

**Yum China (2025 Investor Day)
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Corporate Speakers

- Florence Lip; Yum China; Senior Director of Investor Relations
- Joey Wat; Yum China; Chief Executive Officer
- Warton Wang; KFC; General Manager
- Jeff Kuai; Pizza Hut; General Manager
- Maggie Chen; Yum China; Chief Customer Officer & Lavazza JV General Manager
- Leila Zhang; Yum China; Chief Technology Officer
- Howard Huang; Yum China; Chief Supply Chain Officer
- Jerry Ding; Yum China; Chief People Officer
- Adrian Ding; Yum China; Chief Financial Officer

Participants

- Chen Luo; Bank of America; Analyst
- Michelle Cheng; Goldman Sachs; Analyst
- Lillian Lou; Morgan Stanley; Analyst
- Xiaopo Wei; Citi; Analyst

PRESENTATION

Florence Lip^ Welcome to Yum China's 2025 Investor Day. My name is Florence Lip, Senior Director of Investor Relations. We have a full agenda today.

This morning, our management team will present our latest strategies, followed by store visits in the afternoon. Some of our management will present in Chinese. Simultaneous interpretation from Chinese to English will be available.

For our guests here in Shenzhen, if you need a headset for the translation and haven't got one, please raise your hands and our staff will assist you.

For our online audience, you may also choose the appropriate channel by following the instructions online.

Our Investor Day presentations contain forward-looking statements, which should be considered in conjunction with the cautionary statement in our presentations and the risk factors included in our filings with the SEC. Management presentations will be uploaded to our IR website after each session.

Without further ado, let's get started.

(video playing)

Joey Wat^ Good morning, everyone. Let's try again. Good morning, everyone.

Audience^ Good morning.

Joey Wat^ Thank you, thank you. Very good morning. And very big welcome to all of you to Shenzhen. It's a city of energy and speed and innovation. And so, after two years, it's truly wonderful to see so many of our investors, shareholders, and everyone who love our Company to come all the way to Shenzhen. And those online, welcome as well. So, heartfelt thank you to all of you. And in addition to that, a heartfelt thank you to our employees, our customers, shareholders, and everyone.

So, we have about 40, 45 minutes here for my session. And I would like to focus on three things. First, is to have a very brief recap of what we have achieved together, particularly since 2016 since when our listing in NYSE started. Second, our belief or philosophies. I'll talk about why we go there. And then the third is our strategic priorities or our strategy for the next three years and beyond. So, three things.

Let's have a recap of our journey in China. Many of you might remember this chart. We shared that in the last Investor Day back to 2023. This is like the journey, right, the GDP growth rate and then our new store opening.

And it's quite cool to look at. It took us 33 years to build the first 10,000 stores, but then it's going to take us another just six years to get to the next 10,000 stores. So, last time when we were here, we were at 13,000 stores. Then we set a target of 20,000 stores by 2026. And I'm happy to report to all of you that we believe that we can get there next year.

Now, before I go to the next slide, I would like to also point out that the China market, as you can see, has been very dynamic. And the position of the top 10 players in our market has been dynamic.

And the next slide is to show how our market position by system sales evolved during 2016 to 2024. Simon, please? So, I don't know whether you can see the movement. So, for the top 10, the positioning of the top 10 has moved quite a bit, except the top one, and that's us. So, for nearly a decade, we have stayed firmly at the top as China's largest restaurant company by system sales, well ahead of our competitor year after year.

So, someone funny summarized this chart saying that “你大爷还是你大爷”, which roughly translates to the champion is still a champion. I know for those people who understand the Chinese, it's not exactly that translation, but you got the idea.

Our leadership in the marketplace has translated into proven track record from top-line to bottom-line. So, look at the system sales, 2016 to 2024, over nine years, system sales grew by 60%, 1.6X. Margin expansion happened as well, given our scale, and then the operating profit increased 80%.

So, these are all three dimensions that we have delivered. And in our industry, we call these three dimensions, the combination of three, called impossible triangle, because if you develop one, the other one suffers. To improve on all three dimensions, it is a bit challenging, but we have done it. So, building on this result, our diluted EPS has increased by 70% since listing and delivering, of course, more value to our shareholder.

But this is pretty much a recap of our past, very quick. And then I'm going to talk about the philosophy or beliefs. And the question is why? Why bother talking about philosophy or belief? Why not go straight to the strategy bit?

Over the years, I met a lot of investors and shareholders. Some wise one asked me very good question, focused on what I believe, what management believe, because whatever strategy that we put together, actually are indispensable from our philosophy and belief, particularly during the tough time, such as pandemic and many other challenges.

And you, guys, seem pretty wise to me today, all of you here and online. So, I thought it would be good to talk about our fundamental belief behind the strategy, so that you really understand management's thinking in a very deep and core level.

First belief is our commitment and belief in value-for-money, very sharp value-for-money. Of course, some of you, guys, ask me, "What has been the secret recipe to deliver profitable growth in the short term and long term?"

Well, in a simple way, sometimes it's not only about what do we do, but what did we not do? From this chart, you can see, like the price index has a very simple calculation. It's our sales divided by how many items we sell. And that's the average price of the product we sold in both brands.

We did not really price inflation in the last nine years. It does not mean that we did not increase price. The way that we do it is we expand the price point. We come up with new products so that we still deliver the transaction growth — KFC, 40% transaction growth, and almost 90% transaction growth for Pizza Hut — while expanding the operating profit.

Is this the best way to describe value-for-money? Not really. There are some Cantonese-speaking people here. I'll tell you my favorite way to describe value-for-money, "平、靚、正."

Let me do some translation here. I'm not sure that some Chinese translator can translate to Cantonese here. Good price, amazing quality and authentic, all three at the same time. That is value-for-money, "平、靚、正." See, many of the Yum China employees actually know these three Cantonese words. I love Cantonese. It's very, very vivid, so beautiful language.

But for value-for-money, we have slightly different take for KFC versus Pizza Hut. For KFC, we have kept it relatively steady. By having a relatively steady price or ticket average or price index, we deliver more value, new product, emotional value.

For Pizza Hut, we have gone very aggressive. The price index, now, is only 70% of what it used to be nine years ago and thank God we did it. If we did not do it over the years, we'll be in much tougher position today.

So, we have anticipated that since 2016, when we decided we're going to be very, very sharp on value-for-money because of course, it has some history behind it. 10 years ago, both KFC and Pizza Hut, we were in sort of turnaround situation.

In the turnaround process, we have learned, this is critical, we need to commit to it. It's easier said than done. I mean, everybody can do -- want to do it. But whether you can transform all aspect of the Company to deliver the extra value, extra profit for the shareholder while keeping the price very reasonable, that's the tough bit. But it's a must, and we have done it. So, in Chinese, we also call it "定价就是经营，定价定生死" pricing or value-for-money determines survival.

But it's just part of the story. What is our second belief and second philosophy? A company like us, of course, we challenge ourselves, thinking about how to grow and grow faster, grow stronger, even with our current big scale of business.

Well, our commission comes from building a strong foundation, just like how bamboo works. We find inspiration in it. Well, what are the reasons? One of the reasons is I'm from Fujian. I grew up in a hometown where my parents' house was at the bottom of a hill, and in the hill, there's a big bamboo forest. You know, of course, it impacted me. That's my background.

And there are a few things about bamboo that you might or might not know. You can use the AI to look for more facts later on. Little do -- little do some people know, before the bamboo shoot break the ground, it actually took years, three to five years typically, to grow a very sophisticated root system underground in darkness, an interconnector, underground, when you cannot see it.

And then when this done, with a little bit of water, it grows rapidly. It breaks the ground, it grows rapidly. How rapid? Bamboo can grow up to one meter a day. And then it grows to several meter, it flowers, then it starts growing taller, and it start to grow wider.

So, within a very short time, we can think about bamboo, within months or if not a year, it'll become a forest. Bamboo never stands alone. It always grows as a forest. And once a forest, it can endure storms with resilience. And I think as smart as you are, you know where I'm going, what I'm talking about already.

The interconnected root system represents our core competency under the soil. The procurement, food innovation, food safety, et cetera, you name it. Interconnected, but strong and solid.

Therefore, with a strong foundation, it fuels the growth of our emerging business like KCOFFEE, KPRO, Lavazza, Pizza Hut WOW. And these businesses are breaking through the ground right now. And once they do, they do grow fast.

The third philosophy, our ultimate belief -- and by the -- by the way, if I have to pick one out of the three, this would be it. People first, people first, people first. "重要的事情讲三遍" important thing, we speak it three times.

And RGM No.1 is at the heart of our culture. We stay close to frontline, listen to the voices of our restaurant manager. We empower them through the digital tool like AI automation so that they can focus more on customer service.

Beyond competitive pay, we try our best to look after our store manager. Jerry Ding is going to cover more in detail later on about our belief in people. We do take care of them. One example which we are very proud is to provide very comprehensive medical insurance, including their families and their parents.

And the level of support is so valuable that many RGM joked that they need to get their parents' approval to change job. See, if they change job, their parents lose the medical insurance, and they could not find it somewhere else. Simple.

And our commitment in talent have been recognized. Yum China, we are very grateful that have been named Top Employer of China for seven consecutive years, ranking number one in our industry.

So, let me introduce our management team on the screen, and they are sitting here looking very nice and smart. If I could ask them, stand up, turn around, say hi to our wonderful friends here. Thank you. You will see many of them doing the presentation on the stage later on. And then we also have Chief Legal Officer, Pingping, and Chief Development Officer, Hemin, here as well. Feel free to ask them question. I'm deeply grateful to this outstanding team. I'm very grateful to the team's collective talent, dedication and leadership. Thank you. Thank you, guys.

Now, we have covered the three beliefs and philosophy. Let's talk about our RGM strategy for the future. RGM, again, carries a dual meaning. It stands for **R**esilience, **G**rowth and **M**oat. But it's also a simple and meaningful way to honor our restaurant general manager, the most important people to our strategy.

RGM 1.0 focused on resilience. RGM 2.0 placed greater emphasis on growth. And we are at RGM 3.0. We focus on all three dimensions. We are a little bit greedier now because we feel that we are ready to have a balanced approach, focused on resilience, growth, and moat at the same time.

And RGM 3.0 is driven by two complementary forces, see the two engines, innovations and operational efficiency. Innovation helps us improve operational efficiency in scale. And our expertise in operational efficiency, in turn, allow us to keep innovating for future.

These two have to happen at the same time. And they actually nicely reinforce each other like an infinity loop, maintaining sustained momentum. This is a summary page, quite an important page, and we'll want to spend some time on this one.

With the RGM strategy, what are the operational strategies supporting the RGM strategy? And this pretty much cover the rest of my presentation and highlight the theme of all the rest of the management presentation this morning. So, it's worth spending some time here.

In the past, we focused on single-store efficiency. I'm looking at the resilient bit now. Now, as our business has become more diversified, we move towards what we call frontend segmentation and backend consolidation.

So, frontend segmentation to serve customer more effectively, really, you know, looking after their needs, but then backend, we try to have even more efficiency coming out of it. In Chinese, we call it, "前端分层, 后端整合."

Second, when it comes to growth, we have much deeper understanding of our core competencies in the last few years. We now anchor our ambitions around our core brands, particularly KFC and Pizza Hut. There are sub-brands, KPRO and KCOFFEE Cafe and then Pizza Hut WOW and modules, many smaller modules. It's very flexible. That is one area of growth.

The other one, which we started to make the shift, last year, we are shifting from mainly equity-driven business towards equity and franchise hybrid model to drive faster and even more efficient incremental growth.

Third, we continue to deepen our strategic moat. What -- I would talk more later on, we're evolving from a business-driven in the past mainly by physical store to the current one, thriving in both physical and virtual worlds.

Just hang on a little bit later. And then the last two strategic moats are our supply chain. It's becoming more integrated and agile. Last but not least, we are moving beyond digitization. We are currently deploying agentic AI to a lot of new levels of efficiency. This is RGM 3.0, more resilient, more innovative and more efficient and ready for the future.

So, now, I'm going to go to RGM strategy one by one.

Starting with the frontend segmentation and backend consolidation, well, China is a very, very big market and the customers have very diverse needs.

You can segment the customer needs in so many ways. Here's just some examples, by day part, by gathering moments, by channels, IP collaboration is the emotional value, you name it. The list can be very long.

But we know that we can serve customers more effectively through the different brands, different modules, different occasions. We can see that from our numbers. And customers like that.

And these needs are evolving, too, right? So, KPRO is a good example. We are in Shenzhen. In Shenzhen, we have more KPRO than any other cities in China. In Tier 1 city, KPRO is a fantastic lighter option with energy bowls or superfood smoothies, capturing the fast-growing light meal market.

And by the way, the business is particularly good on Monday. Why on Monday? This is about consumer insight. Because for normal restaurant business, Monday is not the busiest day, but for KPRO, it is, because typically, as human beings, we might have eaten slightly too much over the weekend, and then by Monday, we might feel slightly guilty that we want to have a slightly different choice.

And by the way, these are all KFC customers, most of them KFC customers. See, we offer different choices, with different options at the right time. And on the backend, we focus on driving synergies.

To this end, we aim to be both best in class but also best in cost. We want both, cost and quality, we want both. How do we do it? We first streamline our menus, not only menus that customers or you can see in a store, but the ingredients behind that you cannot see. That is also a big saving, and that's even more difficult to streamline than a menu that you can see.

