You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements included in "Appendix I — Accountants' Report" to this prospectus, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with U.S. GAAP, which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors. We discuss factors that we believe could cause or contribute to these differences below and elsewhere in this prospectus, including those set forth in "Risk Factors" and "Forward-Looking Statements" in this prospectus.

Tabular amounts are displayed in millions of U.S. dollars except per share and unit count amounts, or as otherwise specifically identified. Percentages may not re-compute due to rounding. Throughout this prospectus when we refer to the "financial statements," we are referring to the "consolidated financial statements," unless the context indicates otherwise.

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. 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. We also 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. 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. 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.

KFC is the leading and the largest 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 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 have two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of Little Sheep, Huang Ji Huang, East Dawning, Taco Bell, Daojia, COFFii & JOY and our e-commerce business, are combined and referred to as "all other segments", as those operating segments are insignificant both individually and in the aggregate. For additional details of our reportable operating segments, see Note 17 of "Appendix I — Accountants' Report."

We intend for this financial information section to provide the reader with information that will assist in understanding our results of operations, including metrics that management uses to assess the Company's performance. Throughout this section, we discuss the following performance metrics:

- We provide certain percentage changes excluding the impact of foreign currency translation ("**F/X**"). These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the F/X impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.

- System sales growth reflects the results of all restaurants regardless of ownership, including Company-owned, franchise and unconsolidated affiliate restaurants that operate our concepts, except for sales from non-Company-owned restaurants, for which we do not receive a sales-based royalty ("**System sales**"). Sales of franchise and unconsolidated affiliate restaurants typically generate ongoing franchise fees for the Company at a rate of approximately 6% of System sales. Franchise and unconsolidated affiliate restaurant sales are not included in Company sales in the consolidated statements of income; however, the franchise fees are included in the Company's revenues. We believe System sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit growth.

- Same-store sales growth ("**Same-store sales growth**") represents the estimated percentage change in sales of food of all restaurants in the Company system that have been open prior to the first day of our prior fiscal year, excluding the period during which stores are temporarily closed. We refer to these as our "base" stores.

- Company sales ("**Company sales**") represent revenues from Company-owned restaurants. Company Restaurant profit ("**Restaurant profit**") is defined as Company sales less expenses incurred directly by our Company-owned restaurants in generating Company sales. Company restaurant margin ("**Restaurant margin**") percentage is defined as Restaurant profit divided by Company sales. Within the Company sales and Restaurant profit analysis, Store portfolio actions ("**Store portfolio actions**") represent the net impact of new-unit openings, acquisitions, refranchising and store closures, and Other ("**Other**") primarily represents the impact of same-store sales as well as the impact of changes in restaurant operating costs such as inflation/deflation.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Expansion of Our Restaurant 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. 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[(2)]				
KFC	92	118	144	144
Pizza Hut	42	91	112	66
Other brands	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	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) 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.

For details of our expansion strategy, see "Business — Business Strategy — Continue to strategically expand our restaurant network."

Same-Store Sales Growth

Same-store sales growth is a significant indicator of the overall strength of our business. 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%

System Sales Growth

We believe System sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit growth.

Set forth below is our System sales growth/(decline) for the period indicated.

	For the six months ended June 30,	For the year ended December 31,	
	2020	2019	2018
System sales growth/(decline)	(16)%	4%	7%
System sales growth/(decline), excluding F/X	(13)%	9%	5%

Restaurant Profit and Margin

The following table sets forth our Restaurant profit and Restaurant margin for the period indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2018		2017		2020		2019	
	Restaurant profit	Restaurant margin	Restaurant profit	Restaurant margin	Restaurant profit	Restaurant margin	Restaurant profit	Restaurant margin	Restaurant profit	Restaurant margin
	(in millions of U.S. dollars, except percentages)									
KFC	1,042	17.8%	984	17.9%	877	18.0%	349	14.1%	534	18.1%
Pizza Hut	227	11.1%	215	10.3%	292	13.9%	48	6.4%	135	12.9%
Overall	1,266	16.0%	1,199	15.7%	1,171	16.7%	396	12.2%	669	16.7%

Our Restaurant margin was 16.0%, 15.7% and 16.7% in 2019, 2018 and 2017, respectively, primarily due to changes in Restaurant margin of Pizza Hut while the Restaurant margin of KFC remained relatively stable during these periods. Our Restaurant margin was 12.2% and 16.7% for the six months ended June 30, 2020 and 2019, respectively, primarily due to the adverse impact from the COVID-19 pandemic. For details, see "— Results of Operations — Segment Results."

RESULTS OF OPERATIONS

Summary

All comparisons within this summary are versus the same period a year ago. For a discussion of the seasonality of our operations, see "Business — Seasonality." NM refers to changes over 100%, from negative to positive amounts or from zero to an amount. %B/(W) represents period-over-period change in percentage.

As compared to the six months ended June 30, 2019, our total revenues for the same period in 2020 decreased 17%, or 15% excluding the impact of F/X, primarily due to the decrease of Company sales for the six months ended June 30, 2020 which was driven by same-store sales decline and temporary store closures due to the impact of the COVID-19 pandemic, partially offset by the net unit growth. As compared to the six months ended June 30, 2019, the decrease in operating profit for the same period in 2020 was primarily driven by same-store sales declines, temporary store closures, commodity inflation and higher store impairment charges, partially offset by labor efficiency, one-time reductions in social security contributions and lease concessions, and utilities savings. As compared to the six months ended June 30, 2019, net income for the same period in 2020 decreased 52%, or 50%, excluding F/X, mainly due to the decrease in our operating profit.

As compared to 2018, our total revenues in 2019 increased 4%, or 9% excluding the impact of F/X, attributable to solid sales performance at KFC with same-store sales growth of 4% and 1% same-store sales growth at Pizza Hut. The increase was also attributable to new-unit openings of 1,006 or 8% net unit growth, bringing total store count to 9,200 in over 1,300 cities. As compared to 2018, the increase in operating profit in 2019, excluding the impact of F/X, was primarily driven by strong sales and margin expansion, partially offset by the negative impact from lapping a gain recognized from re-measurement of our previously held equity interest in Wuxi KFC at fair value upon acquisition in 2018, and higher G&A expenses in 2019. As compared to 2018, net income for 2019 increased 1%, or 6%, excluding F/X, mainly due to investment gain and the increase in operating profit, partially offset by the impact from the U.S. Tax Act, while Adjusted Net Income[(1)], excluding F/X, increased 26%.

As compared to 2017, our total revenues in 2018 increased 8%, or 6% excluding the impact of F/X, attributable to solid sales performance at KFC with same-store sales growth of 2%. The increase was also attributable to new-unit openings of 819 or 6% net unit growth, bringing total store count to 8,484 across more than 1,200 cities. As compared to 2017, the increase in operating profit in 2018, excluding the impact of F/X, was driven by strong sales, a gain recognized from re-measurement of our previously held equity interest in Wuxi KFC at fair value upon acquisition, G&A expenses savings and productivity improvements, partially offset by wage and commodity inflation, and higher investment in product upgrades and promotions. As compared to 2017, net income for 2018 increased 78%, or 70% excluding F/X, mainly due to the increase in operating profit and impact from the U.S. Tax Act, partially offset by investment loss, while Adjusted Net Income[(1)], excluding F/X, increased 4%.

Financial highlights of 2019 compared to 2018, 2018 compared to 2017 and the six months ended June 30, 2020 compared to the six months ended June 30, 2019 are presented below. Percentage changes in System sales and same-store sales presented in the tables below are excluding the impact of F/X.

	% Change				
	2019 vs. 2018				
	System sales	Same-store sales	Net new units	Operating profit (Reported)	Operating profit (Ex F/X)
KFC	11	4	11	6	11
Pizza Hut	3	1	2	17	22
All other segments[(1)]	7	(12)	15	(13)	(17)
Total	9	3	8	(4)	1

(1) See "— Non-GAAP Measures" for definitions and reconciliations of the most directly comparable U.S. GAAP financial measures to the non-GAAP measures.

(1) Sales from non-Company-owned restaurants, for which we do not receive a sales-based royalty, are excluded from System sales and same-store sales.

	% Change 2018 vs. 2017				
	System sales	Same-store sales	Net new units	Operating profit (Reported)	Operating profit (Ex F/X)
KFC	7	2	8	11	8
Pizza Hut	(1)	(5)	2	(38)	(41)
All other segments(1)	(20)	(7)	11	(9)	(16)
Total	5	1	6	21	16

(1) Sales from non-Company-owned restaurants are excluded from System sales and same-store sales.

	% Change 2020 1H vs. 2019 1H				
	System sales	Same-store sales	Net new units	Operating profit (Reported)	Operating profit (Ex F/X)
KFC	(10)	(11)	9	(37)	(34)
Pizza Hut	(25)	(22)	–	NM(1)	NM(1)
All other segments(2)	69	(29)	NM(1)	(31)	(33)
Total	(13)	(13)	14	(56)	(54)

(1) NM refers to changes over 100%, from negative to positive amounts or from zero to an amount.
(2) Sales from non-Company-owned restaurants, for which we do not receive a sales-based royalty, are excluded from system sales and same-store sales.

The following table sets forth select data from our consolidated statements of income and other data for the period indicated.

