of the acquisition on August 3, 2020, we increased our equity interest in this unconsolidated affiliate to 72%, which will allow us to consolidate Suzhou KFC.

RESTAURANT PERFORMANCE

The following table sets forth our same-store sales growth (decline) for the period indicated.

	2020 1H	2019	2018
KFC	(11)%	4%	2%
Pizza Hut	(22)%	1%	(5)%
Overall	(13)%	3%	1%

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The following table sets forth the same-store number of transaction growth (decline) and ticket average growth (decline) for KFC and Pizza Hut for the period indicated.

	<u>2020 1H</u>	<u>2019</u>	<u>2018</u>
<i>Same-store number of transaction growth (decline)⁽¹⁾</i>			
KFC	(24)%	1%	(1)%
Pizza Hut	(15)%	7%	(2)%
<i>Same-store ticket average growth (decline)⁽²⁾</i>			
KFC	18%	3%	3%
Pizza Hut	(8)%	(6)%	(2)%

(1) Same-store number of transaction growth (decline) represents the estimated period-over-period percentage change in the number of transactions 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.

(2) Ticket average is calculated by dividing restaurant sales by the number of transactions. Same-store ticket average growth (decline) represents the estimated period-over-period percentage change in ticket average 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.

Same-store sales growth of KFC in 2018 and 2019 were led by the growth in delivery sales, product and value innovation, effective marketing campaigns and pricing. Same-store sales for Pizza Hut declined by 5% in 2018 due to the decline in the number of transactions and increased promotional activities to improve value proposition (which reduced ticket averages). Same store sales for Pizza Hut increased by 1% in 2019 as a result of the improvement in value proposition and general revitalization initiatives undertaken. The same-store sales decline of KFC and Pizza Hut in the six months ended June 30, 2020 was primarily due to the impact of the COVID-19 pandemic.

The following table sets forth the ticket average⁽¹⁾ of all of our KFC and Pizza Hut restaurants for the period indicated.

	<u>For the six months ended June 30</u>	<u>For the year ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
	<i>(RMB)</i>			
KFC	43	37	36	35
Pizza Hut	108	113	120	122

(1) Ticket average is calculated by dividing restaurant sales by the number of transactions.

OPERATIONAL MANAGEMENT

Restaurant Unit Management

Our restaurant management structure varies among our restaurant brands and by unit size. Generally, each restaurant operated by us is led by a restaurant general manager, or RGM, together with one or more assistant managers. RGMs are skilled and highly trained, with most having a college-level education. The performance of RGMs is regularly monitored and coached by area managers. In addition, senior operations leaders regularly visit restaurants to promote adherence to system standards and mentor restaurant teams. Each restaurant brand issues detailed manuals, which may then be customized to meet local regulations and customs. These manuals set forth standards and requirements for all aspects of restaurant operations, including food safety and quality, food handling and product preparation

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procedures, equipment maintenance, facility standards and accounting control procedures (including cash management). The restaurant management team is responsible for the day-to-day operation of each unit and for ensuring compliance with operating standards. Each RGM is also responsible for handling guest complaints and emergency situations.

Franchise Restaurants Management

As of June 30, 2020, approximately 15% of our restaurants were franchise restaurants. Our franchise program is designed to promote consistency and quality, and we are selective in granting franchises. Franchisees supply capital — initially by paying a franchise fee to us and by purchasing or leasing the land use rights, building, equipment, signs, seating, inventories and supplies; and, over the longer term, by reinvesting in the business through expansion. Franchisees contribute to our revenue through the payment of upfront franchise fees and on-going royalties based on a percentage of sales, and payments for other transactions with us, such as purchases of food and paper products, advertising services and other services.

We enter into franchise agreements with our franchisees. Our franchise agreements typically require the franchisee to pay an initial, non-refundable fee as well as continuing fees based upon a percentage of sales. Subject to our approval and their payment of a renewal fee, a franchisee may generally renew the franchise agreement upon expiration. Under the franchise agreements, the franchisees are entitled to use the operational manuals, procedures and other know-how in relation to restaurant operations, as well as the trademarks or other intellectual properties for the purpose of restaurant operations in accordance with our standards and specifications. We train the employees of the franchisees to help ensure that their operations strictly comply with the franchise agreements and our internal standards. We may terminate the franchise agreements under certain circumstances, including insolvency of the franchisee, franchisee's material breach of the franchise agreement and the failure to maintain accurate records of restaurant operations, among others. During the franchise period and for a certain period after termination of the franchise agreements, a franchisee may not engage in restaurant businesses of the same or similar nature to our restaurant brand. During the Track Record Period, we did not experience any breach of franchise agreements that had a material adverse impact on our business operations.

Our franchise restaurants are designed to promote consistency and quality. Our franchise agreements set out specific operational standards, which are consistent with standards required for Company-owned restaurants. Like our Company-owned restaurants, our franchise restaurants are also subject to our internal quality audits and reviews. Our franchise restaurants do not have notable operational differences compared to Company-owned restaurants.

We believe that it is important to maintain strong and open relationships with our franchisees and their representatives. To this end, we invest a significant amount of time working with the franchisees and their representative organizations on key aspects of the business, including products, equipment, operational improvements and standards and management techniques. Going forward, we plan to continue to develop our franchise restaurant portfolio over time.

Supply Chain Management

We believe supply chain management is crucial to the sustainability of our business and we are dedicated to applying digitalization and automation technologies in our supply chain management system. Our in-house and integrated supply chain management system employs close to 1,500 staff, including around 300 staff in food safety and quality assurance at our headquarters and regional offices. The supply chain management team monitors all

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participants along our entire value chains, including upstream suppliers, logistics centers, logistics service providers and restaurant units consisting of over 25 sets of quality assurance modules, close to 900 raw material inspections, 40 key processes, 200 check points, 2,000 types of logistics center and truck audits, and over 17,000 types of restaurant food safety related excellence checks, among others.

Supplier and Procurement Management

Our quality assurance department is primarily responsible for overall food safety and quality management for food ingredients, packaging and smallwares at the supplier level. Our procurement management department is primarily responsible for day-to-day management of our procurement and suppliers. We implement a strict supplier qualification process that includes new supplier compliance checks and on-site audits to ensure the supplier meets our food safety and quality control standards. We have formulated detailed specifications for each food ingredients and consumables we procure. All suppliers are required to enter into a quality assurance agreement with us to guarantee that all product formulas, raw material specifications, packaging specifications and quality assurance programs documentation provided to us fully comply with all relevant PRC food laws and regulations, as well as our technical standards.

For poultry, one of our major food ingredients, we have established an upstream breeding management system for poultry suppliers, requiring them to inspect and register farms in accordance with our standards. Only poultry from registered farms can be processed and released into the supply chain. We require poultry suppliers to implement veterinary drugs register management. Every year, we invite veterinary drug experts to perform compliance and scientific reviews of the drugs used by the suppliers and provide continuous improvement guidance. Working with poultry farming and safety experts, we integrated advanced farming, perspectives, practices and technologies from China and abroad and compiled and published the “Yum China Poultry Farming Technical Manual” and the “Yum China Management Guidelines on the Use of Veterinary Drugs in Poultry Farming.” These manuals are shared with poultry suppliers to support their learning and compliance in this area.

We conduct annual unannounced food safety testing on key raw materials including poultry and other meats, seafood, vegetables, seasonings and other key materials. We engage a third-party lab for such testing, and only those raw materials that are in compliance with the relevant standards will be released into our supply chain. Our quality assurance department also conducts regular onsite audits of food and beverage suppliers, either on an announced or unannounced basis, to assess the effectiveness of suppliers’ management systems, and perform a comprehensive evaluation of suppliers’ food safety and quality performance. Based on the assessment results, we grade suppliers as T1, T2, and T3 based on their performance with T1 being the best and T3 being in great need for improvement. We reward T1 suppliers with incentives, support T2 and T3 suppliers with improvement counseling, and eliminate those who fail to meet the requirements, thus driving suppliers to strive for continuous improvement. For suppliers of raw materials with lower food safety risks (such as ambient products and seasonings), we require them to obtain the Global Food Safety Initiatives certification.