And we also centralize key process, like centralized recruitment and training, one-stop RGM service center. And third, Mega RGM synergy and technology. Among all these four, I would say the Mega RGM is probably the most significant among all, because RGM, they're the most important group of people.

And in the past, we just don't have enough very good RGM to open that many stores. They were used to be the biggest bottleneck for us to open new stores because when we open a new store, not only we want a new store, but we also want a good new store. And the best predictor of a good new store is a very good RGM.

But now, we are at a very nice position that our RGM can manage multiple stores. We don't have the bottleneck anymore. Therefore, we can continue to build more and very good stores. So, looking ahead, we are confident.

So, these efforts are paying off, and our operational efficiency has been very strong and will continue to be strong. And here are some numbers. Marketing efficiency, this is again 2024 versus 2016, marketing efficiency has improved by 55%, greater scale of our business and very innovating marketing team. They help deliver.

Rent. Rent cost as a percentage of company sales has decreased by 170 basis point. And that's very nice. Even better, the rent structure is more resilient. This year, about 70% of our new leases for KFC and Pizza Hut stores are variable rent. Flexibility is good, resilience is good, and we built it into the structure. And that number is a lot less than nine years ago, that's for sure.

And then, what else? Look at the CapEx. KFC, overall, per store basis, 35% less. Pizza Hut, even more, 50% less. Of course, it's the result of both smaller store and innovations. It's a combined result.

And the key benefit here, which I'm sure you have already figured out, is the sunk costs are even lower because for that cost here, it includes the sunk cost and the equipment that we can move.

So, with this kind of number, the sunk cost is even lower, that minimizes the cost of making mistakes, which is important for our size of business.

So, with resilience in place, let's move on to the next topic: Growth. I'm happy to report that despite the market dynamics and the concern of macro, we still see China opportunity remains extraordinary.

On purchasing power parity basis, China is the world's largest consumer segment, which is about 1.6x the size of the U.S. So, despite the per capita spending is less, we just have a lot more people.

And after 38 years, we are still only serving about one-third of the Chinese population. And our midterm goal is to serve half of the Chinese population by 2028. And then we look at the restaurant industry, it still offers tremendous growth opportunity. People are on the move and going out more often.

By 2030, urban residents are expected to dine out 5.5 times per week, up from 3.5 times. Only two more times, but the growth is very nice and very great, very big for the market. And then in our industry, the chain restaurant penetration is still low. It's only about 20%. And it's quite difficult to be at 50% in a more developed market like the U.S.

So, with all this macro opportunity, we see a long runway for the growth ahead, particularly in lower-tier cities. So, there are two numbers here. So, this is the KFC store count, not system sales, store count share among top five QSR players. In Tier 1, Tier 2, 25%. System sales-wise, our share will be higher, but our local competitor, their stores are smaller. So, the store count number is a bit lower.

And then you look at the Tier 3 and below cities, it's only 15%. So, you might ask, does that mean that Yum China is not doing as well in lower-tier cities compared to Tier 1/2 cities? Well, I'm very happy to report that, that's probably a fair statement, and I'm happy to see that.

Why? Potential. Market potential is here. We are not having our fair share of market or store in the lower-tier cities yet. Yet. But now, we have innovative store model, we have really good product, we have good value-for-money, we have confidence we can do it.

I mean, for Tier 1 city particularly, you might already have a question, what if the macro improves a little bit, can we have a bit more pricing opportunity? And I would like to say that that's the upside. That's not built into our model yet. That would be very nice to have. Even if exchange rate moving our way, would be also another upside.

But for the lower-tier cities, we see the opportunity there. So, with the innovation and operational efficiency, we are setting a milestone, a target that by 2030, we want to increase KFC's lower city penetration from 2,500 to 4,500 cities, almost twice. And that's the milestone we set today.

So, with that, it's time to look at KFC, our flagship brand. It remains a resilient fortress behind our growth. And you will not miss the number at the title here, right?

We are aiming for a new milestone, becoming China's first restaurant chain to achieve 10 billion RMB operating profit in 2028. And this target is grounded in KFC's solid foundation, much like the Lego bricks. I like the Lego bricks. Robust, flexible, always further to build further. Imagination is the ceiling. Not to mention that 80% of my son's toys budget was with Lego, for sure. Fantastic concept. And we learn from this amazing company.

Even at KFC scale, significant growth potential remains. We continue to reach new customers and unlock new occasions. Like in Warton's presentation later, of KFC Brand Manager, he's going to go through the KCOFFEE, KPRO and then KFC's small town, and I would like to introduce one new concept here, the Gemini store.

What is Gemini store? So, when we open new store in lower-tier city right now, we have tested this year, we believe that we have some mileage in this, we open a pair of stores, KFC store and Pizza Hut store at the same time.

Because now with the Pizza Hut WOW model, which is perfect for lower-tier cities, they can share the customer, and they can even drive the traffic for each other. Today, KFC, tomorrow, Pizza Hut. And then we share a lot more equipment, resources, recruiting, everything, management, behind the scenes, in lower-tier city, that's far away from Shanghai.

This Gemini model is just perfect for lower-tier cities. And another simple way to think about it, if you want to have a lot of kids, having one kid at a time is good, but having twins, many twins at the same time is even better. Simple.

Let's move on to Pizza Hut. My humble suggestion is do not underestimate Pizza Hut China. I know there are concerns towards Pizza Hut as a brand around the world. We all have heard the news.

But Pizza Hut China, after multiple years of hard work, has reached an inflection point last year. And since then, Pizza Hut is on a surge. Look at the store number. It took 23 years to build the first 1,000 Pizza Hut. And Pizza Hut, during quarter three this year, just reached 4,000 stores. And the last 1,000 stores only took two years. That's pretty decent.

And then again, I'm sure you have seen it already. Right now, Pizza Hut, we are aiming to set the milestone to double the operating profit to more than US\$310 million from 2024 to 2029. Jeff, brand GM of Pizza Hut, will talk about it a bit more.

And if you still remember our turnaround journey of Pizza Hut many years ago, we are very clear about our priorities. Sales first, profit later. Now, we have the sales in store, Jeff. We are ready for more profit. No pressure.

Let's talk about our emerging brands. Emerging brands, with a lot of hard work under the soil, behind the scenes, actually are gaining momentum. First, let's talk about Lavazza. I mean, Maggie will talk -- we have a presentation on Lavazza later on.

Five years of hard work underground, trial and errors, Lavazza has built a very solid foundation. There are three facts I want to share with you right now. First, Lavazza last quarter has delivered double-digit like-for-like growth. We like that, don't we?

Second, the stores opened in the last two years have been profitable at the store level. Well done, Lavazza team. Third, the retail business, namely the bean business, the drip business, the concentrate business, they're profitable. It's good scale. The growth is lovely. It's profitable.

By the way, we are also building a local roasting plant in China behind the scenes without telling too many people. So, the foundation has been good. And we are ready to break the ground and ready to scale with professional coffee positioning.

Chinese dining, like we went through the journey thinking that the Chinese dining can be also part of the bamboo forest. After a while, realized it's probably slightly different species. It's the same thing, but different.

So, it takes a bit longer to connect the roots. But this year, we are having this pretty decent breakthrough, again side-by-side, not twins, almost twins, side-by-side, Huang Ji Huang, Little Sheep, put them together, a lot of synergy we can get out of it.

We have some pretty interesting momentum out of it already. But Chinese dining as a sector is struggling a bit more in the current macro situation than the QSR, but some nice momentum and encouraging results so far.

Taco Bell, another slightly different little bamboo. But this year, we also see double-digit growth in same-store sales in the first three quarters. And this year, we do expect to achieve store-level cash flow breakeven for the first time. So, all going to the right direction, some faster and some slower. But it's very hard for the smaller brand to compete with the two big brothers in the company, namely KFC and Pizza Hut, but they have to keep working harder.

So, I've covered the growth from the brands. What is the second one I have covered earlier? Equity-franchise hybrid model as a growth accelerator. We really start to make a shift and determine to focus on that since 2024, last year.

The two focus for our franchising strategy, lower-tier city and strategic channels, such as highway station, tourist location. Strategic channels, typically, are those places where it's quite hard to get the site. Or even universities or hospital, these are strategic channels.

We now have more than 2,000 franchise stores in our system, and we aim for over 5,000 by 2028. In terms of system sales, you can see we are aiming to double that system sales mix by 2028 as well.

So, our transition to the hybrid model is a strategic evolution grounded in decades of experience and learning, some good learning, some more challenging learning, but they're all good learnings.

We have developed innovative store models and that delivered attractive payback for our franchisee. Without attractive payback, it's just talking, right? It's not real. So, what makes this shift also so powerful? Of course, it's the added value that it brings to Yum China. It allows us to deliver stronger return on invested capital over the longer term. It makes our business more resilient, which, again, is nice.

So, that concludes the growth session. Let's move on to strategic moat. So, I don't know how do you feel about that little swipe here KFC, KCOFFEE Cafe, KPRO and (爷爷自在茶), the tea concept.

So, traditionally, we have the physical store, right? We build stores. That's what we start. But then in the last many years, we actually have also been building virtual space. Like this concept, many companies are doing it, but it's not very clearly articulated. And let me be very clear today, virtual space, to stay relevant with consumer.

Why this is so important? Because people, especially the younger generation, well, younger than me, right, they live in two different worlds right now, the physical world and the virtual world, and both worlds are important. I'm not sure whether it's equally important or which one is more important than the other, but we have to address that.

So, when we have KFC, KCOFFEE and KPRO there, you can imagine between these concepts, there's a door in between. Customers can walk from one store to the next store to the next store. Similar idea here. With a swipe, you can move from one store to the next store to the next store. Virtual space, physical world, they're kind of connected in a very subtle way.

So, soon, very soon, I hope, we aim to let consumers move seamlessly between the virtual space, from KFC to Pizza Hut as well, all within one app. But it's in the plan right now. So, in our virtual space, we have, you guys all know the number already, more than 500 million members in our system.

But in terms of active member, means those customers who shop with us in the last 12 months, the number is about 265 million. And even with 265 million, which is not a small number, this will create some cross-sell opportunity, as you can imagine.

One example is, most of our KCOFFEE Cafe and KPRO members are actually KFC members, but most of the KFC members, they have not tried KPRO or KCOFFEE yet, and that's an opportunity.

What is the next two strategic moats? Highly efficient supply chain over the past 38 years. And in the last few years and going forward, our integrated procurement system will continue to help out this business going to the next expansion phase, supported by dynamic pricing and consumer-centric food innovation.

Right now, last year, instead of launching 500 new foods to customers, we actually launched about 600, even more. Some are LTO, some are hero products, and occasionally, new growth drivers.

And our logistic network is agile, and we can already cover 5,000 cities in China. Remember the 4,500 cities that we want to go to in a few years? The supply chain is there already. We built the support network there already. It's not a question whether our supply chain can support in any of those 4,500 cities. Even now, yes, we can, because the supply chain has to be ahead of the rest of the business expansion. Howard, our Chief Supply Chain Officer will share more about the supply chain strategy.

Behind all of this is the technology. For years, we have been on a journey of digitization, many years, and we have really big, high-quality transaction and operation data since 2015 when we started to build the CRM system. This gave us a head start. Today, we are stepping into a new era defined by agentic AI. Leila, our CTO will share how digital and AI support our business.

So, this is a page that you are probably looking for, and Adrian will have more details in his session at the end of this morning's presentation. With everything we've built, we have a clear vision for the future. In the near term, we remain confident in meeting our quarter four and full year guidelines. We do see early signs of improving consumer sentiment, which is nice to see.

And looking ahead, our ambition is to reach 20,000 stores next year and then 30,000-plus stores by 2030. A milestone I look forward to celebrating together with the fantastic Yum China team and hopefully with you, all.

By then, we aim to grow our active member to 400 million from 265 million right now. Along the way, KFC aims to exceed 10 billion RMB operating profit or US\$1.4 billion at the current exchange rate. If the exchange rate move to our favor, wonderful. And there's a good chance that it will be the first restaurant chain in China to achieve that.

And by 2029, pizza is expected to double its operating profit to over US\$310 million compared to 2024. And by 2028, we also look forward to delivering US\$1.1 billion in free cash flow. Our CFO will talk more.

So, with a clear ambition, we are moving forward with confidence under the RGM 3.0 strategy. Looking ahead, our vision remains unwavering – to be the world's most innovative pioneer in the restaurant industry. Thank you.

Now please welcome Warton. Come on.

(video playing)

Warton Wang^ (interpreted) Dear investors, dear friends, ladies and gentlemen, good morning. Welcome to Shenzhen and welcome to our Investor Day event. My name is Warton Wang. I'm the General Manager of KFC China. Thank you for your support to the KFC brand.

Today, I'll talk about three things. First, our confidence and conviction in building long-lasting brands. And second, the opportunities we see for future brand growth. Third, I'll also talk about our RGM 3.0 strategy focus.

There is no doubt that KFC is one of the most successful restaurant brands in China. According to statistics, the average lifespan of restaurants in China is only two to three years. In comparison, KFC, now with over 10,000 stores, has thrived in China for 38 years and continues to grow rapidly.

This makes us extremely proud and grateful and also gives us the confidence and strength to face future opportunities and challenges. First, we have many, many iconic classic products that have collectively established the KFC's leadership in the Western QSR segment.