	For the year ended December 31,			For the six months ended June 30,		%B/(W)(1)					
	2019	2018	2017	2020	2019	2019		2018		2020 1H	
					(unaudited)	Reported	Ex F/X	Reported	Ex F/X	Reported	Ex F/X
	(in millions of U.S. dollars, except percentages and per share data)										
Company sales	7,925	7,633	6,993	3,240	4,015	4	9	9	7	(19)	(16)
Franchise fees and income	148	141	141	72	75	5	9	1	(2)	(4)	(1)
Revenues from transactions with franchisees and unconsolidated affiliates	654	603	599	318	324	9	13	1	(1)	(2)	1
Other revenues	49	38	36	26	14	31	34	4	4	86	94
Total revenues	**8,776**	**8,415**	**7,769**	**3,656**	**4,428**	4	9	8	6	(17)	(15)
Restaurant profit	**1,266**	**1,199**	**1,171**	**396**	**669**	6	11	2	(1)	(41)	(39)
Restaurant margin %	16.0%	15.7%	16.7%	12.2%	16.7%	0.3 ppts.	0.3 ppts.	(1.0) ppts.	(1.0) ppts.	(4.5) ppts.	(4.5) ppts.
Operating profit	**901**	**941**	**778**	**225**	**507**	(4)	1	21	16	(56)	(54)
Interest income, net	39	36	25	17	19	7	12	47	44	(8)	(4)
Investment gain (loss)	63	(27)	–	37	27	NM	NM	NM	NM	40	40
Income tax provision	(260)	(214)	(379)	(77)	(139)	(21)	(26)	43	45	44	43

	For the year ended December 31,			For the six months ended June 30,		%B/(W)[1]					
	2019	2018	2017	2020	2019	2019		2018		2020 1H	
					(unaudited)	Reported	Ex F/X	Reported	Ex F/X	Reported	Ex F/X
	(in millions of U.S. dollars, except percentages and per share data)										
Net income – including non-controlling interests	743	736	424	202	414	1	6	74	66	(51)	(49)
Net income – non-controlling interests	30	28	26	8	14	(6)	(11)	(7)	(4)	44	42
Net income – Yum China Holdings, Inc.	**713**	**708**	**398**	**194**	**400**	1	6	78	70	(52)	(50)
Diluted Earnings Per Common Share	1.84	1.79	1.00	0.50	1.03	3	8	79	71	(51)	(50)
Effective tax rate	25.9%	22.6%	47.2%	27.8%	25.2%						
Supplementary information – Non-GAAP Measures[2]											
Adjusted Operating Profit	912	855	775	230	507						
Adjusted Net Income	729	606	559	199	408						
Adjusted Diluted Earnings Per Common Share	1.88	1.53	1.40	0.51	1.05						
Adjusted Effective Tax Rate	24.9%	26.5%	26.9%	27.3%	23.8%						
Adjusted EBITDA	1,378	1,340	1,242	480	749						

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

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

Non-GAAP Measures

In addition to the results provided in accordance with GAAP throughout this section, the Company provides non-GAAP measures adjusted for Special Items, which include Adjusted Operating Profit, Adjusted Net Income, Adjusted Earnings Per Common Share, Adjusted Effective Tax Rate and Adjusted EBITDA, which we define as net income including non-controlling interests adjusted for income tax, interest income, net, investment gain or loss, certain non-cash expenses, consisting of depreciation and amortization as well as store impairment charges, and Special Items.

The following tables set forth the reconciliations of the most directly comparable U.S. GAAP financial measures to the non-GAAP adjusted financial measures.

	For the year ended December 31,			For the six months ended June 30,	
	2019	2018	2017	2020	2019
	(in millions of U.S. dollars, except percentages and per share data)				
Non-GAAP Reconciliations					
Reconciliation of Operating Profit to Adjusted Operating Profit					
Operating profit	901	941	778	225	507
Special Items, operating profit[a]	(11)	86	3	(5)	–
Adjusted Operating Profit	912	855	775	230	507

	For the year ended December 31,			For the six months ended June 30,	
	2019	2018	2017	2020	2019
	(in millions of U.S. dollars, except percentages and per share data)				
Reconciliation of Net Income to Adjusted Net Income					
Net income – Yum China Holdings, Inc.	713	708	398	194	400
Special Items, net income – Yum China Holdings, Inc.[(a)]	(16)	102	(161)	(5)	(8)
Adjusted Net Income – Yum China Holdings, Inc.	729	606	559	199	408
Reconciliation of Earnings Per Common Share to Adjusted Earnings Per Common Share					
Basic Earnings Per Common Share	1.89	1.84	1.03	0.51	1.06
Special Items, Basic Earnings Per Common Share	(0.04)	0.26	(0.41)	(0.02)	(0.02)
Adjusted Basic Earnings Per Common Share	1.93	1.58	1.44	0.53	1.08
Diluted Earnings Per Common Share	1.84	1.79	1.00	0.50	1.03
Special Items, Diluted Earnings Per Common Share	(0.04)	0.26	(0.40)	(0.01)	(0.02)
Adjusted Diluted Earnings Per Common Share	1.88	1.53	1.40	0.51	1.05
Reconciliation of Effective Tax Rate to Adjusted Effective Tax Rate					
Effective tax rate[(b)]	25.9%	22.6%	47.2%	27.8%	25.2%
Impact on effective tax rate as a result of Special Items	1.0%	(3.9)%	20.3%	0.5%	1.4%
Adjusted Effective Tax Rate	24.9%	26.5%	26.9%	27.3%	23.8%

(a) Special Items for the six months ended June 30, 2020 and the years ended December 31, 2019, 2018 and 2017 consist of derecognition of indemnification assets related to Daojia, share-based compensation cost recognized for a special award of performance stock units ("Partner PSU Awards") granted to select employees, impairment on intangible assets and goodwill attributable to the Daojia business, impact from the U.S. Tax Act, gain recognized from the remeasurement of our previously held equity interest in Wuxi KFC at fair value upon acquisition, and income from the reversal of contingent consideration previously recorded for a business combination. For details, see "— Details of Special Items."

(b) For more details of income taxes, see Note 16 of "Appendix I — Accountants' Report."

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

	For the year ended December 31,			For the six months ended June 30,	
	2019	2018	2017	2020	2019
	(in millions of U.S. dollars)				
Reconciliation of Net Income to Adjusted EBITDA					
Net income – Yum China Holdings, Inc.	713	708	398	194	400
Net income – non-controlling interests	30	28	26	8	14
Income tax provision	260	214	379	77	139
Interest income, net	(39)	(36)	(25)	(17)	(19)
Investment (gain) loss	(63)	27	–	(37)	(27)
Operating profit	901	941	778	225	507
Special Items, operating profit[(a)]	11	(86)	(3)	5	–
Adjusted Operating Profit	912	855	775	230	507
Depreciation and amortization	428	445	409	214	217
Store impairment charges	38	40	58	36	25
Adjusted EBITDA	1,378	1,340	1,242	480	749

(a) For details, see "— Details of Special Items."

Details of Special Items

Details of Special Items are presented below:

	For the year ended December 31,			For the six months ended June 30,	
	2019	2018	2017	2020	2019
	(in millions of U.S. dollars, except percentages and per share data)				
Daojia impairment[(1)]	(11)	(12)	–	–	–
Gain from re-measurement of equity interest upon acquisition[(2)]	–	98	–	–	–
Income from the reversal of contingent consideration[(3)]	–	–	3	–	–
Derecognition of indemnification assets related to Daojia[(4)]	–	–	–	(3)	–
Share-based compensation expense for Partner PSU Awards[(5)]	–	–	–	(2)	–
Special Items, operating profit	(11)	86	3	(5)	–
Tax effect on Special Items[(6)]	1	(21)	–	–	–
Impact from the U.S. Tax Act[(7)]	(8)	36	(164)	–	(8)
Special Items, net income – including non-controlling interests	(18)	101	(161)	(5)	(8)
Special Items, net income – non-controlling interests[(1)]	(2)	(1)	–	–	–
Special Items, net income – Yum China Holdings, Inc.	(16)	102	(161)	(5)	(8)
Weighted-average diluted shares outstanding (in millions)	388	395	398	387	389
Special Items, Diluted Earnings Per Common Share	(0.04)	0.26	(0.40)	(0.01)	(0.02)

(1) During the years ended December 31, 2019 and 2018, we recorded impairment charges of US$11 million and US$12 million, respectively, on intangible assets and goodwill attributable to the Daojia business. The amount was included in closures and impairment expenses in our consolidated statements of income, but was not allocated to any segment for performance reporting purposes. For the years ended December 31, 2019 and 2018, we recorded tax benefits of US$1 million and US$3 million, respectively, associated with the Daojia impairment, and allocated US$2 million and US$1 million of the after-tax impairment charges to non-controlling interests, respectively. For more details of the Daojia impairment, see Note 5 of "Appendix I — Accountants' Report."

(2) As a result of the acquisition of Wuxi KFC in the first quarter of 2018, we recognized a gain of US$98 million from the re-measurement of our previously held 47% equity interest at fair value, which was not allocated to any segment for performance reporting purposes. For more details of the gain from re-measurement of equity interest upon acquisition, see Note 5 of "Appendix I — Accountants' Report."

(3) During the year ended December 31, 2017, we recognized income from the reversal of contingent consideration previously recorded for a business combination as the likelihood of making payment became remote.

(4) For the six months ended June 30, 2020, we derecognized a $3 million indemnification asset previously recorded for the Daojia acquisition as the indemnification right pursuant to the purchase agreement expired. The expense was included in Other income, net, but was not allocated to any segment for performance reporting purposes.

(5) In February 2020, we granted Partner PSU Awards to select employees who were deemed critical to the Company's execution of its strategic operating plan. These PSU awards will only vest if threshold performance goals are achieved over a four-year performance period, with the payout ranging from 0% to 200% of the target number of shares subject to the PSU awards. Partner PSU Awards were granted to address increased competition for executive talent, motivate transformational performance and encourage management retention. Given the unique nature of these grants, the Compensation Committee does not intend to grant similar, special grants to the same employees during the performance period. The impact from these special awards is excluded from metrics that management uses to assess the Company's performance. We recognized share-based compensation cost of $2 million associated with the Partner PSU Awards for the six months ended June 30, 2020.

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

(7) We incurred an estimated one-time income tax charge of US$164 million in the fourth quarter of 2017, as a result of the U.S. Tax Act, due to the transition tax on deemed repatriation of accumulated undistributed earnings of foreign subsidiaries, and additional tax related to the revaluation of certain deferred tax assets. In the fourth quarter of 2018, we recognized a tax benefit of US$36 million as a result of adjusting the provisional amount of the transition tax previously recorded. We completed the evaluation of the impact on our transition tax computation based on the final regulations that were released by the U.S. Treasury Department and the IRS and became effective in the first quarter of 2019, and recorded an additional tax expense of US$8 million for the transition tax accordingly in the first quarter of 2019.