Logistics Management

We operate a tailor-made world-class logistics management system which is capable of accommodating large scale, wide coverage and advanced information dissemination as well as fast store expansions. Some key features of our logistics management system include (i) a customized warehouse management system implemented at all logistics centers enabling end-to-end tracking of products; (ii) an automatic sorting system capable of sorting and

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packing over 70,000 cases per day; (iii) a transportation management system allowing routing optimization; and (iv) deployment of Internet of Things and GPS technologies which allow real-time tracking of and data collection from all trucks, including truck location and on-board product temperature for product quality and food safety purposes.

As of June 30, 2020, we had a logistics network of 25 logistics centers and six consolidation centers across China. Each of our logistics centers is staffed with a professional quality assurance specialist who is responsible for inspecting storage facilities and the receipt, distribution, and unloading of goods. These centers implement unified standards, such as logistics center audits and performance tracking, to conduct strict audits of the logistics distribution system, including logistics centers and transportation.

When we established our logistics centers, we also employed an advanced and comprehensive cold chain design to ensure that the temperature of our chillers, freezers and products meets our standards at all times. We currently deploy over 2,100 refrigerated trucks with cold chain storage and transportation capabilities. All frozen and refrigerated storage and transportation vehicles have been equipped with temperature recorders to track and record temperature changes during transportation. Our logistics centers have also been progressively equipped with a warehouse management system, which enables product tracking from suppliers, logistics centers and restaurants to provide added assurance to the integrity of our supply chain. Each of our logistics centers is staffed with a full-time quality assurance specialist responsible for inspecting storage facilities and the receipt, distribution and unloading of goods.

Food Safety and Quality Control

Food safety is our top priority. Food safety system includes rigorous standards and training of employees in our restaurants and distribution system, as well as requirements for suppliers. These standards and training topics include, but are not limited to, employee health, product handling, ingredient and product temperature management and prevention of cross contamination. Our food safety standards also ensure compliance with applicable laws and regulations in China when building new or renovating existing restaurants. In late 2012, there was media attention surrounding an investigation by the Shanghai FDA of our poultry supply management. In 2014, an undercover report was televised in China depicting improper food handling practices by supplier Shanghai Husi Food Co., Ltd., a division of OSI Group, which is a large, global supplier to many in the restaurant industry. This triggered extensive news coverage in China that shook consumer confidence and impacted brand usage. Subsequently, the Shanghai FDA launched an investigation into this matter, alleging illegal activity by OSI Group. Since the 2012 incident and up to the Latest Practicable Date, we were not aware of any investigations by the local FDA. During the Track Record Period, there was no adverse publicity on food safety and foodborne illness concerns that had a material adverse impact on us and we were not subject to any investigation regarding the safety of our menu items or the hygiene of our restaurants by any government authorities that had a material adverse impact on us.

We have established a Food Safety Committee at the Board level. The Food Safety Committee assists the Board in its oversight of the Company's practices, programs, procedures and initiatives relating to food safety, and is responsible for monitoring trends, issues and concerns affecting our food safety practices, and the risks arising therefrom, in light of our overall efforts related to food safety. For details, see "Directors, Senior Management and Employees." Our food safety department and quality assurance department is responsible for food safety management and compliance management across all of our restaurant brands. See "Risk Factors — Risks Relating to Our Business and Industry — Food safety and foodborne illness concerns may have an adverse effect on our reputation and business."

Our food safety department formulates and updates our internal regulations and standards in relation to food safety from time to time. We have stipulated detailed food quality inspection standards for each type of food and beverage offered in our restaurant to ensure the highest

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quality. Our quality assurance team consists of around 300 professionals directly responsible for food safety and quality assurance. Each restaurant general manager is responsible for day-to-day food quality and safety management at his/her restaurant unit. Area managers will also check the implementation of food safety and quality related standards and measures. Our quality assurance department conducts on-site inspection at each restaurant on a regular basis. We conduct over 3,200 quality checks on our main menu items each year. We have also invested in top-of-the-line equipment, such as high-quality refrigerators, in every single restaurant unit, and have incorporated elements in our restaurant and kitchen design to enhance hygiene and reduce human error. We require all of our restaurant staff to attend and pass food safety trainings and tests, which focus on hygiene, disease prevention, food safety and regulatory compliance in day-to-day operations.

For our delivery system, we have established our own delivery service teams for KFC and Pizza Hut. We require all third-party delivery partners to sign and strictly implement a letter of commitment on the food safety and quality practice of delivery food, which stipulates clear requirements for regulatory compliance, staff management, catering requirements, delivery facilities, equipment and strict management of third-party platforms. For example, take-away food for all brands is sealed with tamper proof covers to ensure food safety throughout the delivery process.

We have implemented industry-leading restaurant operating standards and procedures for each restaurant brand to ensure that each restaurant implements consistent food safety standards and serves food that is consistent in quality and taste. Restaurant operating standards and procedures include the receipt of raw materials, food and raw material storage temperature control, shelf-life management, thawing and cooking process, personal hygiene, and the cleaning and sanitation of utensils and equipment. During business hours, the RGM is responsible for duty inspections on food safety, including raw material management, food preparation, cleaning, sanitation, personal hygiene, equipment maintenance and pest control. Area managers will also check the implementation of food safety and quality related standards and measures when they visit restaurants under their management.

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

Expansion Management

We believe that there are significant expansion opportunities to expand within China and we intend to focus our efforts on increasing our geographic footprint in both existing and new cities. We expanded our restaurant count from 6,715 at the end of 2014 to 9,200 at the end of 2019, representing a CAGR of approximately 6%, which further increased to 9,954 as of June 30, 2020. We expect to expand our business through organic growth, growth of franchise units and development of new restaurant brands. For details, see “— Business Strategy.”

Subject to revision based on future impacts of the COVID-19 outbreak that cannot be predicted at this time, we plan to open between 800 and 850 new restaurant units in 2020, excluding Huang Ji Huang. Our expansion strategy has been systematically focused on high potential locations across city tiers, including entering new commercial areas within existing cities and new cities. Each potential restaurant site is assessed and evaluated individually based on its site potential, financial return and potential impact to nearby stores. We take into account factors such as economic and demographic conditions and prospects, consumption

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patterns, GDP per capita and population density of the local community, presence of activity centers such as shopping complexes, schools and residential areas that generate guest traffic and availability of other restaurants in the vicinity during our site selection process. We also consider the guest traffic and distance from the existing restaurants under the same brand to reduce sales transfer that may occur from existing restaurant units. The average capital spending for each new KFC and Pizza Hut restaurant unit in 2020 is expected to remain relatively stable at approximately RMB2 to 3 million.

With respect to franchise development, in 2019, we entered into strategic agreements with both China Petrochemical Corporation (“**Sinopec**”) and China National Petroleum Corporation (“**CNPC**”) to collaborate on the development of franchise restaurants of KFC at gas stations operated by Sinopec and CNPC across China. Sinopec and CNPC collectively operate over 50,000 gas stations in China. As of June 30, 2020, there were seven franchise restaurants in gas stations operated by Sinopec or CNPC in China. As vehicle ownership continues to grow in China, we believe that gas stations and highway service areas can provide us with an opportunity to expand our operations and guest base.