There are two products I'm sure you're already very familiar with, Hot Wings and Zinger. Each has an annual sales of 4 billion RMB. 4 billion, what does that mean? It means that the sales of a single KFC product have surpassed the annual sales of 70% of Mainland A-Share listed companies. That's truly remarkable. And we're very proud in our hero products.

In addition to these classic products, we continue to innovate, and that is widely recognized. Over the past few years, taco, double down, and original recipe chicken burger, et cetera, have gained market recognition. Forever tasty is our solemn promise to consumers.

Beyond products, convenience is also a core competitiveness of the brand. For the time being, KFC China operates over 12,000 stores across more than 2,500 cities nationwide. Our extensive footprint is enabled through brand strength and also flexible models.

Now, we operate with four store formats. The classic store is the basic format, covering approximately an area of 170 square meters with a CapEx of 1.6 million RMB. Its design is now brighter and simpler, and over the past two years, the CapEx for new open stores has been reduced by an additional 10%.

Then the flagship store is specifically designed for unique business districts to highlight the theme of the commercial district and the spirit of the brand. Then the compact format is adopted for higher-tier cities. Through optimized kitchen workflows, compact spatial design, precise capacity installment, and higher seating efficiency, it significantly reduces the full area and CapEx.

Then there is the small town format, which was developed two years ago to facilitate the rapid expansion into lower-tier cities. It covers an area of 100 square meters with a CapEx of 500,000 RMB to 700,000 RMB. So far, we've entered 400-plus small cities with this store format. With these efficient and flexible models, the brand has the ability to expand rapidly. We hope that where there are people, there will be a KFC store at your service.

KFC also enjoys a broad consumer base. We now have over 500 million members. As we celebrate the milestone of reaching 10,000 stores, we asked ourselves one question, why do Chinese consumers choose us? The answer comes from extensive nationwide consumer surveys.

First, consumers find us highly convenient. Indeed, our network of 10,000 stores makes KFC easily accessible. Whenever consumers need us, we are right there, ready to serve them instantly.

And second, consumers also trust us. We have an extensive network. Nevertheless, we have maintained a very high quality consistency in our product and service offerings. Many consumers say that when they visit an unfamiliar city and have no idea what to eat, KFC is often their first choice.

Consumers also appreciate our constant innovation, whether it's our products, marketing campaigns, our games, and toys. At KFC there's always something new and exciting, conveying a sense of brand vitality.

Last but not least, the feeling of ease and comfort. Whether it's meeting up with friends or grabbing a one-person meal, or simply hanging out in the store without ordering anything, just waiting for someone, killing time before a ride, or scrolling through their phones, consumers feel comfortable and relaxed in the KFC stores as if they were at home. This brings KFC brand closer to our consumers, attracting more people into our stores.

We also have an outstanding brand operating team. Across the country, we have 6,000-plus RGMs, leading over 200,000 restaurant crew members in serving our customers every day.

RGM No.1 is our most important culture. We firmly believe that the success of each individual store collectively builds the success of the KFC brand. All operating leaders, regardless of their current position, are promoted from RGMs. They understand store operations, empathize with the challenges and hard work of RGMs, and are genuinely motivated to help solve on-the-ground problems. This ensures that our highest standards and best practices are effectively passed down.

With the RGM No. 1 culture and an experienced operations team, we are confident to expand KFC presence across the entire country. Over the past five years, we've navigated tremendous external changes, the pandemic, trade frictions, tariff disputes, aggregator competition, among others.

Thanks to the trust that consumers place in us, the dedication of our team, and strong support from our partners, the brand has maintained steady growth throughout this period. By the end of this year, we expect to grow the number of stores to nearly 13,000 nationwide, and with system sales and profit growing at approximately 5% CAGR.

More importantly, our team capabilities have rapidly evolved. Whether in product innovation, store model innovation, membership program design, or efficiency improvements, our brand has developed new insights and new competencies, opening up broader opportunities for future growth.

Looking ahead, lower-tier markets represent massive opportunities for the brand. First, we're now entering more cities. On one hand, China's urbanization is accelerating population concentration, and many lower-tier cities and towns are quickly expanding in size.

On the other hand, we continue to innovate our models. So, lowering the threshold for entry into new cities. Currently, there are 2,000-plus unpenetrated cities and more than 3,000 white space locations in strategic channels for us to tap into.

Another opportunity is to reach new consumer segments. In China, the living conditions of budget or value-conscious consumers are improving rapidly, with their income growth significantly outpacing the national average. This group has a strong desire to enhance their quality of life.

So, for the brand, through product and marketing innovations, we're also penetrating this previously hard-to-reach consumer segment. So, this will also be a key source of future incremental growth. In short, whether it's lower-tier cities or value-conscious consumers, the alignment between our brand strategy and evolving market dynamics presents enormous opportunities.

Another growth opportunity lies in the continuous emergence of new occasions. Coffee and tea drinks are currently booming. The segment is large and growing rapidly. The healthy light meal category holds strong long-term potential. Although it hasn't yet scaled up, we have a chance to establish faster mover advantage.

And then drivers always have this need for drive-thru services. So, with the continued increase in private vehicle ownership, we believe this segment also boasts great potential. And additionally, street-style fried chicken, fried skewers, and other indulgent snacks are thriving. This segment is very close to our core capabilities and well within our operational scope, offering ample room for future expansion.

There is a lot we can do. Our current challenge isn't a lack of possibilities, but rather how to execute business initiatives steadily and efficiently, stay grounded in our core strength and capabilities while also making disciplined explorations on new frontiers.

RGM 3.0 is our strategy for future brand expansion. Resilience, growth, and moat, balancing these three will deliver future growth while ensuring stability. We are fully committed to reaching the next milestone of opening another 10,000 stores and achieving the ambitious goal of more than 10 billion RMG operating profit by 2028.

So, the next important question, how? Let's start with store expansion. In the coming years, our strategy for opening new stores will be twofold, increasing store density in high-tier cities while penetrating lower-tier markets.

So, on the left-hand side, you can see that is our Tian'an restaurant, our first three-in-one format, which you will visit this afternoon. And then KPRO, KCOFFEE Cafe have their distinct image, menu, and dining area. Yet, the back office and infrastructure equipment are shared, managed by the same restaurant team. So, this model maximizes the utilization of resources.

And this is one of the important ways to execute our high-density and competition strategy in high-tier cities. On the right-hand side is a franchise store in a small town in Henan province. As

already being introduced by our CEO, you can see that after several iterations, our small town model now requires an investment of only 500,000 RMB to 700,000 RMB.

Franchisees can recoup their investment in two to three years, making it extremely popular among franchisees. So, with such a flexible small town model and with AI empowerment, we're more precise in location selection and also with new technologies such as agile kitchen. This lowers our investment cost per store. We are also adopting flexible rent structures for different store models. And with these initiatives, the brand can rapidly expand into currently untapped cities and commercial districts.

The second lever is our franchise strategy, focusing on two things. First, enter small towns and remote areas with the franchise model to enhance the efficiency of store openings and management.

And second is to tap into previously unpenetrated strategic channels by leveraging franchisees resources. Over the past two years. Through franchising, we've entered over 400 white space cities and 500 unpenetrated commercial districts.

Notable examples include prestigious universities like a Renmin University and Xiamen University, and famous scenic spots such as Mount Tai and Mount Lu. This year, franchise will account for 40% of net new builds, making franchisees an essential contributor to our brand growth.

Managing and serving franchisees effectively is crucial. We now adopt a one system, one process policy across franchise and equity stores in terms of restaurant design, equipment and facilities, operational standards and centralized procurement of raw materials.

The cashier system of franchise stores is also integrated with the brand, allowing real-time tracking of sales data. Our team regularly audits and evaluates franchisee performance and underperforming franchisees will be disqualified.

In addition, we have launched the RGM co-pilot program for franchisees with integrated data systems. AI comes of assistance in consolidating and analyzing management data, identifying operational gaps and providing suggestions for improvement. These new systems are available for all franchisees for continued empowerment.

Ensuring food safety remains our number one priority when growing our franchise business. Therefore, effective management and empowerment of franchisees from a critical foundation for sustainable franchise growth.

Now, let's shift to sales growth. We focus on two strategic directions. First, strengthening the core, including our product strength, value-for-money offering, channel mix and IP collaborations which constitute our core competency and underpin our business performance. We will continue to invest resources to solidify these basics.

On this basis, we will scale up three new engines. First, tap into the value conscious groups with targeted product design and channel optimization. Reaching this large demographic will unleash huge growth potential for the brand. Second, high frequency occasions focusing on KCOFFEE Cafes, drive-thru pickups and fried chicken and skewers. And third, explore future-oriented business fronts such as KPRO.

Let me now elaborate on how we plan to strengthen our core, starting with improving product strength. Three focuses here, first, continue to reinforce the popular core products. Our six hero products have the combined sales expected to reach 22 billion this year, accounting for more than 30% of total sales.

Next year, we will leverage quality improvement, continued innovation on classics, and supply optimization on ingredients to further grow the sales of these hero products and build a moat based on unparalleled sales.

Second, reinforce our leadership position as the chicken cooking expert. We launched the first whole chicken product in 2021 and the sales of whole chicken are projected to exceed 2 billion this year and are on track for faster growth next year with the addition of foil-wrapped whole chicken.

There's another focus, chicken wings, this is the largest category in fried chicken category. And this category has always been dominated by our brand. In addition to our existing offering of fried and roasted wings, last month, we launched a new product called Crackling Golden Chicken Wings, adopting brand new processes, and it's a Chinese style chicken wing.

This is very popular among the consumers. It's sold out within one week. And on November 11th, we re-brought this product back to our menu, and it sold out again in just a day and a half. We're considering making it a long line product for us.

So, now, we aim to hit 10 billion RMB in these three wing products. So, the third aspect is to continuously enrich our main offerings. So, this year, the mid-autumn festival, we actually launched a Golden Moon Burger. Well, this is to boost our performance during the festival, and the response was well-received.

So next year, we will continue to explore holiday-themed food marketing to drive seasonal business. On top of that, we also have another big project called staple foods. So, I will talk more about that shortly.

So, the second key aspect of our core is value-for-money. We also have three major directions. First is signature value campaigns. Beyond the discounts and good taste, they have to offer emotional value.

So, for example, we have Crazy Thursday feather duster event and the Super Jiangsu Soccer League 13 Combo, and they all perform very well. And the second is we want to go to the solo dining brand mindset.

So, we started with 19.9 RMB three-item combo and then have since developed 22.9 RMB and the 25.9 RMB solo meal sets, which have increased both the frequency and the average ticket. So, next year, we will also launch more offerings to expand our selection of solo meal options.

And the third is thematic marketing campaigns. We have examples of 20th anniversary of the egg tart and 85th anniversary of the original recipe chicken. So, these campaigns give our marketing a theme that consumers understand very well, and we have good stories to tell and driving up the business. So, we have actually many moments to celebrate. So, going forward, we will leverage these occasions and drive business through them.

And the channel marketing has become quite complex with the fierce external competition. So, for us, on one hand, we need to continue to optimize our commercial areas and also to improve rider costs to improve the delivery efficiency.

On the other hand, external platforms are innovating constantly, platforms like Pin Hao Fan and Shen Qiang Shou, the examples that we need to learn from. And internally, our focus is our SuperApp. This year, the battle among the third-party platforms has significantly impacted every brand's own channels. But against the backdrop, our app share has increased by 5 percentage points this year. So, we will continue to work hard on this.

IP marketing has proven to be a highly efficient marketing method. It requires minimal AMP resources, and the IP-driven traffic not only drives significant incremental traffic but also delivers emotional value to our consumers.

And in the past two years, IP has brought many surprises to us. So, in the future, we will strengthen external collaboration, hoping that we can partner with more global top-tier IPs. At the same time, we need to improve IP marketing efficiency. We will promote more themed stores to improve efficiency.

So, just now I talked about the -- what is core at KFC. And now I would like to talk about some incremental opportunities. I think many of you are already very familiar with KCOFFEE Cafes. Right now, we have over 1,800 stores.

Well, by having this side-by-side model, we are able to lower customer acquisition cost and provide higher value-for-money offerings. And the sparkling coffee is a creative product, which is very welcome by our consumers. The egg tarts are a very good pairing with the coffee, and we have Gigantic egg tarts and caramel egg tarts. They sell very well, taking a very good proportion of our sales.

Right now, KCOFFEE Cafes have a relatively complete product mix. So, going forward, we will invest more in KCOFFEE Cafes by opening more stores so that our consumers can be more familiar with our offerings. We are very confident that by 2029, KCOFFEE Cafes will have more than 5,000 stores.

And we also have two milestone goals. First, we want to make sure that the standalone KCOFFEE Cafes can succeed. And second, we want to explore the franchise development model to boost the growth of KCOFFEE Cafes.

KPRO is a new business we began to do earlier this year. This is a healthy light meal segment. Right now, it is not a huge segment, worth around 20 billion RMB. But we believe it has a great potential going forward, especially for a brand like KFC, which is primarily known for fried chicken.

So, over the past 12 months, we have been growing very fast. Right now, we have over 100 stores in more than 20 cities. They offer panini and healthy drinks and snacks and energy bowls.

Energy bowls are our biggest item. So, seven variants of the energy bowls account for over 50% of KPRO's sales. So, with the shared operation costs and also the success of KPRO energy bowls, we have full confidence that we can reach over 1,000 stores within five years.