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

These adjusted measures are not intended to replace the presentation of our financial results in accordance with U.S. GAAP. Rather, the Company believes that the presentation of these adjusted measures provides additional information to investors to facilitate the comparison of past and present results, excluding those items that the Company does not believe are indicative of our ongoing operations due to their nature.

Segment Results

KFC

	For the year ended December 31,			For the six months ended		%B/(W)					
	2019	2018	2017	2020	2019	2019		2018		2020 1H	
					(unaudited)	Reported	Ex F/X	Reported	Ex F/X	Reported	Ex F/X
	(in millions of U.S. dollars, except percentages)										
Company sales	5,839	5,495	4,863	2,480	2,949	6	11	13	10	(16)	(13)
Franchise fees and income	136	132	134	65	69	2	7	(1)	(3)	(7)	(3)
Revenues from transactions with franchisees and unconsolidated affiliates	64	61	69	31	32	6	10	(12)	(13)	(1)	2
Other revenue	1	–	–	–	–	NM	NM	NM	NM	(12)	(9)
Total revenues	**6,040**	**5,688**	**5,066**	**2,576**	**3,050**	6	11	12	10	**(16)**	**(13)**
Restaurant profit	**1,042**	**984**	**877**	**349**	**534**	6	11	12	9	**(35)**	**(32)**
Restaurant margin %	17.8%	17.9%	18.0%	14.1%	18.1%	(0.1) ppts.	(0.1) ppts.	(0.1) ppts.	(0.1) ppts.	(4.0) ppts.	(4.0) ppts.
G&A expenses	207	193	176	88	98	(7)	(12)	(10)	(8)	10	7
Franchise expenses	69	69	69	32	35	–	(5)	(2)	4	11	7
Expenses for transactions with franchisees and unconsolidated affiliates	64	60	70	31	32	(5)	(8)	11	12	1	(2)
Closure and impairment expenses, net	9	10	20	11	7	15	13	48	49	(64)	(73)
Other income, net	(56)	(50)	(57)	(29)	(30)	10	15	(11)	(13)	–	3
Operating profit	**949**	**895**	**802**	**312**	**493**	6	11	11	8	**(37)**	**(34)**

Performance Metrics

	2020 1H	2019	2018
System sales growth /(decline)	(14)%	6%	10%
System sales growth /(decline), excluding F/X	(10)%	11%	7%
Same-store sales growth /(decline)	(11)%	4%	2%

Unit Count

					% Increase		
	2020 1H	2019	2018	2017	2020 1H	2019	2018
Company-owned	5,231	5,083	4,597	4,112	N/A[(1)]	11	12
Unconsolidated affiliates	947	896	811	891	N/A[(1)]	10	(9)
Franchisees	571	555	502	485	N/A[(1)]	11	4
Total	**6,749**	**6,534**	**5,910**	**5,488**	N/A[(1)]	11	8

(1) The "% increase" only indicates year-to-year comparison at year-end of the unit count and therefore the % increase for the six months ended June 30, 2020 is not applicable.

	2019	New Builds	Closures	Refranchised	2020 1H
Company-owned	5,083	227	(79)	–	5,231
Unconsolidated affiliates	896	63	(12)	–	947
Franchisees	555	17	(1)	–	571
Total	**6,534**	**307**	**(92)**	**–**	**6,749**

	2018	New Builds	Closures	Refranchised	2019
Company-owned	4,597	586	(83)	(17)	5,083
Unconsolidated affiliates	811	106	(21)	–	896
Franchisees	502	50	(14)	17	555
Total	**5,910**	**742**	**(118)**	**–**	**6,534**

	2017	New Builds	Acquired[(1)]	Closures	Refranchised	2018
Company-owned	4,112	443	159	(108)	(9)	4,597
Unconsolidated affiliates	891	98	(157)	(21)	–	811
Franchisees	485	25	(2)	(15)	9	502
Total	**5,488**	**566**	**–**	**(144)**	**–**	**5,910**

(1) 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.

	2016	New Builds	Closures	Refranchised	2017
Company-owned	3,913	320	(111)	(10)	4,112
Unconsolidated affiliates	836	73	(16)	(2)	891
Franchisees	475	15	(17)	12	485
Total	**5,224**	**408**	**(144)**	**–**	**5,488**

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

- Company Sales and Restaurant Profit

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

	Six months ended June 30,				
Income (Expense)	**2019**	**Store portfolio actions**	**Other**	**F/X**	**2020**
	(in millions of U.S. dollars)				
Company sales	2,949	(54)	(327)	(88)	2,480
Cost of sales	(926)	12	74	29	(811)
Cost of labor	(631)	(15)	68	20	(558)
Occupancy and other operating expenses	(858)	(24)	93	27	(762)
Restaurant profit	534	(81)	(92)	(12)	349

The decrease in Company sales and Restaurant profit, excluding the impact of F/X, was primarily driven by same-store sales decline and temporary store closures due to the impact of the COVID-19 pandemic, higher promotion costs and commodity inflation of 2%, partially offset by labor efficiency, one-time reductions in social security contributions and lease concessions, and utilities savings.

- Franchise Fees and Income

The decrease in franchise fees and income, excluding the impact of F/X, was primarily driven by same-store sales decline and temporary closure of restaurants operated by unconsolidated affiliates and franchisees due to the impact of the COVID-19 pandemic, partially offset by net unit growth.

- G&A Expenses

The decrease in G&A expenses, excluding the impact of F/X, was primarily driven by one-time reductions in social security contributions, realignment of cost structure and higher government incentives received, partially offset by merit compensation increases.

- Operating Profit

The decrease in operating profit, excluding the impact of F/X, was primarily driven by the decrease in Restaurant profit and higher store impairment charges, partially offset by lower G&A expenses.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018 and Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

- Company Sales and Restaurant Profit

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

	2019 vs. 2018				
Income (Expense)	**2018**	**Store portfolio actions**	**Other**	**F/X**	**2019**
	(in millions of U.S. dollars)				
Company sales	5,495	414	194	(264)	5,839
Cost of sales	(1,679)	(136)	(102)	82	(1,835)
Cost of labor	(1,167)	(89)	(45)	56	(1,245)
Occupancy and other operating expenses	(1,665)	(125)	(5)	78	(1,717)
Restaurant profit	984	64	42	(48)	1,042

	2018 vs. 2017				
Income (Expense)	**2017**	**Store portfolio actions**	**Other**	**F/X**	**2018**
	(in millions of U.S. dollars)				
Company sales	4,863	395	114	123	5,495
Cost of sales	(1,455)	(130)	(58)	(36)	(1,679)
Cost of labor	(1,013)	(91)	(40)	(23)	(1,167)
Occupancy and other operating expenses	(1,518)	(118)	8	(37)	(1,665)
Restaurant profit	877	56	24	27	984

In 2019, the increase in Company sales and Restaurant profit, excluding the impact of F/X, was mainly driven by same-store sales growth, net unit growth, labor efficiency, a decrease in utilities expenses and other restaurant operating costs, partially offset by commodity inflation of 4%, wage inflation of 5% and higher promotion cost.

In 2018, the increase in Company sales and Restaurant profit, excluding the impact of F/X, was driven by net unit growth including the acquisition of Wuxi KFC, same-store sales growth, labor efficiency, and a decrease in advertising expenses, partially offset by wage inflation of 6%, higher promotion cost and commodity inflation of 2%.

- Franchise Fees and Income

In 2019, the increase in franchise fees and income, excluding the impact of F/X, was primarily driven by same-store sales growth and net unit growth for the unconsolidated affiliates and franchisees, partially offset by the impact from the acquisition of Wuxi KFC in 2018.

In 2018, the decrease in franchise fees and income, excluding the impact of F/X, was primarily driven by the acquisition of Wuxi KFC, partially offset by net unit growth and same-store sales growth for the unconsolidated affiliates and franchisees.

- G&A Expenses

In 2019, the increase in G&A expenses, excluding the impact of F/X, was primarily driven by higher compensation costs mainly due to merit increases and higher performance-based compensation associated with strong operating results of KFC.

In 2018, the increase in G&A expenses, excluding the impact of F/X, was driven by higher compensation cost mainly due to merit increases.

- Operating Profit

In both 2019 and 2018, the increase in operating profit, excluding the impact of F/X, was primarily driven by the increase in Restaurant profit, partially offset by higher G&A expenses.

Pizza Hut

	For the year ended December 31,			For the six months ended June 30,		%B/(W)					
	2019	2018	2017	2020	2019	2019		2018		2020 1H	
					(unaudited)	Reported	Ex F/X	Reported	Ex F/X	Reported	Ex F/X
	(in millions of U.S. dollars, except percentages)										
Company sales	2,045	2,106	2,090	744	1,048	(3)	2	1	(2)	(29)	(26)
Franchise fees and income	4	3	2	2	2	71	79	18	16	14	18
Revenues from transactions with franchisees and unconsolidated affiliates	4	2	1	2	2	NM	NM	12	11	8	11
Other revenue	1	–	–	–	1	NM	NM	NM	NM	(25)	(23)
Total revenues	**2,054**	**2,111**	**2,093**	**748**	**1,053**	(3)	2	1	(2)	(29)	(26)
Restaurant profit	**227**	**215**	**292**	**48**	**135**	5	10	(26)	(29)	(64)	(63)
Restaurant margin %	11.1%	10.3%	13.9%	6.4%	12.9%	0.8 ppts.	0.8 ppts.	(3.6) ppts.	(3.6) ppts.	(6.5) ppts.	(6.5) ppts.
G&A expenses	101	102	108	47	51	1	(4)	5	8	8	5
Franchise expenses	2	2	2	1	1	(32)	(38)	(22)	(19)	(3)	(6)
Expenses for transactions with franchisees and unconsolidated affiliates	4	2	1	2	2	NM	NM	(10)	(9)	(20)	(24)
Closure and impairment expenses, net	14	19	27	15	6	27	24	31	32	NM	NM
Other income, net	–	(2)	–	–	–	NM	NM	NM	NM	NM	NM
Operating profit	**114**	**97**	**157**	**(13)**	**79**	17	22	(38)	(41)	NM	NM

Performance Metrics

	2020 1H	2019	2018
System sales growth /(decline)	(28)%	(2)%	1%
System sales growth /(decline), excluding F/X	(25)%	3%	(1)%
Same-store sales growth /(decline)	(22)%	1%	(5)%

Unit Count

	2020 1H	2019	2018	2017	% Increase / (decrease) 2020 1H	2019	2018
Company-owned	2,150	2,178	2,188	2,166	N/A(1)	–	1
Franchisees	108	103	52	29	N/A(1)	98	79
Total	**2,258**	**2,281**	**2,240**	**2,195**	N/A(1)	2	2

(1) The "% increase" only indicates year-to-year comparison at year-end of the unit count and therefore the % increase for the six months ended June 30, 2020 is not applicable.