SUSTAINABILITY

“Creating A Responsible Ecosystem” is our sustainability strategy. We are committed to being a deeply responsible company economically, socially and environmentally and we have been consistently providing our guests with safe and high-quality products while fulfilling a commitment to sustainable economic, social and environmental development. Our sustainability efforts primarily consist of three aspects: restaurant sustainability, supply chain sustainability and social/community sustainability.

Restaurant Sustainability

We are aware of the environmental impact of our operations and we always follow the principle of sustainability when designing, building and operating our restaurants. Key aspects of our efforts to develop restaurant sustainability are summarized below.

- *Energy efficiency.* We continue to promote the application of innovative technologies and systems to reduce greenhouse gas (GHG) emissions and improve energy efficiency, including kitchen cooking fume exhaust control system, heat pump water heater, high-efficiency DC air conditioning system, and LED lighting, among others. In addition, we include energy efficiency into the performance evaluation criteria of our restaurant management teams. We are committed to reducing average restaurant energy consumption and GHG emissions by an additional 10% by 2025 against the 2017 baseline.
- *Water.* In 2018, we developed an electrostatic thawing solution that can help KFC restaurants reduce thawing water consumption significantly compared with traditional thawing equipment. In 2019, we commenced pilot testing of such thawing equipment in selected KFC restaurants in Beijing, Shanghai and Shenzhen. We also installed water-saving faucets which consume 50% less water in newly-built company-owned and remodeled restaurants.
- *Packaging.* Guided by our 4R Principles (Reduce, Reuse, Recycle, Replace), we drive innovation in the application of new packaging solutions, new materials and new technologies to reduce packaging usage, which enables us to save over 8,000 tons of paper and 1,000 tons of plastic in 2019. We have also launched our in-house developed reusable serving baskets in over 6,000 KFC restaurants across China. The reusable serving baskets are designed to reduce disposable paper

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packaging without compromising customers' dining experience, which enables us to save over 2,000 tons of paper and reduce restaurant waste by approximately 20% per year. We are also exploring every opportunity to utilize recycled materials for non-food contact paper packaging where applicable. In 2019, approximately 20 tons of recycled material in non-food contact was used.

- *Food waste.* In 2019, we introduced sophisticated kitchen equipment and AI technology for precise production forecasting, improved cold chain to reduce food loss, and strengthened the back of house operation, which effectively reduced the loss and waste of chicken products. We successfully saved about 50 tons of food loss through these technologies in 2019.
- *Cooking oil.* We were the first restaurant company in China to get the ISCC (International Sustainability and Carbon Certification) certification for used cooking oil that will be converted into sustainable biodiesel following a successful pilot project in Chengdu. In addition, we have installed oil-saving equipment and implemented management practice at our restaurants, which enabled us to save over 1,700 tons of cooking oil in 2019.
- *Balanced and nutritious meals.* We increase the use of grains, fruit and vegetables, beans and nuts to enrich menu choices and provide our guests with balanced meals. We also reduce the use of sugar by upgrading our products and formulation, such as sugar-free and fiber-rich coke. In addition, we are committed to providing children with balanced food that is delicious, healthy and nutritious. Kid's meals at KFC and Pizza Hut comply with the Nutrition Guideline issued by the Chinese Nutrition Society.
- *Green building.* We have implemented internal green building standards and all of our restaurant have been designed and built in accordance with such green building standards since 2016.

Supply Chain Sustainability

In addition to building our own sustainable restaurants, we also develop innovative programs to improve sustainability performance across our supply chain. We require all of our suppliers to sign the Yum China Supplier Code of Conduct before they become our suppliers to ensure they are legally compliant with all applicable laws and regulations in areas such as child/minor labor, forced labor, health and safety, discrimination, disciplinary measures, working hours, wages and benefits, environmental management and security. We also engage a professional third-party to perform on-site CSR audits of major suppliers. Suppliers who are assessed with the lowest grade (Grade C) of our A, B, C, grading system are required to take immediate corrective actions and undergo a follow-up audit. If the follow-up audit is still unsatisfactory, the supplier will be considered high risk and our partnership with such supplier will be carefully reviewed.

We have been continuously making efforts to create a greener ecosystem. We embrace every opportunity to engage our suppliers to collectively drive environmental sustainability priorities and responsible business practices. Below are key aspects of our sustainability efforts with our suppliers.

- *Deforestation.* We refuse to purchase from suppliers palm oil or paper products that knowingly cause deforestation. Since becoming a member of Roundtable on Sustainable Palm Oil ("RSPO") in 2017, all of our purchased palm oil has been RSPO certified.

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- *Animal welfare.* We only purchase poultry from large-scale poultry suppliers that demonstrate and maintain compliance with animal welfare regulations and practices. All poultry suppliers must implement and adhere to our animal welfare guidelines during poultry breeding and poultry slaughtering. In 2019, we developed the Yum China Animal Welfare Policies, to establish a series of animal welfare standards for our suppliers of farmed animal protein, and to regulate their behavior from animal farming to slaughtering.
- *Pesticides.* Suppliers are required to strengthen their tests on pesticide residue in agricultural ingredients, ensuring that the agricultural products supplied to us comply with the relevant regulations and food safety standards. We are exploring advanced management practices and promote Yum China Good Agricultural Practices at upstream vegetable bases with rigorous control of base selection, soil and water safety, planting technology, pesticide management, fertilizer use, and good practices operations. We also set up a strict monitoring system of pesticide residue and conduct regular tests when necessary on all key agricultural ingredients.
- *Veterinary drugs.* We have adopted a series of measures to manage suppliers on regulatory compliance and judicious use of drugs in the breeding of livestock, poultry and aquatic products. We conduct sampling tests on these products on a regular basis to ensure compliance with veterinary drug use as stipulated by the Ministry of Agriculture and Rural Affairs.
- *Food additives.* Our suppliers are required to provide information on the use of food additives in their products in accordance with Chinese national standards. We also conduct sampling tests of such food ingredients to test additive levels. We alert our suppliers once any new food laws, regulations and standards are promulgated.

Social and Community Sustainability

With over two billion guest visits per year, we are always searching for ways to be a positive influence on our local communities and society. Our efforts primarily focus on four areas — poverty alleviation, community care, child and youth development and advocacy for healthy lifestyles. Below are examples of our social and community sustainability campaigns.

- *The One Yuan Donation.* We founded “The One Yuan Donation” program in 2008 in partnership with China Foundation for Poverty Alleviation, encouraging our guests and employees to donate one yuan to enrich the diets of children in impoverished regions. In 2019, we launched the V-Gold donation campaign, where V-Gold loyalty program members may also donate their reward points for charity. As of June 30, 2020, the campaign had raised over RMB210 million and provided nutritious meals to approximately 712,000 students and modern kitchen equipment to over 1,000 schools.
- *KFC Angel Restaurants.* KFC introduced Angel Restaurants in 2012 as a platform and has created over 400 employment opportunities for people with special needs since then. KFC has tailored its operation processes, modified restaurant equipment and revised employee trainings to assist these “angel employees” working at our restaurants. After comprehensive and systematic training, all “angel employees” are able to skillfully operate equipment, prepare products and provide guests with warm-hearted services.

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- *KFC Little Migratory Birds Fund.* In 2016, KFC partnered with the China Children and Teenagers' Fund to launch a fund for left-behind and migrant children. The mission of the fund is to look after the emotional and mental well-being of left-behind and migrant children in China through reading, sports and art activities. KFC also arranges for left-behind and migrant children to visit nearby KFC restaurants for a variety of activities, such as storytelling, traditional culture learning, drawing and singing. By the end of 2019, KFC had donated over 1,800 reading corners to communities and schools with where left-behind and migrant children gathered. Since its establishment, approximately two million left-behind and migrant children have benefited from the fund.
- *Grow Local Initiative Program.* In 2018, we initiated "Grow Local Yunnan Truffle" project. In its first phase, we partnered with the Chinese Academy of Sciences as well as third-party nutrition experts and agricultural service companies to train farmers in Yunnan on the scientific harvesting of truffles. We also issued one of the first scientific training manuals on sustainable truffle farming in Yunnan. In the second phase, we procured local truffles from such suppliers and Pizza Hut introduced a range of truffle pizzas featuring high-quality truffles from Yunnan. Pizza Hut is also planning to use its Super App, as well as other online resources, to provide a stable and sustainable e-commerce platform for specialty agricultural produce that meet our quality standards. We also launched a similar "Grow Local Dragon Fruit" project in Guizhou and "Grow Local Pear" project in Anhui in 2019.