And drive-thru pickup is also another business with a great potential. Before, it was constrained by limited road lane resources so the growth was relatively slow. Over the past year, our team has come up with more innovative ideas and practices, for example, Door-side pickup. customers can now order online and employees deliver by walking out of the restaurants. So, this can dramatically improve lane accessibility.

We have also developed a curb-side pickup service by using location technology, enabling pickup right to the roadside near restaurants. So, thanks to these innovations, we have full confidence with more investment next year. We are going to expand this service.

Here is the Staple Food project. We hope that we can reach more to the tight budget population. So, we want to target, for example, the riders, the taxi drivers, and the university students.

We have already got the products ready. A couple of months ago, we actually ran a competition, a creative competition on the staple foods. For example, the braised chicken rice and the pork feet rice are in market testing phase, and we also have local staple food like the Sichuan Guo Kui and the Henan Braised Noodles with chances to be launched after further refinement. We have confidence in these products.

We will test these products in the emerging channels like Pin Hao Fan. We will also establish B2B collaborations by offering riders' meal or drivers' meal to reach the cost-conscious groups. And also, for the universities, we want to put our offerings on the listing in the canteens so that we can reach university students. Next year marks the inaugural year for the project, and we have great expectation for it.

And right now, building the resilience of a brand focuses on ensuring a healthy cost structure and operation efficiency with four key areas of effort. First is to streamline and improve efficiency across products, raw materials, packaging, small wares, and so on.

Second, we want to centralize our work in a more efficient way. Right now, we have already established centralized platforms for recruitment, training, and new store openings. We are now exploring centralized replenishment and shift scheduling, along with advancing more outsourcing and factory-based initiatives to reduce pressure on restaurants and raise efficiency.

Thirdly, synergy. In recent years, the brand has experimented with various sharing models: labor sharing represented by Mega, product sharing such as the Original Recipe Chicken Burger, site resource sharing through side-by-side models like KCOFFEE Cafe and KPRO, and brand sharing exemplified by the "Gemini" project. It is proven that sharing is an efficient business model, and we believe that within the brand or across the Group, we have more opportunities for shared enablement.

Fourthly, technology empowerment. Emerging technologies are now enabling innovative changes to the traditional "front-of-house/back-of-house" single-store management model. While ensuring operational stability, we will explore more future-oriented centralized restaurant management models, gradually shifting goods management and personnel management out of the store so that the restaurant can focus more on serving our customers.

While using human-machine collaboration to boost production efficiency and using AI to improve decision-making efficiency, we will continuously build a more efficient technology-driven operational model for the brand.

Now, let's talk about the moat. The brand has over 500 million members, so it is very difficult to be copied by our competitors. Through a carefully designed membership system, we have clearly mapped out membership growth paths from regular members to paid members all the way to K-Friend.

So, this tiered approach maximizes member value. Right now, we have over 1 million members at the K-Friend level with more than 100 visits per year, demonstrating their strategic role as the foundation of our competitive advantage.

And also, we have got more and more clear consumer profiles. We understand their spending habits, behavioral characteristics, and how they engage with the media. This enables us to recommend the right products to our consumers, which also has a positive impact on both marketing efficiency and brand strategy development.

High-quality customer service and RGM No. 1 culture are at the heart of our moat. We leverage the "GES 2.0" initiative and the RGM Voice platform to listen to real-time feedback and suggestions from both consumers and frontline staff, enabling swift action to solve the issues they have.

So, we also built in cohesion through our K-Family Role Models, making sure that good behavior is seen, learned, and rewarded. In customer service and restaurant support, our culture is "repeating simple tasks with consistency." No matter how much the brand expands, we always ensure we can listen to the voices of customers and employees and proactively adapt to their needs.

So, KFC China has brought together generations of people and efforts of hundreds of thousands of employees. We are committed to remain its leading position in China's catering industry, which we plan to achieve through three key initiatives.

First is forever tasty, this is our solemn promise to our consumers. Second is we want to be forever with you. We are expanding our store network to make KFC highly accessible, while ensuring great value so that every consumer in China can afford our products and services.

And forever love and care, so we put respect first and we serve our customers passionately with care. And we believe that a united culture will inspire us to go further. So, going forward, we will continue to move forward with this culture. Once again, thank you sincerely for your great support and trust in the KFC brand.

Now, let me pass the mic to Jeff, the General Manager of Pizza Hut.

(video playing)

Jeff Kuai^ (interpreted) Good morning, dear investors and distinguished guests. Good morning, everyone. Welcome to today's Yum China investor conference. So, I'm very happy to see you again here in Shenzhen. I'm Jeff Kuai, the General Manager of Pizza Hut China.

So, in the next 30 minutes, I will share with you three topics. First are the accomplishments we have achieved. And the second is based on the segment and the price range we're in, our growth opportunities and the potential. Finally, I will share with you how we are going to seize the opportunities and our growth goals in the coming years.

First of all, I'm very happy to share with you that this year, we opened Pizza Hut's 4,000th store in Sanya. So, it took us 33 years from entering China in 1990 to reach 3,000 stores by 2023. But we added the next 1,000 stores in just over two years.

As our store count accelerates, the quality of our new stores continues to improve. Compared with 2019, the payback period for our new stores has shortened from around three years to two to three years.

So, in terms of our sales for the first three quarters of this year, our same-store sales have maintained a solid growth. What is even more encouraging is that with our brand development strategy, our same-store transaction has continued to grow strongly.

In the first three quarters, the same-store transaction was up 17% year-over-year. And as of Q3 this year, we have a positive same-store traffic growth for 11 consecutive years. While we deliver better products, better value-for-money and better customer experience, we also managed to improve operational efficiency continuously.

Compared to 2019, restaurant margin in 2024 has improved by approximately 90 basis points. Building on that, in the first three quarters of this year, margin is improved by another 90 basis points.

As a result, in the first three quarters of this year, operating profit increased by 16% year-on-year. In this highly competitive market, Pizza Hut has achieved simultaneous improvement across multiple dimensions, system sales, same-store sales and profit margin.

So, what's behind Pizza Hut's sustained growth through cycles? First, we have an effective team that's fought and won tough battles and has been honed through years of collaboration. From frontline staff to headquarter, this effective team allows us to respond swiftly to market changes and challenges, formulate the most effective strategies, continuously innovate and improve efficiency, seize opportunities and maintain growth.

Second, our brand strength. Pizza Hut is recognized by consumers as their favorite Western casual dining restaurant brand in China. Over the past few years, customer recognition of Pizza Hut's taste and value-for-money has continued to grow. This trust and endorsement from our customers form our strongest moat, supporting the brand's rapid development.

Third, our product strength. We hold a leading position in multiple categories. These strong categories have given us a significant competitive advantage and have driven overall brand growth and market share expansion.

Among them, the most important category is, of course, the pizza category, which has achieved rapid growth through continuous innovation. We expect our total pizza sales this year to exceed 200 million units. What does that mean? This means that we're doubling the sales compared to 2022.

Finally, our store network spreading across China, along with strong capabilities in off-premises channels and digital. Our off-premises sales includes both delivery and takeout. This has consistently outpaced overall system growth.

In Q3 of this year, these two channels together accounted for more than 50% of system sales. And our member base has also been growing rapidly and has surpassed the 200 million mark. These digital channels and systems provide tremendous convenience for customers, while also enables the brand to reach them more effectively, forming a key source of long-term competitive advantage.

Our team, brand, products, omnichannel presence and member system have enabled us to successfully navigate multiple business cycles. They also constitute the critical foundation for the brand to achieve further breakthroughs and accelerate growth in the future.

Of course, another critical condition for accelerated growth is whether the market still has potential. At present, there are still abundant opportunities in the market. First, the pizza category still has robust growth momentum. According to Euromonitor, between 2025 and 2029, the

Chinese pizza market is projected to grow at a CAGR of 10%, significantly outpacing the overall restaurant industry.

Second, in terms of categories, Pizza Hut has already established a second growth curve beyond pizza and into the burger category. Since we first launched burgers in April last year, our burger business has grown rapidly and contributed meaningfully to the brand's overall growth.

The addressable market of the burger category is much larger than that of pizza. Although competition is intense, Pizza Hut has firmly established itself through a differentiated positioning of Casual Dining Restaurant (CDR) quality burger.

Consumers highly appreciate our freshly baked burger buns made daily, generously sized whole meat, make-to-order preparation and approachable pricing. As a result, repeat purchase rates for this category are significantly higher than the overall average.

Third, we still have significant growth opportunities to cover more price ranges. In 2019, our average per person order size was around 60 RMB, higher than 98% of snack and QSR brands. The market size of this price bracket is not enough to support rapid growth for Pizza Hut.

As a result, in the years prior to 2019, we faced challenging same-store sales performance and net new builds declined sharply. Thanks to the efforts, over the past few years, we significantly adjusted our pricing and now, our price positioning has settled into a more reasonable range. We still have room to move further down the price ladder, but even at our current price point, the segment is already large enough to support accelerated growth.

Finally, due to our pricing adjustments and enhanced value-for-money proposition, we now have a better opportunity to enter nearly 3,500 previously unpenetrated cities and towns across China. We can also expand to new occasions such as solo dining. We can also reach younger and value-conscious customer groups.

In a nutshell, we have expanded categories, adjusted price positioning and improved value-for-money, getting ready to broaden our coverage across price ranges, cities, occasions and customers.

All right; that's enough storytelling. We now possess both the capability and opportunities for accelerated growth. So, what exactly is our future growth target? Joey already alluded to this, our goal is to grow by another Pizza Hut in the next five years, that is to say, to double our operating profit by 2029 compared to 2024. This is the first year of our five-year plan. So far, we are right on track to reaching that goal. As Joey already alluded to, our RGM 3.0 strategy is the way towards this five-year target.

Next, I'll talk about our growth strategy, resilience, and moat. First, I'll talk about our growth strategy involving both new store openings and same-store growth. And second, regarding resilience, I'll mainly talk about how we plan to improve store profit margin. Last, I'll share a few things about reinforcing our moat through in-store customer service and our people-first culture.

In the next few years, we will increase annual net new build from 400 or 450 to over 600 per year. By 2028, our total store count is expected to exceed 6,000. As we accelerate new store openings, we will not compromise on quality and ensure a two to three years new store payback period.

We will focus on four levers to accelerate new store development. In high-tier cities, we will increase store density with flexible formats. In cities where we have already established presence, we will continue to optimize store assets.

For the 3,500 low-tier cities and small towns that we have not yet entered, we will penetrate with the Gemini and WOW model. Finally, we will accelerate our franchise business and rely on franchisees to help us reach previously unpenetrated locations, such as tourist attractions and schools or areas where they boast a higher operational efficiency, like remote areas and some small towns.

So, first, let me elaborate on the store formats. Whether it's increasing high-tier density or penetrating lower-tier cities, our primary focus is on creating more efficient store formats to enable shorter payback period, lower investment upfront and higher same-store sales.

In high-tier cities, we operate in two formats. The classic format leans more towards dine-in customer experience with flattened off-premises volume, whereas satellite stores focus primarily on delivery.

Over the past period, we've significantly reduced the investment required for satellite stores and found ways to lower investment upfront for the classic stores as well. Moving forward, we can leverage these two formats to open more profitable stores in high-tier cities.

For lower-tier cities, on the other hand, the PH WOW format introduced last year has proven highly effective. Compared to high-tier stores, for the WOW model, pricing is adjusted to everyday low pricing, better aligning with the spending habits of small town residents.

Service model is also upgraded to be closer to QSR model, enhancing peak time service capability. Additionally, the investment required per store is down by nearly 50%. Now, for WOW small town, in lower-tier cities, upfront investment is between 650,000 to 850,000. With that, the PH WOW format has a greater chance to succeed in smaller cities.

We have already opened more than 40 new Pizza Hut WOW stores in low-tier cities. So far, the initial performance in terms of CapEx, WPSA, profit margin and payback period, the performance is in line with our expectations. At the same time, we have invited select franchisees to pilot this format in small towns.

On the right-hand side, you can see some prices. This is to give you a sense of the products offered at WOW store. And in the afternoon, you will also visit some of our WOW stores to better understand what it's like to open a WOW store, what's our price, what's our service in the WOW stores.

For the existing 4,000 stores, we will continue making adjustments and upgrades. First, we will leverage AI for zero-based network planning by analyzing demographic distribution and mobility patterns of individual cities.

Guided by this blueprint, we will retain high-performing stores and relocate or close underperforming ones. At the same time, we will upgrade store facade and outdoor areas annually to enhance brand image.

So, I've talked about new openings. Now, let's shift to sales. In terms of sales, our goal is to sustain high single-digit system sale growth annually. Our strategy will focus on two pillars, strengthening the core and expanding adjacencies.

First, reinforcing our core business. We will continue to improve in family and group dining occasions, enhance product strength and value-for-money, optimize our delivery channels, continue to expand our price range, further penetrate low-tier cities, et cetera

Two, capture greater market share. At the same time, we will continue to expand into adjacent areas. We will innovate and scale adjacent opportunities, including developing the burger category, catering to solo dining occasions, strengthening takeout channels and further engaging with younger consumer groups.

So, I will elaborate on the core and adjacencies respectively. To enhance our core, the most crucial aspect is continuously enhancing our product strength. And first, we must strengthen our leadership in the pizza category.

Over the past few years, the pizza category has been a critical growth enabler for overall brand sales. In the first three quarters of this year, pizza sales increased by over 24%. Underpinning this growth is constant innovation, particularly in pizza crusts.