	2019	New Builds	Closures	Refranchised	2020 1H
Unit Count					
Company-owned	2,178	17	(42)	(3)	2,150
Franchisees	103	2	–	3	108
Total	**2,281**	**19**	**(42)**	**–**	**2,258**

	2018	New Builds	Closures	Refranchised	2019
Company-owned	2,188	117	(90)	(37)	2,178
Franchisees	52	15	(1)	37	103
Total	**2,240**	**132**	**(91)**	**–**	**2,281**

	2017	New Builds	Closures	Refranchised	2018
Company-owned	2,166	140	(110)	(8)	2,188
Franchisees	29	17	(2)	8	52
Total	**2,195**	**157**	**(112)**	**–**	**2,240**

	2016	New Builds	Closures	Refranchised	2017
Company-owned	2,057	180	(66)	(5)	2,166
Franchisees	24	–	–	5	29
Total	**2,081**	**180**	**(66)**	**–**	**2,195**

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

- Company Sales and Restaurant Profit

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

	Six months ended June 30,				
Income (Expense)	**2019**	**Store portfolio actions**	**Other**	**F/X**	**2020**
	(in millions of U.S. dollars)				
Company sales	1,048	(76)	(201)	(27)	744
Cost of sales	(314)	22	47	9	(236)
Cost of labor	(280)	14	44	7	(215)
Occupancy and other operating expenses	(319)	14	51	9	(245)
Restaurant profit	135	(26)	(59)	(2)	48

The decrease in Company sales and Restaurant profit, excluding the impact of F/X, was primarily driven by same-store sales decline and temporary store closures due to the impact of the COVID-19 pandemic, and commodity inflation of 4%, partially offset by labor efficiency, one-time reductions in social security contributions and lease concessions, and utility savings.

- G&A Expense

The decrease in G&A expenses, excluding the impact of F/X, was primarily driven by one-time reductions in social security contributions and realignment of cost structure.

• Operating Loss

The operating loss, excluding the impact of F/X, was primarily driven by the decrease in Restaurant profit mainly due to the impact of the COVID-19 pandemic and higher store impairment charges, partially offset by lower G&A expenses.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018 and Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

• Company Sales and Restaurant Profit

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

	2019 vs. 2018				
Income (Expense)	**2018**	**Store portfolio actions**	**Other**	**F/X**	**2019**
	(in millions of U.S. dollars)				
Company sales	2,106	9	22	(92)	2,045
Cost of sales	(637)	(4)	(21)	29	(633)
Cost of labor	(538)	(1)	(35)	25	(549)
Occupancy and other operating expenses	(716)	5	46	29	(636)
Restaurant profit	215	9	12	(9)	227

	2018 vs. 2017				
Income (Expense)	**2017**	**Store portfolio actions**	**Other**	**F/X**	**2018**
	(in millions of U.S. dollars)				
Company sales	2,090	60	(93)	49	2,106
Cost of sales	(566)	(21)	(37)	(13)	(637)
Cost of labor	(519)	(14)	8	(13)	(538)
Occupancy and other operating expenses	(713)	(17)	30	(16)	(716)
Restaurant profit	292	8	(92)	7	215

In 2019, the increase in Company sales and Restaurant profit, excluding the impact of F/X, was primarily driven by same-store sales growth, Store portfolio actions, labor efficiency, commodity deflation of 2%, and savings in utilities and other restaurant operating costs, partially offset by higher promotion costs and wage inflation of 5%.

In 2018, the decrease in Company sales, excluding the impact of F/X, was primarily driven by same-store sales decline, partially offset by net unit growth. The decrease in Restaurant profit, excluding the impact of F/X, was primarily driven by higher promotion and product upgrade costs, wage inflation of 6% and same-store sales decline, partially offset by labor efficiency and net unit growth.

• G&A Expenses

In 2019, the increase in G&A expenses, excluding the impact of F/X, was primarily driven by higher compensation costs due to higher performance-based compensation and merit increases, and lower government incentives received, partially offset by lower shared cost allocation associated with store development activities.

In 2018, the decrease in G&A expenses, excluding the impact of F/X, was primarily driven by higher government incentives received and lower performance-based compensation, partially offset by higher compensation costs due to merit increases.

- Operating Profit

In 2019, the increase in operating profit, excluding the impact of F/X, was primarily driven by the increase in Restaurant profit and lower closure and store impairment expenses, partially offset by higher G&A expenses.

In 2018, the decrease in operating profit, excluding the impact of F/X, was primarily driven by the decrease in Restaurant profit, partially offset by lower closure and impairment expenses primarily due to lapping the impact of the Pizza Hut business integration during 2017, and lower G&A expenses.

All Other Segments

All other segments reflects the results of Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, Taco Bell, Daojia and our e-commerce business.

	For the year ended December 31,			For the six months ended June 30,		%B/(W)					
	2019	2018	2017	2020	2019	2019		2018		2020 1H	
					(unaudited)	Reported	Ex F/X	Reported	Ex F/X	Reported	Ex F/X
	(in millions of U.S. dollars, except percentages)										
Company sales	41	32	40	16	18	27	32	(18)	(20)	(13)	(10)
Franchise fees and income	8	6	5	5	4	22	27	41	39	27	32
Revenues from transactions with franchisees and unconsolidated affiliates	28	26	25	16	12	8	12	4	1	22	27
Other revenues	81	51	36	41	30	59	63	41	41	37	42
Total revenues	**158**	**115**	**106**	**78**	**64**	37	41	10	8	20	24
Restaurant (loss) profit	**(3)**	**–**	**2**	**(3)**	**(1)**	NM	NM	NM	NM	(72)	(64)
Restaurant margin %	(7.3)%	(2.8)%	2.9%	(15.5)%	(7.8)%	(4.5) ppts.	(4.5) ppts.	(5.7) ppts.	(5.7) ppts.	(7.7) ppts.	(7.7) ppts.
G&A expenses	34	33	26	19	16	(1)	(4)	(28)	(26)	(19)	(23)
Expenses for transactions with franchisees and unconsolidated affiliates	23	21	21	13	11	(12)	(15)	5	6	(14)	(18)
Other operating costs and expenses	69	43	28	36	26	(62)	(66)	(51)	(54)	(41)	(46)
Closure and impairment expenses, net	2	–	–	3	2	NM	NM	98	99	(53)	(59)
Other (income) loss, net	–	(2)	2	–	–	NM	NM	NM	NM	(93)	(93)
Operating loss	**(14)**	**(12)**	**(9)**	**(12)**	**(10)**	(13)	(17)	(9)	(16)	(31)	(33)

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

- Total Revenues

The increase in total revenues, excluding the impact of F/X, was primarily driven by the consolidation of Huang Ji Huang and the increase in demand of online orders of certain product categories (mainly fresh grocery products), partially offset by the same-store sales decline due to the impact of COVID-19 pandemic.

- G&A Expenses

The increase in G&A expenses, excluding the impact of F/X, was primarily driven by the consolidation of Huang Ji Huang.

- Operating Loss

The increase in operating loss, excluding the impact of F/X, was primarily driven by the increase in Restaurant loss and higher store impairment charges, partially offset by the operating profit generated by Huang Ji Huang.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018 and Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

- Company Sales

In 2019, the increase in Company sales, excluding the impact of F/X, was primarily driven by higher sales generated from our e-commerce business and the launch of the COFFii & JOY concept.

In 2018, the decreases in Company sales, excluding the impact of F/X, were primarily driven by restaurant unit closures and refranchising of Little Sheep restaurant units.

- Other Revenues and Other Operating Costs and Expenses

In 2019 and 2018, the increase in other revenues and other operating costs and expenses, excluding the impact of F/X, was primarily driven by inter-segment revenue transactions generated from our e-commerce business and Daojia.

- G&A Expenses

In 2019, G&A expenses increased mainly due to an increase of G&A expenses incurred by Little Sheep, partially offset by a decrease of G&A expenses incurred by Daojia.

In 2018, G&A expenses increased mainly due to G&A expenses incurred by Daojia.

- Operating Loss

In 2019, the increase in operating loss, excluding the impact of F/X, was primarily due to the operating loss incurred by Little Sheep and COFFii & JOY, partially offset by the improvement in operating results of our other operating segments.

In 2018, the increase in operating loss, excluding the impact of F/X, was primarily due to an increase of operating loss of Daojia and a decrease of operating profit of Little Sheep.

Corporate and Unallocated

	For the year ended December 31,			For the six months ended June 30,		%B/(W)					
	2019	2018	2017	2020	2019	2019		2018		2020 1H	
					(unaudited)	Reported	Ex F/X	Reported	Ex F/X	Reported	Ex F/X
	(in millions of U.S. dollars, except percentages)										
Revenues from transactions with franchisees and unconsolidated affiliates[1]	558	514	504	269	278	8	13	2	1	(3)	–
Other revenues	4	3	–	2	2	56	61	NM	NM	(6)	(2)
Expenses for transactions with franchisees and unconsolidated affiliates[1]	554	512	500	270	276	(8)	(13)	(2)	(1)	3	(1)
Other operating costs and expenses	4	2	–	2	2	(68)	(75)	NM	NM	17	14
Corporate G&A expenses	145	128	185	58	58	(13)	(17)	31	31	1	(2)
Unallocated closures and impairments	11	12	–	–	–	1	1	NM	NM	–	–
Other unallocated income	4	98	9	(3)	1	(95)	(95)	NM	NM	NM	NM
Interest income, net	39	36	25	17	19	7	12	47	44	(8)	(4)
Investment gain (loss)	63	(27)	–	37	27	NM	NM	NM	NM	40	40
Income tax provision[2]	(260)	(214)	(379)	(77)	(139)	(21)	(26)	43	45	44	43
Effective tax rate[2]	25.9%	22.6%	47.2%	27.8%	25.2%	(3.3) ppts	(3.3) ppts	24.6 ppts	24.6 ppts	2.6 ppts	2.6 ppts

(1) Primarily includes revenues and associated expenses of transactions with franchisees and unconsolidated affiliates derived from the Company's central procurement model whereby food and paper products are centrally purchased and then mainly sold to KFC and Pizza Hut franchisees and unconsolidated affiliates. Amounts have not been allocated to any segment for purposes of making operating decisions or assessing financial performance as the transactions are deemed corporate revenues and expenses in nature.