In addition to local communities, we believe our over 400,000 employees form an unbeatable team and are our most valuable assets and we are dedicated to providing a sustainable environment for them. For details, see "— Employees"

INNOVATION AND DIGITALIZATION

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

We believe we are a pioneer and first-mover among restaurant brands in China in utilizing and investing in emerging digital technologies to modernize our business operations and accelerate our growth, which is critical to empower and maintain our competitive advantage in China. In recent years, we have stepped up our investment in digitalization, embarking on end-to-end digitalization of our business operations, the largest online presence among Chinese restaurant companies, measured by total application downloads from an iOS system, digital members, monthly active users and proportion of digital ordering, according to the F&S Report. In March 2020, we were named by Fast Company, the world's leading business media brand with an editorial focus on innovation, as one of the top 10 most innovative companies in China for 2020, alongside technology industry leaders.

Dining Experience

Menu Innovations

Offering appealing, tasty and convenient food at great prices is our value proposition. While we are keenly aware of the strength of our core menu items. At the same time, we believe that introducing new menu items that meet evolving consumer preferences and local tastes can

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create excitement for our guests and drive them to visit, which is crucial to our ability to maintain our brand excellence and broaden our brand appeal. Each of our restaurant brands has proprietary menu items, many developed in China, and emphasizes the preparation of food with high quality ingredients, as well as unique recipes and special seasonings to provide appealing, tasty and convenient food choices at competitive prices. As of June 30, 2020, we had a dedicated food innovation team of approximately 40 professionals who primarily focus on the development and innovation of new recipes and improvement of existing products. In 2019, we launched around 400 new and improved products across all of our restaurant brands with over 150 campaigns organized to support the marketing of our new products. Leveraging our local know-how and the wealth of consumer taste preference data accumulated, we have become a pioneer in food innovation, pushing the boundaries of western QSR and CDR dining in China.

Since KFC's entering into the PRC market in 1987, our efforts in menu innovation have been gradually paying off. KFC was the first western QSR brand in China to offer Chinese-style breakfast (such as congee and fried dough sticks). We also rolled out local tastes (such as meat mooncake (小鲜肉酥餅), Yunnan rose cake (雲南玫瑰酥餅) and green dumpling with salted egg and floss (鹹蛋黃肉鬆青團), nationally to celebrate Chinese festivals. In 2019, KFC launched an "unlimited" premium burger line, including a chicken and shrimp burger and an Australian beef burger. As part of KFC's limited time offerings, we also launched shrimp burger, double flavor spicy chicken, Portobello mushroom burger and double down burger. Additionally, KFC added a wing tip bucket, duck wraps and an upgraded stuffed croissant and beef congee to its breakfast line, while launching a variety of tea drinks (such as yogurt topped oolong tea). For Pizza Hut, we also launched new products such as lava Musang-king durian pizza, double thin & crispy pizza, dragon fruit drinks, snow pizza, and brewed wine desserts.

In addition to offering an innovative menu, we also seek to offer guests a superior value proposition, such as the KFC bucket, combo meals and special offers for loyalty program members. In 2019, we launched various value meal campaigns, such as KFC's Crazy Thursday campaign, which offers core products at attractive prices on Thursdays to all guests, and Pizza Hut's "Two dishes for 99 RMB" (mainly pizza and steak menu items) and "Scream Wednesday" for loyalty program members, which have been widely popular. Scream Wednesday also offers core products at attractive prices, including pizzas, steak and dessert options, and has received positive consumer feedback. We have also tied in menu innovation with value campaigns, such as designing special items including special edition pizza, piloted appetizers and drinks for "Scream Wednesday."

Ordering

KFC rolled out mobile pre-ordering service on a nationwide basis in December 2016, which allows guests to order online and pick up in store. According to the F&S Report, KFC was one of the earliest adopters of mobile ordering among restaurant chains in China. Pizza Hut launched table-side mobile ordering in 2018, which enables guests to order by scanning a QR code with their mobile phone. Now mobile ordering is a standard feature of our Super Apps including the KFC Super App and the Pizza Hut Super App. Guests can also order through our proprietary mini programs embedded in WeChat. In addition, in certain commercial districts, in-store kiosks provide guests with convenient and fast digital ordering options. In January 2019, KFC introduced AI-enabled menus to recommend personalized menu items and discounts to guests based on their ordering patterns and taste preferences. In 2019, digital orders accounted for approximately 55% of KFC and Pizza Hut Company sales, indicating the popularity of this function among guests. For the six months ended June 30, 2020, digital orders accounted for approximately 80% of KFC and Pizza Hut Company sales, which was partially influenced by the COVID-19 pandemic.

Payment

As early as June 2015, we started to partner with Alipay on digital payment functionalities, making us among the first batch of restaurant chains in China to make mobile payment available to guests, according to the F&S Report. We commenced mobile payment cooperation with WeChat Pay in 2016. Digital payments accounted for an increasing percentage of our orders, from 33% in 2016 to 61% in 2017, and further to 81% in 2018, 91% in 2019 and 97% in the six months ended June 30, 2020. The increasing percentage indicates growing customer preference for this feature and reflects our ability to harness the power of technology in our business model. Adoption of digital and mobile payment technologies not only provides a better customer experience by, among other things, reducing guest waiting time and saving guests from having to reach for their wallets or even cellphones, but also reduces staffing needed for cash management and reduces potential risks associated with cash management. In addition to the above business relationships with major third-party mobile payment providers, we developed and launched YUMC Pay in partnership with UnionPay in the first quarter of 2019. According to the F&S Report, YUMC Pay was the first proprietary in-App payment solution in the restaurant industry in China, which offers a convenient payment option for users within a single App.

Through the collaboration with Alipay, we were the first in the world to commercially implement facial recognition technologies for payment by introducing “Smile to Pay” in Hangzhou’s KFC restaurant in September 2017. “Smile to Pay” enables our guests to make payments for their orders at digital kiosks without having to reach for their wallets. Following positive feedback, we have since implemented “Smile to Pay” in approximately 1,000 KFC restaurants across China as of June 30, 2020. KFC introduced AI technologies to personalize menus for diners in January 2019. Such technology analyzes guests’ ordering patterns and local tastes to enable KFC Super App to recommend personalized menu items which guests are most likely interested in. KFC Super App then offers additional personalized and discounted trade-up options. In addition, we also have adopted AI technology to analyze and forecast transaction volume so that we can improve labor scheduling and reduce wastage.

Guest Loyalty and Interaction

According to the F&S Report, KFC and Pizza Hut were the first QSR and CDR restaurant brands in China to launch super Apps, respectively. China has entered into an age of super Apps, such as WeChat, which integrates multiple functions including messaging, e-commerce and payments in a single application by embedding mini-programs or providing in-App links to other applications. KFC rolled out “KFC Super App”, its proprietary self-developed smartphone application, for market testing in 2015. In early 2016, KFC Super App was implemented nationwide.