In August this year, we launched the 10-inch handmade thin crust pizza series, which has since become the bestseller. Customer feedback and repeat purchase rate for the thin crust series is higher than those for the entire pizza category.

Coupled with the hand-tossed pizzas introduced in 2022, innovative crusts now account for over 70% of total sales. Going forward, most of our pizza innovations will focus on developing new crusts.

Second, we will continue to strengthen classic pizza flavors such as Super Supreme and New Orleans. So, these existing hero products will be further strengthened. At the same time, we will create new hit flavors like the salted egg yolk pizza. They're also very popular. Lastly, we will expand our value offerings priced at 39 RMB and 49 RMB to increase market share across different segments.

Another key approach to enhancing product strength is continuous product focus, creating hero products and new hits. Over the past few years, we have streamlined our menu, reducing the

number of long-term products from 105 to fewer than 80. So, individual product efficiency is significantly improved.

During this process, we focused on creating hero products like Bolognese pasta and durian pizza. High repeat purchase items have seen growing sales. At the same time, we continue to introduce new hits such as the secret recipe chicken thigh burger and the Korean fried chicken, driving overall sales.

The second approach to strengthening our core is improving brand value-for-money, focusing on two things here as well. First, enhancing the value of long-term menu items. Not only have we maintained prices without any increase for eight years, but in December Q4 last year, while preserving healthy profit, we even made significant price cuts, which proved highly effective.

Since Q4 of last year, same-store transaction has been steadily rising. In the first three quarters of this year, same-store transaction grew by 17 percentage points. Moving forward, we will aim to stabilize average TA and introduce highly competitive value-for-money products at higher price points to drive both transaction and TA growth.

Second, strengthening signature value platforms. This year, we upgraded Scream Wednesday, offering customers more predictable promotions, which has shown promising results. We plan to upgrade other value platforms using similar strategies. Our long-term goal is to strengthen these value platforms and to enhance customer trust and promotional effectiveness.

Third lever, delivery. Delivery remains our most important growth engine. In the first three quarters of this year, delivery has been performing very well. Sales grew by 27%, outperformed the system sales.

Going forward, we will continue to drive delivery growth. So, we'll focus on enhancing the taste of delivered food. We will engage platform riders to effectively improve delivery efficiency and speed.

We will optimize algorithms to increase conversion rates on public domain traffic. And finally, we will strengthen our own channel with exclusive benefits, mechanisms, and campaigns to accelerate growth in our proprietary delivery channel.

The final piece of the puzzle is to enhance our digital capabilities. Over the recent period, our membership base has continued to grow rapidly. And driven by the full menu promotion, our new member acquisition has significantly outpaced that of last year.

Looking ahead, we will use CRM program and privilege membership cards to increase repeat purchase frequency. At the same time, we will enhance private domain traffic and drive users to our own app and mini program by providing more attractive benefits, exclusive discounts, and improve the customer experience.

So, having covered the core business, we now turn to the adjacencies. We're pursuing four key levels to expand adjacencies. First, newly launched burger category. Product-wise, we will focus

specifically on beef burgers. In marketing, we will highlight our positioning as made-to-order CDR quality. Through various LTOs and promotional campaigns, we aim to raise awareness that Pizza Hut offers high-quality burgers.

Second is solo dining. Actually, this segment also went up by 25% in the first three quarters. So, going forward, we will also promote our solo dining IP to offer more good value-for-money product combinations so as to continuously improve the one-person meal experience in both dine-in and delivery channels to drive more sales.

Third lever is our take-out meal experience in both dine-in and delivery channels to drive more sales. Third level is our take-out business. So, going forward, we want to further improve our brand awareness and the speed of food preparation and delivery.

And lastly is IP collaboration. In recent years, we actually have collaborated with more than 20 different IPs annually, bringing emotional value to our customers and also drawing new customers. In the future, we will continue to collaborate with IPs that are popular with our family customers, and we will also look to have more diverse co-branding with gaming, animation, and other IPs.

So, having discussed our sales, I would like to talk about how to improve our store profitability to make our business more resilient. So, now, we have the sales, we want to make sure that the stores are profitable so that we can contribute to the competitiveness of Yum China.

So, our target is to grow our brand operating profit by more than 75% by 2028 compared to 2024, so as to double it by 2029. Correspondingly, we aim to improve our restaurant margin to 14.5% by 2028, about 250 basis points improvement versus 2024.

So, while boosting the profitability of our brand and restaurants, we also look to widen our moat by continuously enhancing the customer experience and satisfaction. For us, the most important lever to increase restaurant margin is to improve labor productivity. So, we will do this through four aspects.

First is to streamline our menu, the preparation steps of each product, and the restaurant management tasks. So, if a task cannot be simplified further, we will try to use automated equipment or system to realize.

And for tasks that cannot be simplified or automated, we will try to centralize them via our mid-office to improve overall efficiency. For example, we have already launched a centralized platform for recruiting, training, and new store preparation.

Our store managers no longer need to worry about hiring and training. They can free up more time to take care of our customers. Going forward, we can also do, for example, centralized replenishment, shift scheduling, training, et cetera. We will continue to improve our frontline incentive plans so that our productive employees can earn more and encourage productivity and to have a better retention of our good employees.

So, in terms of customer experience, on top of overall satisfaction, we pay special attention to product quality and speed of order fulfillment. Over the past few years, we have made continuous improvements in all these areas related to customer experience.

Going forward, we will further stabilize the product quality, especially for pizza. We have also launched our AI quality inspection system with image recognition technology. We are able to check the quality of every pizza. And based on this data, we will also do targeted training and process improvement.

Secondly, we will continue to improve speed of service. With our i-Kitchen system, we can do real-time inventory calculation and come up with the best solution. And leveraging on the latest AI technology, we continue to optimize algorithm to boost production capacity and fulfillment speed during peak hours. In addition, we will further improve the overall satisfaction by enhancing dining environment and restaurant service.

Finally, to execute our RGM 3.0 strategy, the most important enablers are each RGM and also our organizational culture. We have launched an RGM 3.0 system to collect suggestions and problems from every RGM and provide timely feedback.

With the help of AI, we ensure that every RGM's voice can be heard quickly and their concerns addressed promptly. Regarding customers, we serve customers with passion and culture. We also have a system to collect customer feedback from multiple channels, respond in a timely manner, and address the issues at the root to serve every customer well.

So, relying on team capability, brand strength, product strength, and strong network, we have navigated cycles repeatedly and are ready to accelerate growth. In the pizza and burger categories, across new price ranges, in lower-tier markets, and in essential consumption scenarios, we have carved out huge market space for accelerated growth. To capture these growth opportunities, we have formulated a clear strategy focused on accelerating store expansion, boosting same-store sales, and expanding profit margins. We are confident that we can build Pizza Hut into the most innovative pizza brand in the world. Build another Pizza Hut in five years. Thank you.

Now, let's welcome Maggie Chen, our Chief Customer Officer and General Manager of Lavazza in China, to share with you Lavazza's strategy.

Maggie Chen^ Thanks, Jeff. Good morning, everyone. I think this morning, everybody already enjoyed the first cup of Lavazza. I'm Maggie Chen, as new role of General Manager of Lavazza JV. Today, I'm really excited to share the most legacy Italian coffee brand, Lavazza, and its progress in China market. Let's start with a short video to understand the essence of the brand.

(video playing)

Maggie Chen^ Yes, detail, tradition, and excellence show brands' never-changing attitude over 100 years. Lavazza was founded in 1895, inventor of blend and the hometown of espresso. Over

the years, Lavazza has become the Italian favorite brand around the world. What brings us here is a perfect espresso. It is the heart of tradition and the moment of coffee pleasure. Every single cup starts with the same uncompromised espresso, strong flavor, rich crema, and smooth foam.

And in China market, we are trying to connect the authentic Italian mastery, not just the detail in every cup, not just tradition in every menu innovation, but also every exciting life moment. We have been refining this brand in the past five years to find out a right but still unique Lavazza for China.

As Joey mentioned, it takes years for bamboo to grow its root system beneath the soil. Once the roots are solid, we believe bamboo shoot up at very fast speed. We truly believe we will be one of the bamboos in Yum China. Actually, we started to build our own root system five years ago and passed through a dynamic economy, market environment and consumer habits. We will continue to evolve the brand, and 2025 marks a tipping point. We are happily, Lavazza has finally found its growth path, and there are some positive signals after Chinese New Year.

By quarter three, we had 118 stores. Our coffee shop business shows strong month-over-month momentum. SSSG rebounded to 111, and we've seen a sustainable trend in early of quarter four. At the same time, thanks to the light model we developed last year, those new format stores achieved restaurant margin around 5.8% in quarter three. That's a very encouraging result for single-store economics. Therefore, we are confidently moving to a new phase. We will accelerate new store opening. By year end, our target is to reach 145.

Globally, Lavazza is very excellent in the retail business. Last Investor Day, we mentioned our plan to step into the retail market in China. Now, it has already become one of two of the most important growing engines for Lavazza JV. Actually, retail revenue rose 38% year-over-year, with an operating margin around 9%.

We also know that to thrive in China, we must adapt. As Yum China, we know how important the local insight is. We are making sure our coffee truly resonates here. China coffee market has been a significant growth in recent years. When we compare consumption level of developed Asian market, we are still at very early stage. This is huge potential.

As Chinese consumer drink more and more coffee, many of them will evolve from simply “drinking coffee” to “being coffee drinker”. Their taste will naturally upgrade. And if the price is accessible, they will stay with better quality coffee in daily needs. This growing segment for Lavazza is our sweet spot. We believe we are perfectly positioned in their needs, stay true to authentic Italian coffee, while offering localized menu with accessible price. And also, Italian lifestyles, craft, art, passion and love.

As the Italian coffee master, we offer diverse coffee bean to meet different preference, from classical Italian blends to single origins and special blends for different seasons and life moments. Actually, more and more Chinese consumers have come to know and love our Kafa. Lavazza's iconic Kafa bean. This is a rare bean from Ethiopia's Kafa forest. It is the birthplace of the first coffee bean. After several years' efforts, now we can offer it every day in

China at a very good price. Today, one in five Lavazza customers will naturally trade up to Kafa bean. The menu mix doubled in past year.

Surrounding by Kafa this collection, surrounding with Kafa lovers, we will continue to innovate our Kafa collection. Our recent Kafa Geisha launch achieved the highest repeat rate in the past two years. We will offer more Kafa bean choice and we believe it will further grow our business and our fan base.

Blending coffee, much like perfume and wine, is the art of combining different origins to achieve unique balance of aroma and character. As blends inventor, we bring our global blending technical into China. Since last year, we speed up the cycles to offer different seasonal blends, inspired by a lot of emotional moment like tennis celebration. This approach has significantly grown our business and the lover base. We plan to double or even triple our blend cycles in the future.

To win in the market, we know we need signature products. Different from Italy, Chinese consumer more prefers milk-based coffee over black coffee. Our 100% buffalo latte, milk latte, was tailor-made to Chinese consumer and the taste, but still with Italian DNA, sweet, ice cream-like texture. We believe in that, year over year, we promote it. The result is very encouraging. Buffalo milk latte already has been Lavazza's signature item. In the past 12 months, we are so happy to sell over 1.5 million cups. This is 25% of our total beverage sold.

Building this insight, we launched liquid tiramisu coffee this summer. We're transforming a global well-known dessert into a drinkable format, creating a new experience of coffee plus dessert. The product hit the market and became our new blockbuster. And there are a lot of good ideas coming from my team. I think this is not only one. Actually, there are a lot of dessert-inspired beverage will launch in our shop as a daily offer.

Lavazza family are big fans of tennis, and more and more Chinese consumer play tennis, watch tennis, and dress up during tennis. For us, that's really perfect. Make tennis as a platform to connect, engage with our potential customers. With world number one player Sinner, Lavazza ambassador, and a strong brand activation across all channels. During Shanghai ATP season, we enjoyed 20% sales revenue growth year-on-year. We hope the fast-growing fan base of tennis will be Lavazza lovers as well.

Fashion and car racing are the pride of Italy. They also present a certain life attitude, pursued by Lavazza's core targets. This year, Lamborghini, Moschino campaign proved our approach. We could build connection with our customer within coffee and beyond coffee.

China is a famous country of cuisine, so as Italy. Take inspiration from Lavazza's network, with Michelin-starred chefs and the leveraging YUM China's expertise in localization and standardization. Our joint team really delivers high-quality food, with simplified equipment and streamlined operation. Good taste and light investment work in Lavazza China. We've introduced over 100 Italian-inspired food items in China. Some like Focaccia and the Toast Dolce have become the must-try favorite items in our menu. Some like the Turin-style pizza and Panettone. They are starting to gain their own lovers.

The clear food portfolio has also given us very unique growth pillar to drive our TA on different dayparts, and meanwhile to bring extra sales during holiday. We found Chinese consumer super love a lot of Italian elements. We should better leverage, and visualize, and strengthen the connection with our potential customers.

This summer, we launched the first Italian summer concept in China. We present a more comprehensive experience across coffee, drink, retail and gift. The summer sales result is so impressive, as I mentioned earlier. Now, we are in Italian winter season, ski season. Actually, we gained a very good start as well. We found all key elements to connect with our core audience and now it's time to march ahead.