(2) For more details, see Note 16 of "Appendix I — Accountants' Report."

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

- Revenues from Transactions with Franchisees and Unconsolidated Affiliates

The change in revenues from transactions with franchises and unconsolidated affiliates, excluding the impact of F/X, was in line with the change in system sales of related franchisees and unconsolidated affiliates.

- Corporate G&A Expenses

The increase in corporate G&A expenses, excluding the impact of F/X, was primarily driven by merit compensation increases, partially offset by one-time reductions in social security contributions and realignment of cost structure.

- Investment Gain

The Investment gain relates to our investment in equity securities of Meituan. See Note 5 of "Appendix I — Accountants' Report."

- Income Tax Provision

Our income tax provision includes tax on our earnings at the Chinese statutory tax rate of 25%, withholding tax on repatriation of earnings outside of China and U.S. corporate income tax, if any. The higher effective tax rates for the six months ended June 30, 2020 were primarily due to the U.S. tax related to gain recognized on investment in equity securities of Meituan during the second quarter and prior periods.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018 and Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

- Revenues from Transactions with Franchisees and Unconsolidated Affiliates

In 2019, the increase in revenues from transactions with franchisees and unconsolidated affiliates, excluding the impact of F/X, was mainly driven by System sales growth of franchisees and unconsolidated affiliates and an increase in the selling prices of food and paper products due to commodity inflation, partially offset by the impact from the acquisition of Wuxi KFC.

In 2018, the increase in revenues from transactions with franchisees and unconsolidated affiliates, excluding the impact of F/X, was mainly driven by System sales growth of franchisees and unconsolidated affiliates, partially offset by the impact from the acquisition of Wuxi KFC.

- Corporate G&A Expenses

In 2019, the increase in corporate G&A expenses, excluding the impact of F/X, was mainly driven by higher compensation costs and lower government incentives received.

In 2018, the decrease in corporate G&A expenses, excluding the impact of F/X, was driven by higher government incentives received, lower performance-based compensations and lower professional service fees.

- Unallocated Closures and Impairments

In 2019 and 2018, unallocated closures and impairments represent the impairment charges of US$11 million and US$12 million on goodwill and intangible assets acquired from Daojia, respectively. For more details, see Note 5 of "Appendix I — Accountants' Report."

- Other Unallocated Income

In 2018, other unallocated income primarily includes a gain of US$98 million recognized from the re-measurement of our previously held equity interest in Wuxi KFC at fair value upon acquisition. For more details, see Note 5 of "Appendix I — Accountants' Report."

- Interest Income, Net

The increases in interest income, net for both 2019 and 2018 were driven by higher returns on larger balances of short-term investments and cash equivalents which mainly include time deposits.

- Investment Gain (Loss)

The investment gain or loss represents the unrealized gain or loss related to investment in equity securities of Meituan. For more details, see Note 5 of "Appendix I — Accountants' Report."

- Income Tax Provision

Our income tax provision includes tax on our earnings at the PRC statutory tax rate of 25%, withholding tax on repatriation of earnings outside of China, and U.S. corporate income tax, if any. Our effective tax rate was 25.9%, 22.6%, and 47.2% in 2019, 2018 and 2017, respectively. The effective tax rate was lower in 2018 but higher in 2017 due to the tax benefit of US$36 million recorded in 2018 reducing the provisional amount of the transition tax of US$164 million recorded in 2017 pursuant to the U.S. Tax Act.

TAXATION

United States

In December 2017, the U.S. enacted the U.S. Tax Act, which included a broad range of tax reforms, including, but not limited to, the establishment of a flat corporate income tax rate of 21%, the elimination or reduction of certain business deductions, and the imposition of tax on deemed repatriation of accumulated undistributed foreign earnings.

The U.S. Tax Act requires a U.S. shareholder to be subject to tax on Global Intangible Low Taxed Income ("**GILTI**") earned by certain foreign subsidiaries. We have elected the option to account for current year GILTI tax as a period cost as incurred.

PRC

Generally, our income is subject to the PRC statutory tax rate of 25%. Pursuant to the EIT Law, a 10% PRC withholding tax is generally levied on dividends declared by companies in China to their non-resident enterprise investors unless otherwise reduced according to treaties or arrangements between the Chinese central government and the governments of other countries or regions where the non-China resident enterprises are incorporated. Hong Kong has a tax arrangement with mainland China that provides for a 5% withholding tax on dividends distributed to a Hong Kong resident enterprise, upon meeting certain conditions and requirements, including, among others, that the Hong Kong resident enterprise own at least 25% equity interest of the Chinese enterprise and is a "beneficial owner" of the dividends. We believe that our Hong Kong subsidiary, which is the equity holder of our Chinese subsidiaries, met the relevant requirements pursuant to the tax arrangement between mainland China and Hong Kong in 2018 and is expected to meet the requirements in the subsequent years; thus, it is more likely than not that our dividends declared or earnings expected to be repatriated since 2018 are subject to the reduced withholding tax of 5%.

Hong Kong

Our subsidiaries incorporated in Hong Kong are generally subject to Hong Kong profits tax at a rate of 16.5%. For the years 2018 and onwards, the first HK$2 million of profits generated by one entity incorporated in Hong Kong is taxed at a rate of 8.25%, while the remaining profits will continue to be taxed at the 16.5% tax rate. For the years ended December 31, 2019, 2018 and 2017, our Hong Kong subsidiaries did not incur any profits tax in Hong Kong as they either did not generate taxable income or incurred losses for these years. For the six months ended June 30, 2020, our Hong Kong subsidiaries were not expected to incur any profits tax for the same reason. The payments of dividends by these companies to us are not subject to any withholding tax in Hong Kong.

SIGNIFICANT KNOWN EVENTS, TRENDS OR UNCERTAINTIES EXPECTED TO IMPACT FUTURE RESULTS

Impact of the COVID-19 Pandemic

Our business could be materially and adversely affected by the outbreak of a widespread health epidemic, such as coronavirus, avian flu, or African swine flu. Starting in late January 2020, the COVID-19 pandemic has significantly impacted the Company's operations. The pace of recovery is uneven with recent sales and traffic still below pre-outbreak levels as people continue to avoid going out and practice social distancing. More than 99% of stores in China were open as of July 2020, with sales and profits trending unevenly. Sales were primarily impacted by significantly reduced traffic at transportation and tourist locations, delayed and shortened school holidays and resurging regional infections. At this time, management cannot ascertain the full impact of the COVID-19 pandemic on the Company's operations, which depends on the evolving nature of the COVID-19 pandemic and governmental responses thereto, the economic recovery within China and globally, the impact on consumer behavior and other related factors. The Company expects that COVID-19 will have a material adverse impact on the Company's results of operations, cash flows and financial condition for the full year 2020. For details, see "Summary — The Impact of the COVID-19 Pandemic."

Tax Examination on Transfer Pricing

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

PRC Value-Added Tax

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

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

As of June 30, 2020, December 31, 2019, 2018 and 2017, an input VAT credit asset of US$237 million, US$243 million, US$226 million and US$176 million, were recorded in other assets, respectively, and payable of US$6 million, US$5 million, US$5 million and US$2 million, were recorded in accounts payable and other current liabilities, respectively, on the consolidated balance sheets. The Company has not made an allowance for the recoverability of the input VAT credit asset, as the balance is expected to be utilized to offset against VAT payables more than one year from June 30, 2020 and December 31, 2019, 2018 and 2017. Any input VAT credit asset would be classified as prepaid expenses and other current assets if the Company expected to use the credit within one year.

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

Foreign Currency Exchange Rate

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

LIQUIDITY AND CAPITAL RESOURCES

Historically we have funded our operations through cash generated from the operation of our Company-owned stores and from our franchise operations and dividend payments from our unconsolidated affiliates.

Our ability to fund our future operations and capital needs will depend on our ongoing ability to generate cash from operations. We believe our principal uses of cash in the future will be primarily to fund our operations and to make capital spending, distributions to our Shareholders and share repurchases as well as any acquisition or investment we may make. As a result of the COVID-19 pandemic, we have taken, and continue to take, certain actions to provide additional liquidity and flexibility, which include temporarily suspending our share repurchase program and, for the second and third quarter of 2020, dividends, partial disposal of our investment in Meituan, as well as increasing our credit facilities. We believe that our future cash from operations, together with our access to funds on hand and capital markets, will provide adequate resources to fund these uses of cash and that our existing cash, net cash from operations and credit facilities will be sufficient to fund our operations and anticipated capital spending for the next 12 months from the date of this prospectus.

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

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

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

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

Dividends and Share Repurchases

Our Board of Directors has authorized an aggregate of US$1.4 billion for our share repurchase program. Yum China may repurchase shares under this program from time to time in open market or privately negotiated transactions, including block trades, accelerated share repurchase transactions and the use of Rule 10b5-1 trading plans. During the six months ended June 30, 2020 and the years ended December 31, 2019, 2018 and 2017, the Company repurchased US$7 million or 0.2 million, US$261 million or 6.2 million, US$312 million or 9.0 million, and US$128 million or 3.4 million Shares, respectively, under the repurchase program.