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Super Apps play a very important role in our overall digital ecosystem as they enable a digital guest experience by offering convenience, efficiency and interesting functionality before, during and after dining. As of December 31, 2019, the KFC and Pizza Hut Super Apps were, by far, the most downloaded Apps in the PRC restaurant industry, approximately three times the size of the second ranked player in terms of downloads from an iOS system or in terms of downloads and updates from an Android system, and had the highest number of MAUs among our peers, approximately three times the size of the competitor with the second-largest MAUs in China. For details of our loyalty programs, see “— Guests and Marketing.” The following table sets forth certain operational data of our KFC and Pizza Hut Super Apps as of and for the period indicated.

	MAU ⁽¹⁾ in June 2020	Number of downloads from an iOS system as of June 30, 2020	Number of downloads and updates from an Android system as of June 30, 2020
		<i>(in millions)</i>	
KFC Super App	89	51	527
Pizza Hut Super App	13	14	111
Total	102	65	638

(1) MAU refers to the monthly active users of the KFC Super App, Pizza Hut Super App, as well as the mini-programs embedded in third party applications.

Member engagement is fostered through our Super Apps and WeChat mini programs, as these form the primary platform for consumers to sign up for our membership programs. As of June 30, 2020, we had approximately 700 million downloads and updates of our KFC and Pizza Hut Super Apps, with over 100 million MAUs in June 2020. These downloads and activities enable members to place digital orders, which primarily include delivery, mobile pre-order and tableside self-ordering. Digital ordering grew from 38% of sales in 2018 to 55% in 2019, and were 80% for the six months ended June 30, 2020. Additionally, we continue to monetize our membership base by introducing privilege membership subscription programs that increase frequency and spend at our brands. These monetization opportunities rely heavily on our ability to engage with our users through our Super Apps. While our overall sales declined for the six months ended June 30, 2020 primarily due to the impact of the COVID-19 pandemic, our period-over-period member sales grew by double digits for the same period. All of these are facilitated by our strong Super Apps and WeChat mini programs at our core brands.

We believe a creative and fun interaction with our guests can help us enhance the guest experience and guest loyalty, which will ultimately lead to increased sales. In December 2018, we developed and launched KFC Pocket Stores in the KFC Super App. This mobile game invites guests to personalize and cultivate their own virtual KFC stores. Gamified features such as the ability to unlock new products and design the guests’ storefront further augment the guest experience, enhance the guest interaction and ultimately lead to increased sales for us. The KFC Pocket Store was awarded three Gold Cannes Lions Awards (one of the most prestigious creative awards worldwide) at the Cannes Lions Festival 2019. In addition, we rolled out a program where guests can choose the store’s background music via the KFC Super App and listen to a favorite tune while they eat: a mobile juke box at certain KFC restaurants in February 2017. This technology has now been promoted in almost all KFC stores except for stores located at transportation hubs or special stores. Starting in 2018, certain KFC stores in Shanghai and Hangzhou commenced to use robot arms to prepare ice cream cones, which creates a fun and efficient guest experience and helps attract guest traffic.

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Delivery Business

We believe that food delivery is a significant growth driver in China. We were one of the first restaurant businesses in China to offer delivery services, according to the F&S Report. As early as 2010, KFC established its own delivery platform and started to accept delivery orders placed on its mobile applications. Starting from 2015, we were also one of the first to partner with online to offline, or O2O, aggregators such as Meituan (美團) and Eleme (餓了麼), the two largest online ordering and delivery platforms in China, to generate traffic. In addition to ordering through aggregators' platforms, guests may also place delivery orders through the KFC and Pizza Hut Super Apps. The ability to generate orders from our own channels allows us to be well-positioned in commercial collaborations with aggregators, and manage costs and commissions in a more competitive manner. In 2019 and the six months ended June 30, 2020, approximately 40% and 20% of respective delivery orders and delivery sales of KFC and Pizza Hut, respectively, were generated from our own channels, including mobile and online platforms. We have also made investments in delivery outside our restaurant brands, including via the acquisition of a controlling interest in the holding company of Daojia, an established online food delivery service provider.

In the past, we either used our own dedicated riders to deliver orders placed through aggregators' platforms or paid an additional commission for the delivery services provided by aggregators. Starting in 2019, we used our own dedicated riders to deliver orders placed through aggregators' platforms to customers of KFC and Pizza Hut stores, which we believe gives us greater control over delivery quality and improves our ability to make timely deliveries during peak hours. These dedicated riders are either contracted with us or the aggregators' platforms to deliver orders exclusively for KFC or Pizza Hut stores. According to the F&S Report, we are the first and one of the few restaurants in China to use dedicated riders for delivery services. In 2019, Company sales through delivery accounted for 21% of total Company sales for the same period, which further increased to 32% for the six months ended June 30, 2020, partially driven by the increased delivery orders as a result of the COVID-19 pandemic.

Going forward, we will continue to improve our delivery efficiency by adopting AI-enabled technology. Such technology will analyze big data of rider activities and deliver route information to optimize business cycles and improve scheduling efficiency of riders and other labors. We also seek to implement innovative delivery strategies to capture business opportunities. For example, in 2017, we began to collaborate with China Railway to deliver KFC digital orders on certain train routes. Further, in response to the COVID-19 outbreak, in January 2020, KFC and Pizza Hut became one of the first restaurant brands in China to roll out contactless delivery nationwide. This arrangement helps us to reduce the risk of disease transmission and protect our guests, staff and riders, while maintaining delivery sales.

Restaurant Format Innovation

To supplement our growth, we are focusing on developing new restaurant formats and upgrading existing restaurants. We have developed multiple restaurant formats for KFC and Pizza Hut to meet different guest needs. For example, we are opening more small-format restaurant units which will provide us the flexibility for further market penetration. We are also reshaping certain restaurants by providing fewer seats and focusing more on delivery orders. In addition, we continuously look for ways to improve the guest experience. We have accelerated restaurant upgrades and remodeling to implement the latest technology, equipment and infrastructure and improve the dining experience. Over 80% of KFC restaurant units as of December 31, 2019 were remodeled or built in the past five years. Pizza Hut is also well-regarded for offering consumers a contemporary casual dining setting. In 2019,

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over 20% of Pizza Hut units were remodeled. Our brands also look to improve efficiency to drive sales growth. For example, we simplified our menu items and fine-tuned our digital menu boards and in-store self-service order kiosks.

R&D Center

In January 2019, we opened a world-class 27,000 square-foot innovation center in downtown Shanghai, which, to the best knowledge of Frost & Sullivan, is the largest innovation center in the restaurant industry in China in terms of gross floor area. The innovation center is an integrated research and development facility that has been designed to generate new ideas and concepts to enable the rapid roll-out of innovative products. Its state of the art facilities include a test kitchen, a sensory test area, a coffee training studio, as well as a suite of labs covering restaurant equipment and technology innovation, packaging innovation, new store model prototyping, quality assurance, and content production. The newly-established innovation center has already generated immense benefits to us in (i) inventing and developing new menu items with new ingredients as well as new cooking methods for catering to guests' local tastes; (ii) developing and prototyping new restaurant models to enhance the guest experience as well as operations efficiency; (iii) providing operational and technical trainings to new coffee baristas; (iv) innovating new restaurant equipment and technologies to improve sustainable growth and operational efficiency; and (v) developing new packaging materials and packaging solutions that are more environmentally friendly.

Operational Efficiency

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

Our in-house and integrated supply chain management system and logistics management system are driven by innovative digitalization and automation technologies. See “— Operational Management — Supply Chain Management” for details.

SUPPLIER

Our restaurants, including those operated by franchisees, are large purchasers of a number of food and paper products, equipment and other restaurant supplies. The principal items purchased include protein ingredients (including poultry, pork, beef and seafood), cheese, oil, flour and vegetables. The shelf life of vegetables is generally three days and the shelf lives of protein ingredients generally vary from six months to one year. Alternative sources for most of these products are generally available. During the Track Record Period and up to the Latest Practicable Date, we did not experience any incidents of food supply interruption, early termination of contractual arrangements with suppliers or failure to secure sufficient quantities of food materials that had a material adverse impact on us.