We all know store model is very critical to speed up. Consumer priorities are dramatically changed in recent years in China. We need to meet the core needs, while becoming more streamlined and getting closer to the customer, in distance and the price. We have continuously adjusted our model. Actually, the first-generation model offers large space, good coffee, light meal, and restaurant-level experience. While this is our third-generation model, it focused more on core needs for specialty coffee.

What remains uncompromised are the quality of coffee, coffee equipment, barista and the Italian design. But for the store size, it has been cut in half and the CapEx optimized to one third. The essential model allowed us to open more stores and offer accessible price in their daily needs. The latest version requires an investment of less than half a million, almost half compared with before. With this design, we launched our first store, Pinzun, in Shanghai last June. The promising sales performance and the unit economy have led us to another 24 stores. These stores have achieved around 6% of restaurant margin in quarter three, healthy and still growing.

Now, we are more confident than ever to expand. In the future, three to five years, we are doubling down our presence in Tier 1 and selected Tier 2, becoming more accessible to coffee lovers and elites. We see potential for each Tier 1 city housing 150 to 200 stores. It gives us thousands in scale. The light format with coffee mastery as its core allowed us to go broader or even go deeper. At current stage, we will more prioritize commercial and office trade zone to increase brand exposure and meet daily needs. We're also testing strategic location like campus, transportation hub, by leveraging Yum China franchisee resources.

To provide a cup of good coffee, we must ensure freshness, innovation and good price, meanwhile, retaining Lavazza century-old roasting and blending expertise. We are enhancing local capabilities under the support from Lavazza R&D and Yum China supply chain ecosystem. This allowed us to improve our agility to the market, reduce the cost, and strengthen our innovative pipeline. We've launched more than 40 products in the past three years. So far, close to 30% of product is roasted locally and we plan to reach 70% by 2027.

In mature market, coffee retail is another huge business. China retail business even grows faster because the user base enlarges. Last Investor Day, we mentioned Lavazza JV would step into retail market. We set up our local dedicated team, work closely with our Italian teams, and gradually shift from 100% global imports to local R&D and production. We've expanded from

only bean-based products to capsule, liquid and drip. Some are very Asia-specific format. We have the opportunities to build capability to react to the market like a local player, which give us confidence to go broader and even go deeper.

Meanwhile, we create synergies between shop and retail to offer and promote signature beans across all channels. As I introduced KAFA, now it gets signature sales in both businesses. In just three years, we doubled our retail sales, and we see more breakthrough ahead. We are so happy we reconnected with our channel partners. Now, you can see more and more Lavazza in premium and upscale hotels. Also, we're already presenting almost all leading key accounts in Tier 1 to Tier 3. This is another very efficient way to build brand awareness.

This year, we decided to set up our self-run capabilities for online channel. We have very good business result during this 11.11. In terms of GMV, actually, we are top two roast and ground coffee brands in e-commerce. My team see more and more opportunities, so we can do better. We are very excited about that.

Our team is in place and full confident to break the ground. By 2029, we remain our goal: over 1,000 Lavazza stores in China and US\$60 million in retail sales.

Lastly, allow me 20 more seconds to send an invitation here. Two weeks ago, we opened our first test store in Hong Kong to better understand Asia customers. The store is located in Central. I believe it's also the home or office for many of you. Please come and enjoy authentic Lavazza there. More signature and new product will launch, aligned with the pace of Mainland China.

Thanks again for your time. Now, let's take a short break. Please join us outside for the second Lavazza moment. Thank you.

Florence Lip^ Thanks, Maggie. We'll now take a short break and give management team a rest. You will have more time to interact with them after all the presentations. So please come back at 11:25. So that's about 10 minutes, 11:25. Our lunch is a bit late today. So make sure you grab something to eat during the break. And following the break, we will have our Chief Technology Officer, Leila Zhang, to discuss our digital strategy. Thank you. 11:25.

(BREAK)

Leila Zhang^ (Interpreted) All right. Welcome back. My name is Leila Zhang. I'm the CTO of Yum China. Earlier today from the presentation by Joey, you saw the bamboo forest in the first half of today's investor event. So, I think we have heard a lot of stories about the bamboo forest. And starting from me, I'll be talking about what's happening underground, behind the scenes.

You've heard from Joey and the brand general managers that we have always considered innovation and digital capability as one of our core competencies. Today, it's my great honor to be here and share with you some of our latest initiatives and achievements in intelligence transformation, and also to take you into our future tech development and innovation.

The digitalization of Yum China has happened in tandem with its business growth and always resonates with the company's RGM strategy. In 2013, while we rolled out digital initiatives for customers and stores, we also started constructing data warehouses to accumulate data. By 2019, based on high quality data, we started building and centralized the AI platform and utilized decision supporting AI capabilities, such as forecasting, optimization and recommendation to accelerate business growth.

Starting from 2023, with the launch of ChatGPT, we also actively embraced this Gen AI technology, introducing AI agents to deepen the integration of technology and business. Entering 2025, AI Agent 2.0 began to serve as a digital coworker, assisting store operations and back-office staff. Throughout the years, we continue to maintain an industry-leading position in applying and utilizing emerging digitalization technologies.

Currently, Yum China has fully embraced AI, with deep applications across four major areas; customers, stores, supply chain and back office. For customers, we provide convenient personalized services for 575 million members. For stores, we continue to improve operational efficiency with end-to-end digitalized product management. For the supply chain, AI enables farm-to-table management to deliver on both food safety and agility. For back office, AI agents have been integrated into various functional workflows to drive efficiency improvements.

Next, I will delve into each of these four areas. At every touchpoint of consumer service, AI plays an indispensable role. First, through our Consumer Insights platform, we can collect and analyze customer feedback within hours after a new product launch, driving rapid product innovation. Our refined data operational capabilities allow us to precisely reach over 200 million targeted customers within 24 hours. Communication has become more efficient.

The ordering and membership Super App and Mini Program are updated weekly for better functions and performance. This helps meet the fast-growing business needs, and at the same time also enhances user experience. Our AI-aided customer support system handles over 150,000 customer interactions daily, with 90% handled by robots, and a satisfaction rate exceeding 90% as well.

I'd like to highlight the latest upgrade of the KFC Super App, the AI-powered ordering agent. This incorporates LLM intent recognition on top of AI recommendation capabilities, making ordering more convenient. Here's a demo to show you how it works.

So, the user says, "Help me order a set combo." And I'll change a specific item. I'll also change the beverage. Make the payment. All right. We're now promoting this AI-assisted ordering system. Nearly 500,000 customers have tried it. We also welcome you to try it out, and your feedback is very welcome. Every piece of input helps us improve our agent capabilities.

Regarding store operations, we have implemented end-to-end digitalized product management from replenishment to production. For example, the automated replenishment system covers most items. The AI suggests and RGM confirms. This enhances efficiency and also ensures flexibility for store-level decision-making. With the Smart Stocktaking system, AI generates store-tailored checklists to ensure optimal efficiency improvement case by case.

The i-Kitchen is an AI-powered real-time production management system. It helps restaurants flexibly manage peak hours and ensures stable quality through image recognition. These AI-powered systems free employees from repetitive tasks, allowing them to focus on serving customers, and this also helps better ensure food safety.

In terms of supply chain, we have achieved full-spectrum intelligence covering food safety, logistics, and replenishment. For food safety, we use Knowledge Graph to proactively identify and mitigate risks and enhance control efficiency. For logistics, intelligent network planning enables faster and more economical distribution to over 17,000 restaurants nationwide. For replenishment, precise demand forecasting, combined with collaborative planning significantly boosts supply chain responsiveness and agility. All these digitalization capabilities are supported by a supply chain control tower and data platform that integrate data across core suppliers, logistics, and stores, so that AI algorithms can effectively assist decision-making.

For the back office, we have established a system integrating structured data with unstructured knowledge, enabling full AI coverage both horizontally and vertically. At its foundation lies digital business systems, constantly generating and accumulating vast data. The middle layer consists of data platforms across different functions so that data can be connected and translated from being inactive resources to becoming usable assets. Currently, we focus on several vertical domains such as finance, human resources, and store development to develop and deploy AI agents to improve efficiency across the board.

Looking to the future, we will continue developing our AI agent and embrace the Agent 2.0 era. Agent 2.0 represents three major upgrades, from being reactive where humans seek AI copilot, to proactive services where AI initiates interaction with humans; from standalone operation to multi-agent collaboration; from executing specific tasks to empowering entire workflow. We believe that Agent 2.0 is not just a technological leap, it's also about reimagining human-AI collaboration.

Today, I want to use two agents – the development agent Dev Copilot and the store operations agent Q-Smart – to show you the future of agentic AI application and how they empower our business in different scenarios. As you know, the selection of store location is the start of restaurant operations. It requires a lot of public domain and private domain data. It also relies on the extensive experience and knowledge of our human employees.

We're currently building a Dev Copilot that integrates gen-AI and decision support AI, creating an end-to-end intelligent workflow for store development. For example, during site selection, the agent leverages AI algorithms to recommend optimal locations. In contract review, the AI agent pre-screens key items and flags potential risks. With this Dev Copilot, the human development staff can work more efficiently to support rapid store expansion to 20,000 or 30,000 stores.

For in-store management, Q-Smart is becoming a reliable digital coworker. We're now working on a smart agent matrix based on multi-agent collaboration. We have this Smart series centered on Q-Smart. There's also D-Smart for delivery operations, and C-Smart for customer service. These agents work together to support frontline staff. Q-Smart has four core strengths:

First, hands-free natural language interaction to better ensure food safety. Second, real-time sensing and feedback. In case of possible sellout, the agent will send a timely alert and generate a production plan so that emergency situations can be handled timely. Third, highly responsive to employee questions with reference to data and menus anywhere, anytime. And fourth, multi-agent collaboration and a clear division of roles so that each employee is supported by multiple digital coworkers.

We launched Q-Smart in June this year. It is now being tested in several pilot stores, with continuous iteration based on frontline feedback. Next year, we'll extend it to wider scenarios and also launch the test in more stores.

Before I conclude, I want to show you a video on Q-Smart to help you better understand how Q-Smart empowers our store operations.

(video playing)

Leila Zhang^ Yum China has always believed that innovative digitalization capabilities are vital accelerators for the company's development. Looking ahead, we will continuously push boundaries and, in collaboration with AI, redefine the future of smart dining. For Yum China, AI is not just AI. It also symbolizes accelerated innovation.

Thank you very much for your time and for your support. Next, let me have Mr. Duoduo Huang, Chief Supply Chain Officer, to come onto the stage.

Howard Huang^ (Interpreted) Thank you, Leila. Good morning, everyone. I'm the second person in charge of what's behind the scenes. I'm in charge of supply chain management. I'm very honored to share with you what we have been doing in supply chain.

Yum China has a world-class supply chain management system. Our efficient organizational capabilities ensure end-to-end management of all our products, from our farm to our table. Procurement and logistics are our core pillars, R&D is our accelerator fueling continuous product innovation and growth. And then food safety serves as a stabilizer. Food safety and sustainability have always been at the heart of what we do. We consistently prioritize food safety as our top priority, and our long-term mission is to build a responsible supply chain ecosystem.

On the business side, through our integrated procurement across multiple departments, we bring competitive products to the market. On the logistics side, relying on warehouse and distribution network that covers over 5,000 cities and towns, we ensure efficient product delivery, giving strong support for our brand expansion to remote and lower-tier regions. Our integrated procurement strategy has enabled us to maintain effective cost control over the years. By building a supplier ecosystem, using pricing strategies, and fostering innovation, we have achieved our strategic goal of being “best-in-class, best-in-cost”. And the cost-of-sales ratio of our products has remained stable or even declined. For example, our core raw material (for

original recipe chicken), the 9 piece chicken, remains among the most competitive in the market year after year.

Our dynamic pricing management strategy helps us to closely monitor and respond to market trends. For example, crayfish is a core ingredient for our crayfish series products, and its price is influenced by demand, farming volume, weather, and water quality. Over the past few years, we have tracked this data and adopted a “dynamic coordination, timely purchasing” strategy at each relatively low price point. During the harvest season, we swiftly lock in procurement volume and price. This gives us a competitive edge, enabling us to launch popular crayfish-related offerings.

Another key ingredient is durian. To ensure a stable supply and avoid multiple markups along the value chain, we launched upstream direct sourcing in Vietnam and Thailand. By doing so, we maintain a closer connection with upstream producers, securing supply, while greatly reducing procurement costs.

Price locking is also another critical lever in our pricing strategy, especially for various commodities. Take coffee beans as an example, our specialized team continuously monitors the supply and demand, and has developed in-depth know-how across multiple production regions. We sign contracts in scale and lock prices to mitigate the risk of sharp cost increases in coffee beans.

And last but not least, in response to deglobalization and tariff risks, we began diversifying supply and promoting domestic alternatives several years ago. For cheese products, we have developed new overseas suppliers as well as local domestic suppliers. With a joint technological innovation with the domestic suppliers, we have become the first restaurant company in China to use domestically produced mozzarella cheese.

In addition, in 2024, we launched a global supplier recruitment platform, transforming our supplier engagement from a one-way selection process to interaction between us and the suppliers. This gives many small- and medium-sized suppliers more opportunity to proactively introduce themselves to Yum China. It has also helped us to build a healthy supplier pool composed of both existing and new suppliers. And in recent years, Yum China has also actively expanded its global supply chain resources and engagement opportunities.

In 2024, we have participated in China International Supply Chain Expo organized by CCPIT, where we can interact with international suppliers. In September 2024, we also attended a Procurement and Supply Chain Live Summit in London, promoting our supply chain experience to a global audience.