On October 4, 2017, the board of directors approved a regular quarterly cash dividend program, and declared an initial cash dividend of US$0.10 per share on Yum China's common stock. Total cash dividends of US$38 million were paid to shareholders in December 2017. The Company paid a cash dividend of US$0.10 per share for each of the first three quarters of 2018 and US$0.12 per share for the fourth quarter of 2018 and each quarter of 2019. Total cash dividends of US$181 million and US$161 million were paid to shareholders in 2019 and 2018, respectively.

For the six months ended June 30, 2020, the Company paid cash dividends of US$45 million, or US$0.12 per Share.

Due to the unprecedented effects of the COVID-19 pandemic and associated economic uncertainty, the Company announced in April 2020 that it would temporarily suspend its share repurchases and, through the end of the third quarter of 2020, dividends.

Our ability to declare and pay any dividends on our stock may be restricted by earnings available for distribution under applicable Chinese laws. The laws, rules and regulations applicable to our Chinese subsidiaries permit payments of dividends only out of their accumulated profits, if any, determined in accordance with applicable Chinese accounting standards and regulations. Under Chinese law, an enterprise incorporated in China is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. As a result, our Chinese subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends. At the discretion of the board of directors, as an enterprise incorporated in China, each of our Chinese subsidiaries may allocate a portion of its after-tax profits based on Chinese accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. As of June 30, 2020, the sum of our cash and cash equivalents plus short-term investment, then less total liabilities of Yum China Holdings, Inc. was US$202 million.

Borrowing Capacity

As of June 30, 2020, the latest practicable date for ascertaining such information, the Company had credit facilities of RMB3,713 million (approximately US$526 million), comprising of onshore credit facilities of RMB2,300 million (approximately US$326 million) in the aggregate and offshore credit facilities of US$200 million in the aggregate.

The credit facilities had remaining terms ranging from less than one year to three years as of June 30, 2020. Each credit facility bears interest based on the Loan Prime Rate ("**LPR**") published by the National Interbank Funding Centre of the PRC or London Interbank Offered Rate ("**LIBOR**") administered by the ICE Benchmark Administration. Each credit facility contains a cross-default provision whereby our failure to make any payment on a principal amount from any credit facility will constitute a default on other credit facilities. Some of the credit facilities contain covenants limiting, among other things, certain additional indebtedness and liens, and certain other transactions specified in the respective agreement. Some of the onshore credit facilities contain sub-limits for overdrafts, non-financial bonding, standby letters of credit and guarantees. As of June 30, 2020, we had outstanding bank guarantees of RMB89 million (approximately US$13 million) to secure our lease payments to landlords for certain Company-owned restaurants. The credit facilities were therefore reduced by the same amount, while there were no bank borrowings outstanding as of June 30, 2020.

Contractual Obligations

Our significant contractual and other long-term obligations and payments as of June 30, 2020 included:

	Total	**Remainder of 2020**	**2021-2022**	**2023-2024**	**Thereafter**
		(in millions of U.S. dollars)			
Finance leases[1]	36	2	8	6	20
Operating leases[1]	2,543	274	854	605	810
Purchase obligation[2]	157	20	63	28	46
Transition tax[3]	51	6	9	21	15
Total contractual obligations	**2,787**	**302**	**934**	**660**	**891**

(1) These obligations, which are shown on a nominal basis, relate primarily to more than 7,400 Company-owned restaurants. For more details, see Note 11 of "Appendix I — Accountants' Report."

(2) Purchase obligations relate primarily to supply and service agreements. We have excluded agreements that are cancelable without penalty or have a remaining term not in excess of one year. Such commitments are generally near term in nature, will be funded from operating cash flows, and are not significant to the Company's overall financial position.

(3) This amount represents an updated transition tax payable on the deemed repatriation of accumulated undistributed foreign earnings after utilizing existing qualified foreign tax credits, which is to be paid over a maximum of eight years beginning in 2018.

We have not included in the contractual obligations table US$21 million of liabilities for unrecognized tax benefits related to the uncertainty with regard to the deductibility of certain business expenses incurred as well as related accrued interest and penalties. These liabilities may increase or decrease over time as a result of tax examinations, and given the status of the examinations, we cannot reliably estimate the period of any cash settlement with the respective taxing authorities. These liabilities exclude amounts that are temporary in nature and for which we anticipate that over time there will be no net cash outflow.

Cash Flow

The following table sets forth selected data from our consolidated statements of cash flow for the period indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2019	**2018**	**2017**	**2020**	**2019**
					(unaudited)
		(in millions of U.S. dollars)			
Net cash provided by operating activities . .	1,185	1,333	884	452	657
Net cash used in investing activities . . .	(910)	(552)	(557)	(761)	(368)
Net cash used in financing activities . .	(480)	(518)	(185)	(59)	(259)

Net Cash Provided by Operating Activities

In the six months ended June 30, 2020, our net cash provided by operating activities was US$452 million as compared to US$657 million for the same period in 2019. The decrease was primarily driven by the net income decrease.

In 2019, net cash provided by operating activities was US$1,185 million as compared to US$1,333 million in 2018. The decrease was primarily driven by timing of payments for inventory along with other working capital changes.

In 2018, net cash provided by operating activities was US$1,333 million as compared to US$884 million in 2017. The increase was primarily driven by higher operating profit and timing of payments for inventory.

Net Cash Used in Investing Activities

In the six months ended June 30, 2020, our net cash used in investing activities was US$761 million as compared to US$368 million for the same period in 2019. The increase is mainly due to cash consideration paid for the acquisition of Huang Ji Huang, and the net impact on cash flow resulting from purchases and maturities of short-term investments and long-term time deposits, partially offset by cash proceeds from partial disposal of our investment in equity securities of Meituan.

In 2019, net cash used in investing activities was US$910 million as compared to US$552 million in 2018. The increase was primarily driven by the net impact on cash flow resulting from purchases and maturities of short-term investments, partially offset by lapping the impact from the acquisition of Wuxi KFC and investment in Meituan's ordinary shares in 2018.

In 2018, net cash used in investing activities was US$552 million as compared to US$557 million in 2017. The decrease was primarily driven by the net impact on cash flow resulting from purchases and maturities of short-term investments, partially offset by the acquisition of Wuxi KFC, investment in Meituan's ordinary shares and higher capital spending.

Net Cash Used in Financing Activities

In the six months ended June 30, 2020, our net cash used in financing activities was US$59 million as compared to US$259 million in 2019. The decrease was primarily driven by the temporary suspension of our share repurchase program, as well as the temporary suspension of dividends through the end of the third quarter of 2020.

In 2019, net cash used in financing activities was US$480 million as compared to US$518 million in 2018. The decrease was primarily driven by a decrease in the number of shares repurchased, partially offset by an increase in cash dividends paid to Shareholders.

In 2018, net cash used in financing activities was US$518 million as compared to US$185 million in 2017. The increase was mainly driven by an increase in the number of shares repurchased and cash dividends paid to Shareholders in 2018.

Capital Spending

For the six months ended June 30, 2020 and 2019 and for the years ended December 31, 2019, 2018 and 2017, we had capital spending of US$185 million, US$212 million, US$435 million, US$470 million, and US$415 million, respectively, primarily in relation to new restaurant openings, remodeling of existing restaurants, and investments in technology and supply chain infrastructure. Subject to revision based on future impacts of COVID-19 that cannot be predicated at this time, we expect our capital spending in 2020 to be approximately between US$500 million and US$550 million.

Working Capital

The following table sets forth details of our current assets and current liabilities as of the date indicated.

	As of June 30,	As of December 31,		
	2020	2019	2018	2017
	(in millions of U.S. dollars)			
Current assets				
Cash and cash equivalents	674	1,046	1,266	1,059
Short-term investments	1,034	611	122	205
Accounts receivables, net	83	88	80	79
Inventories, net	346	380	307	297
Prepaid expenses and other current assets	166	134	177	162
Total current assets	**2,303**	**2,259**	**1,952**	**1,802**
Current liabilities				
Accounts payable and other current liabilities	1,660	1,691	1,199	985
Income taxes payable	63	45	54	39
Total current liabilities	**1,723**	**1,736**	**1,253**	**1,024**
Net current assets	**580**	**523**	**699**	**778**

Working Capital Ratios

The following table set forth our working capital ratios for the period indicated:

	For the six months ended June 30,	For the year ended December 31,		
	2020	2019	2018	2017
Inventory turnover days(1)	50.3	41.5	38.9	40.8
Accounts receivable turnover days(2)	4.3	3.5	3.5	3.6
Accounts payable turnover days(3)	51.1	45.8	45.1	42.3

(1) Inventory turnover days for each period equals the average of the beginning and ending balances of net inventory (including inventory procured by the Company, which is subsequently supplied to stores of unconsolidated affiliates and franchisees) for that period divided by total cost of food and paper for Company-owned stores and stores of unconsolidated affiliates and franchisees for that period, and multiplied by the number of days in that period.

(2) Accounts receivable turnover days for each period equals the average of the beginning and ending balances of net accounts receivable for that period divided by total revenues for that period, and multiplied by the number of days in that period.

(3) Account payable turnover days for each period equals the average of the beginning and ending balances of accounts payable related to inventory purchase and distribution for that period divided by total cost of food and paper for Company-owned stores and stores of unconsolidated affiliates and franchisees for that period and, multiplied by the number of days in that period.

Indebtedness

As of June 30, 2020, being the latest practicable date for the purpose of the indebtedness statement, our finance lease liabilities was US$26 million and loans outstanding was US$5 million. We also had operating lease liabilities of US$2,078 million as of June 30, 2020. Since June 30, 2020, there has been no material adverse change to our indebtedness. Save as disclosed in the prospectus, as of the same date, we did not have any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings and other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Rate Risk

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

As substantially all of the Company's assets are located in China, the Company is exposed to movements in the RMB foreign currency exchange rate. For the six months ended June 30, 2020, the Company's operating profit would have decreased approximately US$23 million if RMB weakened 10% relative to the U.S. dollar. This estimated reduction assumes no changes in sales volumes or local currency sales or input prices.