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Prices paid for supplies fluctuate. The chart below illustrates the sensitivity analysis of our food and paper costs on profit for the period indicated⁽¹⁾, assuming all other factors remain unchanged.

Hypothetical changes in food and paper costs of US\$1,051 million for the six months ended June 30, 2020

	<u>-10%</u>	<u>-5%</u>	<u>-2%</u>	<u>-1%</u>	<u>+1%</u>	<u>+2%</u>	<u>+5%</u>	<u>+10%</u>
	<i>(in millions of U.S. dollars)</i>							
Food and paper costs	946	998	1,030	1,040	1,062	1,072	1,104	1,156
Changes in food and paper costs in the six months ended June 30, 2020	(105)	(53)	(21)	(11)	11	21	53	105
Change in net income ⁽¹⁾	79	39	16	8	(8)	(16)	(39)	(79)

Hypothetical changes in food and paper costs of US\$2,479 million for the year ended December 31, 2019

	<u>-10%</u>	<u>-5%</u>	<u>-2%</u>	<u>-1%</u>	<u>+1%</u>	<u>+2%</u>	<u>+5%</u>	<u>+10%</u>
	<i>(in millions of U.S. dollars)</i>							
Food and paper costs	2,231	2,355	2,429	2,454	2,504	2,529	2,603	2,727
Changes in food and paper costs in 2019	(248)	(124)	(50)	(25)	25	50	124	248
Changes in net income ⁽¹⁾	186	93	37	19	(19)	(37)	(93)	(186)

Hypothetical changes in food and paper costs of US\$2,326 million for the year ended December 31, 2018

	<u>-10%</u>	<u>-5%</u>	<u>-2%</u>	<u>-1%</u>	<u>+1%</u>	<u>+2%</u>	<u>+5%</u>	<u>+10%</u>
	<i>(in millions of U.S. dollars)</i>							
Food and paper costs	2,093	2,210	2,279	2,303	2,349	2,373	2,442	2,559
Changes in food and paper costs in 2018	(233)	(116)	(47)	(23)	23	47	116	233
Changes in net income ⁽¹⁾	174	87	35	17	(17)	(35)	(87)	(174)

Hypothetical changes in food and paper costs of US\$2,034 million for the year ended December 31, 2017

	<u>-10%</u>	<u>-5%</u>	<u>-2%</u>	<u>-1%</u>	<u>+1%</u>	<u>+2%</u>	<u>+5%</u>	<u>+10%</u>
	<i>(in millions of U.S. dollars)</i>							
Food and paper costs	1,831	1,932	1,993	2,014	2,054	2,075	2,136	2,237
Changes in food and paper costs in 2017	(203)	(102)	(41)	(20)	20	41	102	203
Changes in net income ⁽¹⁾	153	76	31	15	(15)	(31)	(76)	(153)

(1) We apply the statutory tax rate of 25% in China for the calculation of the sensitivity analysis.

We have measures in place to effectively manage raw material costs in light of price fluctuations. When prices increase, the brands may attempt to pass on such increases to their guests, although there is no assurance that this can be done practically. We also control our raw material costs through entering into long-term bulk purchase agreements for our key food ingredients.

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We partner with over 800 independent suppliers, which are mostly China-based. We have maintained long-term business relationships of over 12 years with eight of the ten largest suppliers. We, along with multiple independently owned and operated distributors, utilize 25 logistics centers and six consolidation centers to distribute supplies to our own and franchise restaurant units, as well as to third-party customers. Our supply chain strategy of working with multiple suppliers, as well as the building of a vast logistics network, allows for continuous supply of products in the event that supply from an individual supplier or logistics center becomes unfeasible.

Starting from August 2016, we adopted a central procurement model whereby we centrally purchase the vast majority of food and paper products from approved suppliers for most of our restaurants. We believe this central procurement model allows us to maintain quality control and achieve better purchase prices and terms through volume purchases. Effective anti-kickback policies and procedures are crucial to the integrity of our procurement system. All of our employees, including those responsible for procurement, are required to complete FCPA training.

During the Track Record Period, our purchase amount from our five largest suppliers accounted for less than 30% of our total purchases for the six months ended June 30, 2020 and each of the years ended December 31, 2019, 2018 and 2017.

GUESTS AND MARKETING

Our restaurant brands have broad appeal. KFC opened its first restaurant in China as early as 1987, being the first major global restaurant brand to enter the China market, according to the F&S Report. Adapting to local market conditions and local tastes, we expanded rapidly across city tiers in China and established one of the largest network of self-operated restaurants and supply chain operations, ensuring quality and consistency of our products and services across China. As a result, dining at our KFC and Pizza Hut restaurants became the first taste of western food for many Chinese guests.

KFC and Pizza Hut each operates a loyalty program that allows registered members to earn points for each qualifying purchase, which may be redeemed for future purchases of KFC or Pizza Hut branded products or other products for free or at a discounted price. Our two billion guest visits per year provide a major target demographic for our digital member acquisition. Starting from May 2018, KFC and Pizza Huts' K-Gold programs were merged into a single program "V-Gold program", which was further upgraded in-house to include the loyalty programs for Taco Bell. We believe that one single loyalty program for multiple brands can create cross-selling opportunities. Members earn V-Gold points through purchases at our respective brands and may redeem these points for coupons or vouchers that may be used at other brands. For the six months ended June 30, 2020, approximately 15% of membership points redeemed were cross-brands. Almost 10% of points earned from KFC were spent on Pizza Hut products, and approximately 50% of points earned from Pizza Hut were spent on KFC products. As of June 30, 2020, KFC had over 240 million loyalty program members and Pizza Hut had over 75 million, each including approximately 50 million unique loyalty members for both KFC and Pizza Hut. Our marketing efforts reach these unique individuals to motivate sign ups at both KFC and Pizza Hut, and there is cross selling potential to drive KFC members to sign up for Pizza Hut memberships and vice versa. In the six months ended June 30, 2020, KFC member sales represented 63% of KFC's System sales and Pizza Hut member sales represented 49% of Pizza Hut's System sales.

Our loyalty program also enables us to generate additional revenue. For example, the average revenue per KFC and Pizza Hut's active loyalty program member almost doubled in 2019 as compared to that in 2016. Such a large number of loyalty program members in turn provides a

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substantial amount of valuable guest behavioral data. These valuable guest behavioral data enable us to perform big data and AI analysis and better understand the food and taste preferences of our guests, which inform our menu innovation endeavors and enable us to offer a variety of personalized value-added services, such as dish recommendations based on ordering history. See “—Innovation and Digitalization” for details. With decades of accumulated consumer know-how and loyalty in China, KFC and Pizza Hut are ingrained into the daily lives of Chinese consumers and have been established as leading restaurant brands in China.

In order to further enhance our guest loyalty, we also offer a subscription-based privilege membership program, which allows us to better implement targeted marketing efforts. KFC launched their privilege membership subscription program in July 2018 and Pizza Hut also launched a family privilege membership program in the fourth quarter of 2018. With such privilege membership subscription programs, members can receive different types of privileges that cater to their spending preferences, such as KFC’s delivery, breakfast and coffee privileges, as well as super privileges, which combines all three, and Pizza Hut’s family, delivery and steak privileges. Privilege subscription program members may also choose among monthly, quarterly or annual membership. We observed a greater-than doubling in frequency and overall spending for KFC privilege members during their subscription period. Because of broad appeal and strong brand awareness, since the launch of such privilege membership programs and up to June 30, 2020, we had sold approximately 26 million accumulative privilege membership subscriptions.