Our internal innovation in processes is also helping us optimize procurement strategy. Over the past few years, we have also refined our existing product launch mechanism, upgrading from a linear collaboration model between departments to a multi-dimensional, two-way model. This adjustment allows us to capture consumer trends from multiple dimensions, facilitate cross-departmental information exchange, and coordinate supplier resources. As a result, our product development process has become more flexible, accelerating the speed of launching new items and boosting the hero product conversion rate. It enables us to deliver "faster, more cost-

effective, higher-quality, and more popular" new products across three dimensions: new flavors, new categories, and enhanced value-for-money.

In the past three years, we have launched more than 1,600 new products. In the past 12 months, over 100 of our products have surpassed 100 million RMB in sales.

Consolidating the product needs of our brands, we are exploring broader, full material utilization from raw material sourcing to product design, creating a complementary closed-loop system, guided by consumer insights. This allows us to strategically apply different specifications and parts of ingredients to the most suitable parts on various brand menus. We have successfully assembled "a whole chicken" through our multi-brand product portfolio. As Warton mentioned, even feathers are utilized to make dusters, which are used as gifts for Crazy Thursday. Looking ahead, our goal is to further enhance the comprehensive utilization of resources and materials across both commerce and logistics flows, creating more integrated "Ones"—such as "a whole cow," "a full truckload of inventories," and "a unified logistics and distribution network."

The strong logistics and the warehousing distribution network as another pillar of our moat is also the foundation of our confidence to continue to expand our brand footprint. To strengthen supply chain efficiency, we are continuously advancing the logistics co-location projects. Starting with distribution and small cutting centers, we are evolving into a 3-in-1 manufacturing campus combining distribution, vegetable fresh-cutting facilities, and bakery factories.

Ultimately, we plan to build a Yum China supply chain industrial park that aggregates distribution, packaging, food processing, equipment, and more. By leveraging synergy, we will not only drastically reduce distribution costs but also enable a high degree of synergy in upstream raw material sharing and logistics systems.

We expect Yum China's first 3-in-1 industrial park to be completed and operational in Shanxi Datong by the end of 2026. Other projects are also under development, including a 3-in-1 facility in Jinan, Shanghai Nanxiang, and Harbin, as well as supply chain industrial parks in Guangzhou and Zhangjiagang.

Furthermore, we are piloting a hybrid warehousing distribution network to improve delivery efficiency in remote areas to reduce logistics costs. While ensuring food safety, we are introducing third-party resources and then partnering with companies that have a wider network coverage to reduce the cost and to improve the coverage. And of course, logistics automation is the foundation for innovation efficiency.

Two years ago in Xi'an, you may have seen our narrow-aisle, four-way shuttle and "goods-to-person" projects. These have already produced great results, increasing warehouse space by over 35% and operational efficiency by over 50%. Building on that, we have established narrow-aisle four-way shuttle vehicle system at Shanghai Nanxiang frozen warehouse, positioning it as an industry leader. Going forward, we will upgrade from the current four-way shuttle and AGV "goods-to-person" system to a multi-level shuttle picking system, significantly reducing manual operations in our automated warehouses. At the same time, we are activate testing autonomous trucks in Huai'an and robotic dog freight movers in Suzhou.

Now, let's take a look at the video of our supply chain automation.

(video playing)

Howard Huang^ Okay. Welcome back. Now, let's take a look into the foundation of resilience. We recognize that upstream food safety management—extending to the suppliers of our suppliers—is an extremely complex and intricate process. We are leveraging AI to increase efficiency in our day-to-day management, extending all the way upstream. We have developed cloud inspection plus AI diagnostics to trace back to the most challenging and complex areas – the farms.

On the store side, we use OEC and AI to automatically monitor, send alerts and standardize sanitation in key areas such as employee hygiene, equipment maintenance, restaurant cleanliness, preventing cross-contamination and building long-term food safety habits.

At Pizza Hut, we have launched the AI quality inspection, which is trained with a massive pizza data to ensure every pizza delivered to customers meets our quality standards. As Leila mentioned, our facilities system is moving from end-to-end stage to Agentic AI era, supporting the rapid expansion of our brands' penetration into lower-tier cities and our franchise business.

The ultimate goal of our supply chain is sustainable development. YUMC is committed to building a responsible ecosystem. As shown, our achievements have far surpassed expectations. We have also received multiple recognitions, but that's not the end. Continuously having green development together with our upstream and downstream industry partners is our long-term mission.

Here, I would like to highlight several key milestones. In the past two years, we have extended our coffee grounds recycling to 8,700 KFC stores, collecting over 3,000 tons of coffee grounds. In the first phase, we've transformed these grounds into eco-friendly plates, baskets, and straws in the stores. The second phase involved industrial-scale production, converting them into logistics pallets and activated carbon filters, which we plan to use in our restaurants and warehouses. We also encourage our beef suppliers to add a specific bio-enzymes in feed to reduce emissions of ammonia and methane, improving feed-to-meat efficiency and reducing carbon emissions impact.

At the same time, we have also asked the potato suppliers to reuse potato peels as fertilizer, thereby reducing environmental pollution. Additionally, we're encouraging inter-cropping of potatoes and oats across the three seasons, which helps preserve soil health, while increasing potato yield. Balanced nutrition and health are also part of our commitment in response to China's "Healthy China 2030 Outline" and the "National Nutrition Plan (2017 to 2030)". We're continuously improving our existing product formulas, launching more new products with less salt and less sugar such as low salt mozzarella and French fries, sugar-free cola and low sugar fruit juice.

We have also previously announced our sugar and salt reduction goals through 2030 and are steadily making progress. Based on current progress, we expect to more than achieve our 2025 targets. Building on that, our ultimate goal for 2030, while ensuring flavor and customer experience may even be attained ahead of our schedule.

Finally, we will drive continuous efficiency and innovation, consistently enhancing supply chain resilience, deepening our moat, and collaborating with partners to build a responsible and sustainable green ecosystem supply chain that empowers our brands to reach new heights. Thank you.

Now, please join me in welcoming our Chief People Officer, Mr. Jerry Ding.

Jerry Ding^ Thank you Duoduo. It's a pleasure to be here today with you. I'm Jerry Ding, Chief People Officer of Yum China. Today, we have shared much about our RGM 3.0, our business strategy on the surface, right? Now, I would like to bring the focus beneath the surface to people, our strong foundation.

At Yum China, you hear this a lot of times today. We say RGM No.1. RGM means Restaurant General Manager. They are the ones who keep our restaurant running smoothly every day, lead our teams, and bring our brand culture to life for customers. Over the past 12 months, our RGM turnover rate was only 8.3%, with an average tenure of nearly 12 years, reflecting our long-term commitment to caring for and to enable our people. We care deeply about our RGMs and have built a comprehensive benefit framework to support them.

Beyond our core benefits, such as medical insurance, we offer supplementary benefits, including upgraded medical coverage of up to 1 million RMB for RGMs and their families. These benefits also extend to our restaurant management team.

Our care program also extends beyond that. Early this year, we launched a flexible benefit program, offering over 20,000 restaurant crew members comprehensive, accessible, and affordable health coverage options. Behind these benefits are real stories. We have an RGM whose father was able to get lifesaving heart surgery through our family protection plan. We also have an RGM whose cancer treatment expense was fully covered by our medical insurance.

But RGM No.1 is more than just providing benefits. It is about empowering them. Today, our Centralized Recruitment & Training Platform now fulfills approximately 89% of our restaurant crew hiring needs. RGM no longer need to spend long hours sourcing CVs. Instead, they submit a request, and a fully trained team member arrives at the store within only one to two weeks. With our Centralized New Store Opening Platform, tasks that used to take RGMs months of preparation are now being handled by our shared service. On average, this saves an RGM around 100 working hours per new store opening.

And we know that it is important to listen to their voice and recognize their achievements. Through our RGM voice platform, we continuously gather frontline feedback, response around the clock, and close the loop with timely resolutions. We are also delighted to share that more

than 90% of KFC restaurant employees have been recognized and rewarded through our K-Bean program.

Once centralized, AI could play a critical role in transforming how we manage people in our stores. AI supports every stage, from resume screening to e-onboarding, to a 24/7 AI chat bot that handles almost 80% of restaurant team's inquiries. This does not stop at hiring and training. The platform also brings staff scheduling, performance and career development together into one seamless end-to-end process.

With this system in place, employees have a clear view of their training, pay, recognition, and growth opportunities, so they can take charge of their own development. And for RGMs, these digital tools also free up time to focus on what truly matters — food safety, customer service, and developing their teams.

One of our most important initiatives this year is the Mega RGM. Today, we have almost half of all RGMs being Mega RGMs. Rather than managing a single store, Mega RGMs oversee two to four stores with their management team, leading a total of 60 to 90 staff.

The model tackles three key frontline challenges. First, it helps fuel the RGM talent pipeline that we need to fuel the rapid store expansion. Second, it creates diverse and attractive career pathways for our frontline employees. And third, it enhances workforce efficiency so our team can deliver at their best. But we are not simply asking RGMs to do more. We are helping them, helping them work smarter, and the results speak for themselves, right? Mega RGM's retention is strong. Turnover last year was only 5.1%, well below the overall average.

So why is this a good job? People always joke that an ideal job is about (钱多, 事好, 离店近) higher pay, greater impact, and more accessible. In this case, it is true. Higher pay, Mega RGMs earn 20% to 30% more, and top performers see an increase up to 50%. Pay is linked to the store managed and the bonuses are tied to the sales. Greater impact, centralization, and the digital tools have reduced the routine tasks, helping Mega RGMs lead multiple stores and focus on operations and team development.

More accessible, this may sound counterintuitive, but with technology, Mega RGMs can monitor the store remotely, even if they are not on site. Our one system store management tool reduces unnecessary commute across stores by providing real-time operation data and automating routine tasks. Rather than just hear from me, we invite one of our Mega RGMs Deng Weiwei to share his firsthand perspective from the frontline.

(video playing)

Jerry Ding^ We have already thousands of our Mega RGMs, like we just showed. But our mission is far from complete. We will continue to strengthen frontline enablement by, first, consolidating resources to build a one-stop service center. Second, drive franchising business by sharing operational house and providing flexible talent support. And third, strengthen our frontline teams and culture to support the growth of new modules and initiatives.

To help our team focus on what matters most, we are now building five centralized platforms. We have now covered New Store Opening Platform and End-to-end Employee Management. The other three are the Customer Support Center — a dedicated team to help RGMs deliver greater customer service, particularly during the peak hours. Inventory Management — automated tools for smarter ordering, replenishment, and stock allocation. Equipment Maintenance — predictive maintenance and faster repairs. Together, these platforms will make it simpler and focused for RGMs to run their restaurant efficiently.

Building on that, we are making it even simpler for RGMs to get support and problems solved by bringing all these restaurant supports under one roof, the One-stop Service Center. Instead of reaching out to six to eight different shared service teams, RGM now can have only one single interface. Each RGM's request will be handled by a dedicated case manager for end-to-end accountability. Our closed-loop system ensures clear processes, measurable KPIs and real-time feedback.

So we call it “把简单留给餐厅，把复杂留给部门”. Keep simplicity in our restaurant, leave complexity to shared service. With the integrated system, that has become a reality.

Let's now talk about how we enable franchising as a strategic growth driver. At the market level now, we have dedicated operation teams and development teams, together with our franchisees who work hand-in-hand on site selection and construction. At the restaurant level, we provide qualifications and training standards and share the best practice to build a strong talent system. And of course, on technology side, we give franchisees access to our system, our One System Store Management platform, and soon our new One-stop Franchise Service App.

Over time, we will build a comprehensive franchise platform that support every stage, from opening to daily operation, giving franchisees the skills to succeed. Last but not least, we are strengthening our frontline leadership to scale our new business models. For example, we inspire our RGMs with role models from our top performers, excite them through engagement program like the champion challenges that build new skills and elevate their thinking with K-creator camps and RGM forums to help them grow into cross-thought leaders.

At same time, we are deepening our culture. This year, we refreshed our company culture, embracing founder's mentality with truth-seeking pragmatism. Our leadership team regularly visits markets and restaurants to share these values, while RGMs live these values in restaurants. And initiatives like K-Beans and Restaurant Battles bring our culture to life in daily management, inspiring frontline teams to grow.

At Yum China, people first is more than a motto. People are our most valuable asset, and our culture is the soil that help them grow and thrive. Like bamboo, deeply rooted in the culture soil, connected by shared value, resilient through every challenge, and always growing upward and growing wide into a forest. This is who we are, and this is how we grow. Thank you.

Now, let's welcome our CFO, Adrian Ding.

Adrian Ding^ Good morning, everyone. It's great to see everyone here in Shenzhen today. I'm Adrian Ding, CFO of Yum China. Thank you for joining us today.

As Joey and our team have just shared, we're encouraged by the positive momentum in China's consumer sector. Consumer sentiment shows early signs of improvement. And while consumers are rational, they're willing to pay for great quality, taste, value and emotional value. And against this backdrop, we're well-positioned to capture the growth opportunities through the strategic initiatives that we discussed about today.

In my session, I'll focus on how we turn these strategies and initiatives into dollars and cents and provide additional color on our latest three-year growth algorithm, linking our strategic plans to financial outlook. As each of my colleagues have emphasized, innovation and operational efficiency are the twin engines that power our value creation algorithm. Today, I'll walk you through how these engines drive measurable results through balanced growth, resilient economics, capital discipline and strong returns.