Commodity Price Risk

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

Investment Risk

In September 2018, we subscribed for 8.4 million of the ordinary shares of Meituan for US$74 million. In the second quarter of 2020, we sold 4.2 million of the ordinary shares of Meituan for proceeds of US$54 million. The equity investment is recorded at fair value, which is measured on a recurring basis and is subject to market price volatility. For details, see Note 5 of "Appendix I — Accountants' Report."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our reported results are impacted by the application of certain accounting policies that require us to make subjective or complex judgments. These judgments involve estimations of the effect of matters that are inherently uncertain and may significantly impact our results of operations or financial condition. Actual results could differ from these estimates. Changes in the estimates and judgments could significantly affect our results of operations, financial condition and cash flows in future years. A description of what we consider to be our most significant critical accounting policies follows.

Loyalty Programs

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

Breakage Revenue

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

Impairment or Disposal of Long-Lived Assets

We review long-lived assets of restaurants (primarily operating lease right-of-use assets and property, plant and equipment ("**PP&E**")) semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. We evaluate recoverability based on the restaurant's forecasted undiscounted cash flows, which are based on our entity-specific assumptions, to the carrying value of such assets. The forecasted undiscounted cash flows incorporate our best estimate of sales growth based upon our operation plans for the unit and actual results at comparable restaurants. For restaurant assets that are deemed not to be recoverable, we write down the impaired restaurant to its estimated fair value. In determining the fair value of restaurant-level assets, we consider the highest and best use of the assets from market participants' perspective, which is represented by the higher of the forecasted discounted cash flows of operating restaurants and the price market participants would pay to sub-lease the operating lease right-of-use assets and acquire remaining restaurant assets, even if that use differs from the current use by the Company. Key assumptions in the determination of fair value include reasonable sales growth assumption in generating after-tax cashflows that would be used by a franchisee in the determination of a purchase price for the restaurant, and market rental assumption for estimating the price market participants would pay to sub-lease the operating lease right-of-use assets. Estimates of forecasted cash flows of operating restaurants are highly subjective judgments and can be significantly impacted by changes in the business or economic conditions. Estimates of the price market participants would pay to sub-lease the operating lease right-of-use assets are based on comparable market rental information that could be reasonably obtained for the property. In situations where the highest and best use of the restaurant level assets from market participants' perspective is represented by sub-leasing the operating lease right-of-use assets and acquiring the remaining restaurant assets, the Company continues to use these assets in operating its restaurant business, which is consistent with its long-term strategy of growing revenue through operating restaurant concepts.

When we believe it is more likely than not a restaurant or groups of restaurants will be refranchised for a price less than their carrying value, but do not believe the restaurant(s) have met the criteria to be classified as held for sale, we review the restaurants for impairment. Expected net sales proceeds are generally based on actual bids from the buyer.

The discount rate used in the fair value calculations is our estimate of the required rate-of-return that a franchisee would expect to receive when purchasing a similar restaurant or groups of restaurants and the related long-lived assets. The discount rate incorporates rates of returns for historical refranchising market transactions and is commensurate with the risks and uncertainty inherent in the forecasted cash flows.

We evaluate indefinite-lived intangible assets for impairment on an annual basis or more often if an event occurs or circumstances change that indicates impairment might exist. We perform our annual test for impairment of our indefinite-lived intangible assets at the beginning of our fourth quarter. When we evaluate these assets for impairment, we have the option to first perform a qualitative assessment to determine whether an intangible asset group is impaired. If we believe, as a result of the qualitative assessment, that it is more likely than not that the fair value of the intangible asset group is less than its carrying amount, we will then perform quantitative assessment. Fair value is an estimate of the price a willing buyer would pay for the intangible asset and is generally estimated by discounting the expected future after-tax cash flows associated with the intangible asset. The discount rate is our estimate of the required rate-of-return that a third-party buyer would expect to receive. These estimates are highly subjective, and our ability to achieve the forecasted cash is affected by factors, such as changes in our operating performance and business strategies and changes in economic conditions. We have two material indefinite-lived intangible assets, which are our Little Sheep trademark and the newly-acquired Huang Ji Huang trademark. The Little Sheep trademark had a book value of US$51 million, US$52 million, US$53 million and US$56 million at June 30, 2020, December 31, 2019, 2018 and 2017, respectively. Upon acquisition of Huang Ji Huang in April 2020, we recognized and measured its trademark at fair value. Post acquisition, no events occurred or circumstances changed that indicate impairment might exist. As of June 30, 2020, the Huang Ji Huang trademark had a book value of US$76 million.

In the six months ended June 30, 2020 and the years ended December 31, 2019, 2018 and 2017, we elected to perform the qualitative impairment assessment for the Little Sheep trademark by evaluating all pertinent factors, including but not limited to macroeconomic conditions, industry and market conditions and financial performance. Based on our qualitative assessment, it was more likely than not that the carrying value of Little Sheep trademark was not impaired during the Track Record Period and therefore the quantitative assessment was not required.

Our finite-lived intangible assets that are not allocated to an individual restaurant are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. An intangible asset that is deemed not recoverable on a undiscounted basis is written down to its estimated fair value, which is our estimate of the price a willing buyer would pay for the intangible asset based on discounted expected future after-tax cash flows. For purposes of our impairment analysis, we update the cash flows that were initially used to value the finite-lived intangible asset to reflect our current estimates and assumptions over the asset's future remaining life.

In 2019 and 2018, we recorded impairment charges of US$2 million and US$12 million on finite-lived intangible assets of the Daojia business, respectively, primarily attributable to the platforms of the Daojia business. The fair value of platforms was determined using a relief-from-royalty valuation approach that was based on unobservable inputs, including estimated future sales, royalty rates as well as the selection of an appropriate discount rate based on weighted-average cost of capital and company-specific risk premium, which are considered Level 3 inputs.

Impairment of Goodwill

We evaluate goodwill for impairment on an annual basis as of the beginning of our fourth quarter or more often if an event occurs or circumstances change that indicates impairment might exist. When we evaluate goodwill for impairment, we have the option to first perform a qualitative assessment to determine whether it is more likely than not the fair value of a reporting unit is less than its carrying amount. If we believe, as a result of the qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, we will then perform quantitative assessment. Our reporting units are our individual operating segments. Fair value is the price a willing buyer would pay for the reporting unit, and is generally estimated using discounted expected future after-tax cash flows from the business operation of the reporting unit.

Future cash flow estimates and the discount rate are the key assumptions when estimating the fair value of a reporting unit. Future cash flows are based on growth expectations relative to recent historical performance and incorporate sales growth and margin improvement assumptions that we believe a third-party buyer would assume when determining a purchase price for the reporting unit. The sales growth and margin improvement assumptions that factor into the discounted cash flows are highly correlated as cash flow growth can be achieved through various interrelated strategies such as product pricing and restaurant productivity initiatives. The discount rate is our estimate of the required rate-of-return that a third-party buyer would expect to receive when purchasing a business from us that constitutes a reporting unit. We believe the discount rate is commensurate with the risks and uncertainty inherent in the forecasted cash flows. These estimates are highly subjective, and our ability to achieve the forecasted cash is affected by factors, such as changes in our operating performance and business strategies and changes in economic conditions.

Our goodwill of US$309 million, US$254 million, US$266 million and US$108 million as of June 30, 2020, December 31, 2019, 2018 and 2017, respectively, was primarily related to the KFC and Pizza Hut and recently acquired Huang Ji Huang reporting units. The increase from 2017 to 2018 was primarily due to the acquisition of Wuxi KFC during the first quarter of 2018. We performed a qualitative impairment assessment for each of our individual reporting units of KFC and Pizza Hut each year during the Track Record Period, evaluating all pertinent factors including but not limited to the macroeconomics, industry and market conditions, and financial performance. KFC consecutively generated operating profit during the Track Record Period. Pizza Hut generated operating profit during the Track Record Period except for the first quarter of 2020, when it generated an operating loss of US$28 million primarily due to the impact of the COVID-19 pandemic. Its operations improved during the second quarter of 2020 and generated an operating profit of US$15 million. Based on our qualitative assessment, the Company concluded that no changes in events or circumstances have occurred that indicated impairment may exist and it was more likely than not that the fair value of the reporting units of KFC and Pizza Hut exceeds their carrying amount during the Track Record Period and therefore no quantitative assessment was required. No impairment charge related to KFC and Pizza Hut on goodwill was recorded in the six months ended June 30, 2020 and the year ended December 31, 2019, 2018 and 2017.

As a result of our annual goodwill impairment review as of the beginning of our fourth quarter of 2019, goodwill related to the Daojia reporting unit was fully impaired, resulting in an impairment charge of US$9 million. The fair value of the Daojia reporting unit was based on the estimated price a willing buyer would pay, and was determined using an income approach with future cash flow estimates supported by estimated future sales, margin, as well as the selection of an appropriate discount rate based on weighted-average cost of capital and company-specific risk premium.

If we record goodwill upon acquisition of a restaurant(s) from a franchisee and such restaurant(s) is then sold within two years of acquisition, the goodwill associated with the acquired restaurant(s) is written off in its entirety. If the restaurant is refranchised two years or more subsequent to its acquisition, we include goodwill in the carrying amount of the restaurants disposed of based on the relative fair values of the portion of the reporting unit disposed of in the refranchising and the portion of the reporting unit that will be retained.

Share-Based Compensation

We account for share awards issued to employees in accordance with Accounting Standards Codification Topic 718 ("**ASC 718**"), Compensation-Stock Compensation. Share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense, net of estimated forfeitures, over the requisite service period, which is generally the vesting period. We recognize share-based compensation expense for awards granted to employees and non-employee directors using the straight-line method.

We estimated the fair value of stock options and SARs at the grant date using the Black-Scholes option-pricing model. It should be noted that the option-pricing model requires the input of highly subjective assumptions. Changes in the subjective input assumptions can materially affect the fair value estimate and, as a result, our operating profit and net income. PSUs have performance and/or market conditions that are based on the closing price of Yum China's stock, shareholder return performance relative to peer group in the MSCI International China Index, or relative shareholder return against the MSCI International China Index measured over the performance period. The fair values of PSUs have been determined based on the outcome of a Monte-Carlo Simulation model (the "**MCS model**") and the closing price of the Company's stock on the date of the grant.