From time to time, we receive feedback or complaints from guests at our restaurants. To enhance guest satisfaction, we have established detailed procedures to handle complaints. Each restaurant staff member is required to resolve customer complaints promptly and each restaurant general manager is responsible for serious customer complaints or incidents. We take various remedial actions promptly to address guest complaints, including replacing dishes that were the subject of the customer’s complaints or waiving charges on dishes. During the Track Record Period, we did not experience any material customer complaint with respect to our restaurants that had a material adverse impact on us.

We design our branding, marketing and promotional strategies to enhance our brand image and awareness. We generally adopt an omni-channel marketing approach, including online advertising, social media campaigns and offline events and campaigns to enhance our brand awareness and brand recognition. In addition, we also engage celebrities as brand ambassadors to market our brands from time to time, which we believe can help to promote our brand image and drive our guest awareness, especially among the younger generation in China. Our marketing expenses incurred for stores in our system were US\$409 million for the year ended December 31, 2019. Sales and marketing spending relating to innovation accounted for approximately 40% of total marketing expenses, including marketing activities relating to our proprietary apps, customer relationship management, delivery and digital media advertising, among others.

During the Track Record Period, our revenue generated from our five largest customers accounted for less than 10% of our total revenues for the six months ended June 30, 2020 and each of the years ended December 31, 2019, 2018 and 2017.

COMPETITION

Data from the NBS indicates that sales in the restaurant industry in China totaled approximately US\$658 billion (equivalent to RMB4,672.1 billion) in 2019. Industry conditions vary by region, with local Chinese restaurants and western restaurant chains present, but we possess the largest market share (as measured by System sales according to

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the F&S Report). While branded QSR units per million population in China are well below that of the United States, competition in China is increasing. We compete with respect to food taste, quality, value, service, convenience, restaurant location and concept, concepts covering restaurant, delivery and shared kitchens. Specifically, with the proliferation of food delivery services in China, shared kitchens have gained increasing popularity in China as the shared kitchens can be rented to enable small-scale food preparation and leverage food delivery services to cater to the food delivery market. Food processors and small scale restaurant operators that utilize shared kitchen could pose competition to traditional fast food restaurants and restaurants' food delivery businesses. Shared kitchens enable players to address the evolving tastes of consumers with more flexibility and agility due to lowered capital expenditure and operating costs. However, shared kitchen participants may have less stringent food safety and quality standards, limited growth opportunities and lack of product development capabilities compared to scaled operators with strong brand recognition. The restaurant business is often affected by changes in consumer tastes; national, regional or local economic conditions; demographic trends; traffic patterns; the type, number and location of competing restaurants; and disposable income. We compete not only for consumers but also for management and hourly personnel and suitable restaurant sites. KFC's competitors in China are primarily western QSR brands such as McDonald's, Dicos and Burger King, and to a lesser extent, domestic QSR brands in China. Pizza Hut primarily competes with western CDR brands, including Domino's and Papa John's, as well as other domestic CDR brands in China.

PRICING

Generally, pricing of our menu items is determined by our headquarters. Pricing is set and updated periodically based on costs and prevailing market conditions (including prices of our competitors). Within the same brand, prices for the same menu items may differ across different restaurants based on location type, geographical region and channels. These pricing differences reflect cost conditions, income levels, market trends and customer feedback.

SEASONALITY

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

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EMPLOYEES

As of June 30, 2020, we employed 405,241 persons, substantially all of whom are located in China. As of the same date, we had 877 employees who are responsible for marketing, information technology, food innovation, packaging, equipment and restaurant excellence at our headquarters and regional offices, the majority of whom were involved in our innovative activities. Our employees include both full-time and part-time employees, and our employee count may fluctuate from time to time due to seasonality. The table below sets forth a breakdown of our employees by function as of June 30, 2020.

	Number of Employees
Restaurant level	
Restaurant management team	32,867
Restaurant crew member	363,424
Headquarters, regional offices and logistics centers	
Operational management	3,222
Site development and construction management	1,307
Supply chain management	1,129
Marketing, information technology, food innovation, packaging, equipment and restaurant excellence	877
Food safety and quality assurance	304
Others ⁽¹⁾	2,111
Total	405,241

(1) Others primarily include staff that are responsible for finance, human resources, public affairs, legal and other supporting functions.

We have always been committed to creating a fair, inclusive and diverse workplace for our employees as we believe they are our most valuable assets. We offer comprehensive compensation and benefits package to ensure our employees are rewarded for their individual contributions. Our employee Code of Conduct holds every employee accountable for treating our colleagues with respect and fairness, allowing them to be recognized and rewarded based on their performance. We have established an independent labor union, which all employees are encouraged to join.

As RGMs hold the most important leadership positions in the Company and are responsible for day-to-day management of each restaurant unit, we believe RGMs' strong sense of ownership and pursuit of excellence will help us continue to grow and generate good returns for shareholders and for RGMs themselves. We implemented a systematic training plan to provide a comprehensive career progression path for RGMs. We also offer certain stock ownership programs for eligible RGMs. We hold an annual RGM convention that brings together RGMs from across China. At this event, our RGMs come together to experience and learn more about Yum China's culture and development plans. At the same time, the RGM convention also serves as an important platform for RGMs to share insights and experiences, as well as to motivate each other for the year ahead. In 2018, we implemented the RGM Family Care Program to provide additional supplemental insurance coverage for family members of eligible RGMs who have worked at the RGM position for over two years and we proactively expanded the RGM Family Care Program to provide health insurance coverage for all restaurant management team members.

Our commitment to employees is reflected in the numerous awards we have received, including the Top Employer China for 2020 awarded by the Top Employers Institute and the 2018 Best Community Program awarded at the Global CSR Summit. In addition, we were

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among the first companies in the PRC to be included in the 2019 Bloomberg Gender Equality Index.

PROPERTIES

As of June 30, 2020, we leased land, building or both for over 7,400 units in China. We believe that our properties are generally in good operating condition and are suitable for the purposes for which they are being used. The Company-owned units are further detailed as follows:

- KFC leased land, building or both (including land use rights) for approximately 5,202 units;
- Pizza Hut leased land, building or both (including land use rights) for approximately 2,137 units; and
- in addition to KFC and Pizza Hut, we also leased land, building or both (including land use rights) for approximately 97 units for our other restaurant brands.

Company-owned restaurants in China are generally leased for initial terms of 10 to 20 years and generally do not have renewal options. We also lease our corporate headquarters in Shanghai and Dallas, Texas in the U.S., and regional offices and an innovation center in China, and own land use rights for seven non-store properties of Little Sheep, Huang Ji Huang and logistics centers. We sublease over 170 properties to franchisees and other third parties.

INTELLECTUAL PROPERTY

Our use of certain material trademarks and service marks is governed by a master license agreement between us and YUM. Pursuant to the master license agreement, we are the exclusive licensee of the KFC, Pizza Hut and, subject to achieving certain agreed upon milestones, Taco Bell brands and their related marks and other intellectual property rights for restaurant services in the PRC, excluding Hong Kong, Taiwan and Macau. The term of the license is 50 years with automatic renewals for additional consecutive renewal terms of 50 years each, subject only to us being in “good standing” and unless we give notice of our intent not to renew. In exchange, we pay a license fee to YUM equal to 3% of net System sales of the licensed brands. We have also agreed generally not to compete with YUM. As such, we are able to enjoy, and have been enjoying the value of the well-recognized international brands owned by YUM. In addition, we were also granted a right of first refusal to develop and franchise in the PRC certain restaurant concepts that YUM may develop or acquire. We were granted by YUM a royalty-free license to use the name and mark of “YUM” as part of our name, domain name and stock identification symbol pursuant to a name license agreement entered into by and between YUM and us on October 31, 2016. The name license agreement can only be terminated by YUM in the event of, among other things, material breach of the agreement by us. Our use of certain other material intellectual property (including intellectual property in product recipes, restaurant operation and restaurant design) is likewise governed by the master license agreement with YUM.