Under the Black-Scholes option-pricing model and MCS model, we made a number of assumptions regarding the fair value of the share-based awards, including:

- the expected future volatility of the price of shares of Yum China common stock;
- the risk-free interest rate;
- the expected dividend yield; and
- the expected term.

We estimated the expected future volatility of the price of shares of Yum China common stock based on the historical price volatility of the publicly traded shares of common stock of comparable companies in the same business as Yum China as well as the historical volatility of the Company's common stock. The risk-free interest rate was based on the U.S. Treasury zero-coupon yield in effect with maturity terms equal to the expected term or performance measurement period of the awards. The dividend yield was estimated based on the Company's dividend policy. We use historical turnover data to estimate the expected forfeiture rate.

PRC Value-Added Tax

As of June 30, 2020 and December 31, 2019, 2018 and 2017, an input VAT credit asset of US$237 million, US$243 million, US$226 million and US$176 million, were recorded in other assets, respectively, and payable of US$6 million, US$5 million, US$5 million and US$2 million, were recorded in accounts payable and other current liabilities, respectively, on the consolidated balance sheets. At each balance sheet date, the Company reviews the outstanding balance of any VAT credit asset for recoverability, giving consideration to the indefinite life of the input VAT credit assets as well as its forecasted operating results and capital spending, which inherently include significant assumptions subject to change. Key assumptions include the following:

- Estimated growth rate for revenues;
- Estimated restaurant expenses and other costs;
- Estimated new-unit development and asset upgrades.

We also consider qualitative factors including the fact that such assets can be carried forward indefinitely to offset future VAT payables, our ability to manage the accumulation of the input VAT credits and potential changes in VAT rates. We did not make an allowance for the recoverability of the input VAT credit asset as of June 30, 2020 and December 31, 2019, 2018 and 2017. Changes in any of the assumptions could materially impact the amount of VAT asset and its recoverability and, as a result, our operating income and net income.

Income Taxes

The U.S. Tax Act

On December 22, 2017, the U.S. Tax Act was signed into law effective for tax years beginning after December 31, 2017. The U.S. Tax Act requires complex computations with significant estimates to be performed, significant judgments to be made in interpretation of the provisions, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, the SEC and other standard-setting bodies could interpret or issue guidance on how provisions of the U.S. Tax Act will be applied or otherwise administered that is different from our current interpretation. The Company incurred an estimated one-time income tax charge of US$164 million in the fourth quarter of 2017, as a result of the U.S. Tax Act, due to the transition tax on deemed repatriation of accumulated undistributed earnings of foreign subsidiaries, and additional tax related to the revaluation of certain deferred tax assets. We completed our analysis of the U.S. Tax Act in the fourth quarter of 2018 according to guidance released by the U.S. Treasury Department and the IRS as of December 2018 and made an adjustment of US$36 million to reduce the provisional amount of the transition tax recorded in 2017 accordingly. The U.S. Treasury Department and the IRS released the final transition tax regulations in the first quarter of 2019. We completed the evaluation of the impact on our transition tax computation based on the final regulations released in the first quarter of 2019 and recorded an additional income tax expense of US$8 million for the transition tax accordingly.

Uncertain Tax Positions

We are subject to reviews, examinations and audits by Chinese tax authorities, the IRS and other taxing authorities with respect to income and non-income based taxes. We recognize the benefit of positions taken or expected to be taken in our tax returns when it is more likely than not that the position would be sustained upon examination by these tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. At June 30, 2020 and December 31, 2019, 2018 and 2017, we had US$18 million, US$19 million, US$22 million and US$28 million, respectively, of unrecognized tax benefits related to the uncertainty with regard to the deductibility of certain business expenses incurred. We evaluate unrecognized tax benefits, including interest thereon, on a quarterly basis to ensure that they have been appropriately adjusted for events, including audit settlements, which may impact our ultimate payment for such exposures.

Since 2016, we have been under a national audit on transfer pricing by the STA in China regarding our related party transactions for the period from 2006 to 2015. The information currently exchanged with tax authorities focuses on our franchise arrangement with YUM. We have submitted information to the extent it is available to the Company. It is reasonably possible that there could be significant developments, including expert review and assessment by the STA, within the next 12 months. The ultimate assessment will depend upon further review of the information provided and ongoing technical and other discussions with the STA and in-charge local tax authorities, and therefore it is not possible to reasonably estimate the potential impact. We will continue to defend our transfer pricing position. However, if the STA prevails in the assessment of additional tax due based on its ruling, the assessed tax, interest and penalties, if any, could have a material adverse impact on our financial position, results of operations and cash flows.

Unremitted Earnings of Foreign Subsidiaries

We have investments in our foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. We have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone the basis differences from reversing with a tax consequence. The Company's separation from YUM was intended to qualify as a tax-free reorganization for U.S. income tax purposes resulting in the excess of financial reporting basis over tax basis in our investment in the China business continuing to be indefinitely reinvested. The excess of financial reporting basis over tax basis as of December 31, 2017 was subject to the one-time transition tax under the U.S. Tax Act as a deemed repatriation of accumulated undistributed earnings from the foreign subsidiaries. However, we continue to believe that the portion of the excess of financial reporting basis over tax basis (including earnings and profits subject to the one-time transition tax) is indefinitely reinvested in our foreign subsidiaries for foreign withholding tax purposes. We estimate that our total temporary difference for which we have not provided foreign withholding taxes is approximately US$2 billion at June 30, 2020 and December 31, 2019, 2018 and 2017, respectively. The foreign withholding tax rate on this amount is 5% or 10% depending on the manner of repatriation and the applicable tax treaties or tax arrangements.

NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

See Note 2 of "Appendix I — Accountants' Report" for details of recently adopted accounting pronouncements.

New Accounting Pronouncements Not Yet Adopted As of March 30, 2020

In December 2019, the FASB issued ASU 2019-12, *Income Tax (Topic 740), Simplifying the Accounting for Income Taxes* ("**ASU 2019-12**"), which simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Topic 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 is effective for the Company from January 1, 2021, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments — Equity Securities (Topic 321), Investments — Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)* ("**ASU 2020-01**"), which clarifies the interaction for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. ASU 2020-01 is effective for the Company from January 1, 2021, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

From time to time we have guaranteed certain lines of credit and loans of franchisees and unconsolidated affiliates. As of June 30, 2020, guarantees on behalf of franchisees were immaterial and no guarantees were outstanding for unconsolidated affiliates.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets attributable to the stockholders of the Company as of June 30, 2020 as if the Global Offering had taken place on that date.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of Yum China Holdings, Inc. and its subsidiaries, or the Company, had the Global Offering been completed as of June 30, 2020 or at any future date.

	Consolidated net tangible assets attributable to the stockholders of the Company as of June 30, 2020(1)	Estimated net proceeds from the Global Offering(2),(4)	Unaudited pro forma adjusted net tangible assets attributable to the stockholders of the Company	Unaudited pro forma adjusted net tangible assets per Share(3)	Unaudited pro forma adjusted net tangible assets per Share(4)
	(in millions of U.S. dollars)	*(in millions of U.S. dollars)*	*(in millions of U.S. dollars)*	*(US$)*	*(HK$)*
Based on the indicative maximum offer price of HK$468.00 per Offer Share	2,765(5)	2,487	5,252	12.53	97.14

Notes:

(1) The consolidated net tangible assets attributable to the stockholders of the Company as of June 30, 2020 is based on the consolidated net assets attributable to the stockholders of the Company as of June 30, 2020 of US$3,203 million, which is derived from the Accountants' Report set out in Appendix I to this prospectus, with adjustments for goodwill and intangible assets attributable to the stockholders of the Company of US$266 million and US$172 million, respectively.

(2) The estimated net proceeds from the Global Offering is based on the issuance of 41,910,700 shares at the indicative maximum offer price of HK$468.00 per Offer Share after deduction of the estimated underwriting fees and other related expenses related to Global Offering and does not take into account any allotment and issuance of Shares pursuant to the exercise of Over-allotment Option, the 2016 Plan, the Warrant 1 or the Warrant 2, and any issuance or repurchase and cancellation of Shares.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments for the estimated net proceeds from the Global Offering as described in note (2) and on the basis of 418,986,084 Shares in issue assuming that the Global Offering has been completed on June 30, 2020, without taking into account of any allotment and issuance of Shares pursuant to the exercise of Over-allotment Option, the 2016 Plan, the Warrant 1 or the Warrant 2, and any issuance or repurchase and cancellation of Shares.

(4) For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balances stated in US$ are converted into Hong Kong dollars at the rate of US$1.00 to HK$7.7502, the respective exchange rates on August 21, 2020 set forth in the H.10 statistical release of the Federal Reserve Board. No representation is made that US$ amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

(5) Our net tangible book value (which represents the amount of our total consolidated assets, less the amount of our intangible asset, net, goodwill and total consolidated liabilities) was US$2,794 million as of June 30, 2020, or US$12.60 per shares on an unaudited pro forma adjusted basis.

(6) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading result or other transactions of the Company entered into subsequent to June 30, 2020.

LISTING EXPENSES

Listing expenses to be borne by us are estimated to be approximately HK$341 million (including underwriting commission). After June 30, 2020, approximately HK$7 million was charged to our consolidated statements of income, and approximately HK$334 million is expected to be accounted for as a deduction from equity upon the Listing. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. We do not expect such listing expenses to have a material adverse impact on our results of operation for the year ending December 31, 2020.

MATERIAL ADVERSE CHANGE

Our Directors confirm that, save as disclosed in this prospectus, as far as they are aware, there has been no material adverse change in our financial, trading position or prospects since June 30, 2020, being the latest date of our audited consolidated financial statements as set out in "Appendix I — Accountants' Report" of this prospectus, up to the date of this prospectus.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

We confirm that, as at the Latest Practicable Date, save as disclosed in the prospectus, there were no circumstances that would give rise to a disclosure requirement under Rule 13.13 to 13.19 of the Hong Kong Listing Rules.