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

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As of June 30, 2020, we had 50 registered patents and 10 publicly filed patent applications in China, which cover key areas of our business, including Super Apps, ordering, delivery, payment, marketing, loyalty program, membership management, supply chain and packaging. We have also registered over 530 trademarks in China and various other countries and jurisdictions.

INSURANCE

We have obtained insurance policies that we believe are customary and appropriate for businesses of our size and type and in line with the standard commercial practice in China. See “Risk Factors — Risks Relating to Our Business and Industry — Our insurance policies may not provide adequate coverage for all claims associated with our business operations.” for details.

OCCUPATIONAL HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We are subject to environmental protection and occupational health and safety laws and regulations in the PRC. For details on our environmental protection efforts, see “— Sustainability — Restaurant Sustainability.” During the Track Record Period, we complied with the relevant applicable environmental and occupational health and safety laws and regulations in all material respects in the PRC. Our environmental protection expenses were not material during the Track Record Period and is expected to remain at similar levels. We strive to provide a safe working environment for our employees and implement work safety guidelines for all of our employees.

LEGAL PROCEEDINGS

We are subject to various lawsuits covering a variety of allegations from time to time. We believe that the ultimate liability, if any, in excess of amounts already provided for these matters in the Accountants’ Report as set out in Appendix I to this prospectus, is not likely to have a material adverse effect on the our results of operations, financial condition or cash flows. Matters faced by us from time to time include, but are not limited to, claims from landlords, employees, guests and others related to operational, contractual or employment issues. We were not involved in any material legal proceedings as of the Latest Practicable Date.

COMPLIANCE, LICENSES AND PERMITS

We are subject to various laws affecting our business, including laws and regulations concerning information security, labor, health, sanitation, environmental protection and safety. In accordance with the relevant laws and regulations in the PRC, we are required to obtain various approvals, licenses, permits, registrations and filings to operate our restaurant business, including (1) the relevant food business license; (2) the environmental protection assessment and inspection registration or approval; and (3) the fire safety inspection acceptance approval or other alternatives, which could be obtained upon satisfactory compliance with, among other things, the applicable laws and regulations in relation to food safety, environmental protection and fire safety. The food business license normally has a validity period of five years according to applicable PRC laws and regulations. The environmental protection assessment and inspection registration or approval, and the fire safety inspection acceptance approval or alternative approval do not have validity periods under applicable PRC laws and regulations.

Our PRC Legal Advisor is of the opinion that, to the extent that our PRC legal Advisor has conducted PRC legal due diligence on the Major Subsidiaries incorporated in the PRC (not

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including the branches of each of the Major Subsidiaries) and certain selected Company-owned restaurants, during the Track Record Period, the Major Subsidiaries incorporated in the PRC complied with applicable PRC laws and regulations in all material respects, and obtained all requisite licenses and approvals that were material for their operations in the PRC, and that as at the Latest Practicable Date, these licenses and approvals required for their operations remained valid and in effect in material respects and that no material legal impediment to their renewal existed. In addition, as of the Latest Practicable Date, we owned two ICP licenses (互聯網信息服務業務經營許可證) with respect to Daojia's online food delivery business. For details of our acquisition of Daojia, see "Our History and Corporate Structure — Corporate Structure." We have not historically been materially adversely affected by such licensing and regulation or by any difficulty, delay or failure to obtain required licenses or permits.

RISK MANAGEMENT AND INTERNAL CONTROL

We had a long history of internal control in accordance with the United States standards and we have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations. We have established three Board committees to oversee specific risks in our business operations, including the Audit Committee, Compensation Committee and Food Safety Committee. The Audit Committee engages in substantive discussions with our management regarding our major risk exposures and the steps management has taken to monitor and control such exposure, including our risk assessment and risk management policies. The Compensation Committee oversees the risks that may be implicated by our compensation program. The Food Safety Committee oversees the risks arising from our food safety practice. For details of the functions and composition of these Board Committees, see "Directors, Senior Management and Employees — Board Practices — Board Committees."

Specifically, due to the complexity of the food supply chain, we maintain a high degree of vigilance in order to ensure the effective operations of our food safety management system. We have established a dynamic food safety risk monitoring system allowing for detailed quality management according to the characteristics of different types of raw materials and food contact materials. This system, which was established based on risk research and assessment, ensures effective risk management and early warning, and has strengthened our food safety protection systems. At the same time, risk assessments are regularly conducted on restaurant operations and delivery. Our quality assurance department holds risk assessment meetings with relevant departments every month. Risk assessments are based on several factors including industry dynamics, media coverage, government supervision, sampling test reports, food laws and regulations, and supply chain management, among others. The assessments carefully evaluate food safety risks, quality risks, regulatory risks, food fraud and other risks, based on assessment levels, which contribute to the improvement of management systems and introduction of new management measures.

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

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ENVIRONMENT, SOCIAL AND GOVERNANCE

Sets forth below are key components of our environment, social and governance efforts.

- *Nutritious food.* We are committed to providing safe and nutritious food in a way that is economically, socially and environmentally sustainable. For example, we advocated well balanced diet, less sugar, less oil, less salt by using a wide variety of ingredients such as meat, poultry, grains, dairy products, fruits and vegetables and application of multiple cooking methods in the preparation of food, including frying, roasting, boiling, sautéing and grilling. We increase the use of grains, fruits and vegetables, beans and nuts to enrich menu choices and provide customers with balanced meals. For example, we use more than 50 varieties of fruits and vegetables in our food.
- *Packaging.* We aim to reduce our environmental footprint through 4R Principles (Reduce, Reuse, Recycle and Replace) with the application of new packaging solutions, new materials, innovative technologies and various other methods. We follow local regulations on classification of waste generated during restaurant operation, and engage our customers and other stakeholders to drive for plastic and waste reduction. In 2019, we saved over 8,000 tons of paper packaging and 1,000 tons of plastic packaging through packaging reduction initiatives; and saved more than 2,000 tons of paper packaging and reduced approximately 20% of restaurant waste through the use of reusable serving basket. The reusable serving baskets have been rolled to all KFC restaurants across China.
- *Food waste.* We also strive to reduce food waste at our restaurants. In 2019, we introduced sophisticated kitchen equipment and AI technology for precise production forecasting, improved cold chain to reduce food loss, and strengthened the back of house operation, which effectively reduced the loss and waste of chicken products. We successfully saved about 50 tons of food loss through these technologies in 2019.
- *Supply chain.* We are dedicated to developing innovative programs to improve sustainability performance across our supply chain. Since becoming a member of Roundtable on Sustainable Palm Oil (“RSPO”) in 2017, all of our purchased palm oil has been RSPO certified. We only purchase poultry from large-scale poultry suppliers that demonstrate and maintain compliance with animal welfare regulations and practices, as well as our animal welfare guidelines. Further, we have also promote Yum China Good Agricultural Practices at upstream vegetable bases with rigorous control of base selection, soil and water safety, planting technology, pesticide management, fertilizer use, and good practices operations.
- *Social and community.* Our social and community sustainability efforts primarily focus on four areas — poverty. alleviation, community care, child and youth development and advocacy for healthy lifestyles. We founded “The One Yuan Donation” program in 2008 in partnership with China Foundation for Poverty Alleviation. We also launched KFC Angel Restaurants in 2012. In 2016, KFC partnered with the China Children and Teenagers’ Fund to launch a fund for left behind and migrant children.
- *Corporate Governance.* We had a long history of internal control in accordance with the United States standards and we have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations. We have established three Board committees to oversee specific risks in our business operations, including the Audit Committee, Compensation Committee and Food Safety Committee.