Let me start with our growth algo. We maintain a dual-focused approach in driving both system sales and same-store sales growth. Our growth strategy is built on two pillars: footprint expansion, innovation and operational efficiency. So, first, our footprint expansion is anchored by several key drivers; a clear growth runway in the underserved market, a portfolio of flexible store formats, and the acceleration unlocked by capital-light franchising.

Second and just as important, we seek to uphold high performance standard that underpin our growth. And that's why we've also built multiple levers to drive SSSG, even as our base becomes significantly larger. To put this into numbers, we target to deliver mid- to high-single-digit system sales growth from 2026 to 2028, while sustaining a 100 to 102 same-store sales index each year over the same period. We're not expanding simply for scale. We are building a stronger and high-quality store base, as well as supporting infrastructure to position us for the long-term success.

China continues to present substantial headroom for penetration for our brands. And as Joey has mentioned, our goal is to enter 4,500 cities and towns, and to have more than 30,000 stores in China by 2030. By 2028, we expect to bring our brands to approximately 3,700 cities and towns across China, expanding our reach to over half of the country's population, up from around one-third today.

And to be able to achieve this, we're accelerating our store network expansion. We ended quarter three with over 17,500 stores, and we'll get to 20,000 stores, exactly as we promised, end of next year. And in 2028, we aspire to achieve 25,000 stores, and this represents a double-digit net new store CAGR, supported by strong consumer demand for our brands, food services across all city tiers, and of course, our relentless focus on innovation.

To capture the significant opportunities here, we've built a portfolio of innovative and flexible store formats, each designed to expand our addressable market and meet the diverse consumer needs. We deploy the right store format to the right location, enabling rapid, focused and capital-efficient expansion.

In higher-tier cities, formats like KFC Compact and Pizza Hut Satellite deepen our presence and improve our consumer convenience. And in lower-tier cities, we leverage formats like KFC Small Town, Pizza Hut WOW and KFC and Pizza Hut Gemini to unlock the significant and currently underserved opportunities with much leaner capital expenditure. For example, a KFC Small Town store requests less than 40% of the capital expenditure of a standard store.

Looking ahead, innovation remains our core competence. We are also testing other new initiatives and concepts that, if scaled successfully, could add further upside to our outlook. We look forward to sharing more with you as they evolve. Together, these store formats allow us to expand faster and better serve the different needs of our consumers here in China.

Now, let's turn to franchising. Franchising is a powerful accelerator in our expansion playbook. The capital-light approach enables us to unlock opportunities that's previously beyond our reach, namely in lower-tier cities, remote areas and strategic locations. It helps us capture the incremental demand, with both speed and capital efficiency.

As of 2025, KFC and Pizza Hut franchise stores represent approximately 13% of our total store count. Between 2026 and 2028, we plan to open more than 3,000 additional franchise stores, raising the total franchise unit mix into the 20% range by 2028. For Pizza Hut in particular, we're raising the net new build franchise mix to increase to 40% to 50%, broadly in line with the KFC's level, and up from the 20% to 30% today.

Our franchise stores typically generate a third to two-thirds of the average sales of our standard equity stores. Given the lower investment and favorable cost structure, the payback for our franchisees stores has been quite healthy. For example, KFC Small Town's payback for our franchisees is two to three years. Franchise stores are expected to contribute to mid-teens percentage to our system sales by 2028. And their share of revenue and operating profit is expected to reach high single-digit percentage. We also expect the OP margin of our franchise businesses to improve to around 10% by 2028.

Beyond new store openings, same-store sales growth is an important driver for our overall business. While our expansion plans over the next three years are ambitious, we are equally focused on sustaining healthy SSSG. To this end, we have multiple levers in place to drive our SSSG, as both Warton and Jeff have already covered in detail. So, I will just highlight a few key points here.

Our strong brand equity built over the past 38 years and deep emotional connection with our consumers remain a powerful differentiator. We continue to delight our consumers with innovative and tasty food and drinks at great value. And equally importantly, we offer exceptional convenience, aiming to be whenever and wherever our consumers need us through our super apps, mini apps, aggregator partnerships, and extensive store network, as well as the new modules such as KCoffee Cafe and KPRO. All these help us broaden our reach across a wide range of consumer segments and occasions.

Over the next three years, we expect to drive 100 to 102 same-store sales index year-over-year, and we aspire to reach a same-store sales index of 102 for the Group and for our two core brands at some point within the next three years. This would effectively bring our SSSG back to the levels seen during the periods of higher GDP growth, while operating on a significantly larger footprint today.

Beyond our two core brands, speaking of emerging businesses, for Lavazza, the stores opened in the past two years are profitable in quarter three this year. And as Maggie has shared, it is on clear path to 1,000 stores by 2029, while its retail business is progressing towards \$60 million of profitable sales. Meanwhile, our other emerging brands, including Huang Ji Huang, Little Sheep and Taco Bell are targeting a combined 1,000 store by 2028, supported by continuously improving store economics. We're disciplined in cultivating our emerging businesses, which are a force to contributing to our future growth and success.

And now, let's turn to the other two cornerstones of our RGM 3.0 strategy, Resilience and Moat. These are equally important as growth in driving our long-term success. Our resilience is reflected in the continuously improving margins, driven by structural cost advantages and operational excellence. And our moat, built on the core capabilities in areas such as supply chain, digital and people, is demonstrated by expanding returns on invested capital. Together, these support our strong free cash flow growth.

We are targeting a 11.5% plus OP margin and approximately 20% ROIC in 2028, and double-digit CAGR for free cash flow per share growth. These targets quite clearly demonstrate our resilience and moat. We're building a business that grows in scale, profitability and durability, all at the same time.

Resilience starts at the store level. We continue to work on restructuring our cost base and improving our operational efficiencies, and it's paying off. KFC remains our resilient fortress. Consistent to the philosophies and guidance shared over the previous few years, we expect KFC to maintain strong restaurant margins, reaching 17.3% plus in 2028, even as it continues to scale. Pizza Hut has reached an inflection point, and quarter three marked the sixth consecutive quarter of year-over-year margin expansion. Thanks to the operational efficiency gains, it is set to reach a higher than 14.5% restaurant margin in 2028.

Together, our two core brands are forging a clear path for overall margin expansion, with KFC providing a solid and high-margin foundation, and Pizza Hut accelerating its performance, we're targeting a Yum China restaurant margin of 16.7% or higher by 2028.

To achieve the restaurant margin expansion, we're actively managing our key cost lines while enhancing productivity across the whole organization. We expect cost of sales to remain at healthy levels, sustaining the benefits from Project Red Eye, spending better and buying better initiatives, and favorable commodity prices. And as previously guided, our COS, in the long term, should stay within the range of 31 plus and minus 1%. COL, cost of labor, may see moderate pressure from wage inflation and the rising delivery mix, which we work hard to partially offset with the productivity gains. Occupancy and other costs are expected to trend

downward through streamlined operations, better rent, and store capital expenditure optimizations.

To achieve all this, we've embedded innovation operational efficiency into every layer of our operation, from streamlining menus to centralizing key processes, and deploying digital and AI. These efforts, together with our G&A leverage, strengthen the structural cost advantages and operational resilience, allowing us to navigate dynamic market, while growing margins. As a result, we expect to deliver steady improvement in our OP margin from 10.8% to 10.9% in 2025 to 11.5% or higher in 2028.

Solid top-line growth, combined with sustained margin extension will drive significant increase in our absolute operating profit dollars. We expect high single-digit OP growth CAGR from 2026 to 2028. Our formula is straightforward and proven, growth multiplied by efficiency delivers greater profitability, which is a dynamic we are scaling with precision.

Okay, now, let's get to the capital expenditure. We remain disciplined in capital expenditure. We're targeting an average annual CapEx of \$600 million to \$700 million from 2026 to 2028, with 75% to 85% allocated to store development, including remodels. Per-store investment has been decreasing, as we've disclosed. In addition, we continue to make investment on remodeling, which also includes investment in our side-by-side modules like KCOFFEE Cafe and KPRO.

Digital, supply chain and infrastructure are key and central to driving our growth and efficiency, as well as deepening our moat. These areas are expected to account for the remaining 15% to 25% of our capital expenditure over the next three years.

Here comes my favorite quote, as Warren Buffet once said, "A truly great business must have enduring moat that protects excellent return on invested capital." The moat that we've been building and deepening over the past few years, as presented by our management team today, help us deliver exactly that. Operating profit is climbing. Capital efficiency is improving. And with the incremental growth, fueled by capital-light franchising, we expect ROIC to reach around 20% in 2028, up from 2024, which is 16.9%.

Our team have walk you through key elements of the RGM 3.0 strategies, and our goal is to turn this execution into strong free cash flow. The key drivers for this are quite clear, solid operating cash flow growth, continuously optimized and disciplined capital expenditure, and the value-enhancing approach towards share buyback. Together, this will give us double-digit CAGR for our free cash flow per share growth over 2026 to 2028, and that brings me to a topic that I know is important to many of you, capital returns.

As this chart shows, we have significantly stepped-up our capital return to shareholders in recent years. We're on track to return approximately US\$1.5 billion to shareholders each year from 2024 to 2026, or US\$4.5 billion in total. We expect to end 2026 with and also maintain a sustainable net cash position of US\$1.2 billion to US\$1.4 billion going forward.

And looking ahead, our current plan for 2027 and beyond is to return our shareholders with around 100% of our free cash flow to parent company. That is our total free cash flow, after

deducting dividends paid to non-controlling interest in our consolidated joint ventures, primarily our KFC JVs, which will be approximately US\$100 million annually in 2027 and 2028. And this is expected to translate into an average annual return of US\$900 million to US\$1 billion plus in 2027 and 2028, and exceeding US\$1 billion in 2028 and onward.

In terms of allocation, we plan to increase our dividend per share over time, with the remainder return through value-enhancing share buybacks. This approach is designed to balance and meet the diverse needs of our various long-term shareholders.

So, to bring it all together, here are the key financial targets that will define our path for the next three years, and we are excited to share the following. First, a 100 to 102 same-store sales index every year. Second, system sales CAGR of mid- to high-single-digit. Third, operating profit CAGR of high single digit. Fourth, EPS CAGR of double digit. And lastly, free cash flow per share CAGR of double digit.

These targets are built on the initiatives that we discussed about today. But importantly, our projections do not factor in any macro improvement, nor do they reflect the full potential upside from the new store models and initiatives, which we are still developing currently. This outlook reflects our commitment to delivering long-term shareholder value, our confidence in future growth, and our discipline in executing our RGM 3.0 strategy.

Okay. Lastly, the message I want to leave you with is simple. Our journey is about moving from strategy to results, and from results to long-term value. And that concludes our presentation today. Thank you.

QUESTIONS AND ANSWERS

Florence Lip^ Thanks, Adrian, please stay on the stage, and let me invite other speakers to join us on the stage as we move to the Q&A session.

So, when we start the Q&A, if you have a question, please raise your hand and our colleagues will bring you a mic. Please do limit your question to one so that more people can participate. Before asking, please state your name and Company name. So maybe give our management team a moment.

All right, let's get started. Our first question from Luo Chen.

Luo Chen^ (Interpreted) So I think almost all of you are Mandarin speakers, so I will use Chinese to raise my question. I'm from Merrill Lynch Securities, Luo Chen.

Today's investor event is full of information, very informative and very insightful indeed. And Adrian, with the closing, actually, you offered a lot of solid insights and information. So exactly the things that we as investors look forward to.

Two highlights. When Joey said in opening remarks that the champion will always be the champion, which impressed me significantly. And we also saw that you talked about your feather

duster and new staple food offering, Guo Kui, the pork feet rice. Putting those things together, it feels very interesting. I understand how much pressure it has been for Yum China. You want this and that at the same time. You want growth at the same time. You want to protect your brand integrity. Yum China is just like Chinese parents. You want the best and only the best for your children.

Following the forward-looking insights offered by Adrian, I have a general question, and you can break it down to several questions actually. For investors, when we invest in Yum China, we invest in your stability. This year we saw delivery platform subsidies, which is of huge support to your stellar performance. But we're worried about the future several few years. We understand that by the third quarter this year, delivery already accounts for 51% of the sales. And over the past few years, delivery has accounted for a huge chunk of your sales growth.

In case next year delivery subsidies are to be phased out, what's your take on the future SSSG and what's your long-term plan? And also in the long run, with delivery services accounting for a larger share of your sales, I'm wondering your public domain traffic, say those are from Meituan, what's the current share of this public domain traffic in your delivery service? And what are your countermeasures to secure your private domain traffic to ensure that you have full control over your lever?

Joey Wat^ (interpreted) So I'll take this question.

Luo Chen^ (Interpreted) And also another question about shareholder return. Recently, there are many foreign brands are selling their assets in China. I'm not sure if you are interested, but you talked about your plans for securing shareholder returns in the next few years. Is it conditional or unconditional? Have you considered non-organic growth opportunities in the next few years? Or regardless of what will happen, you can guarantee a new amount of 900 million to 1 billion.

Joey Wat^ (Interpreted) It's a long question. I want to respond from three aspects. I want to take a general approach to answering your question.

First, the delivery subsidies and intensified competition among the aggregator platforms. That's indeed very important for us as well. In short, I don't think that will have material impact on our performance next year. Why? From the very beginning of the competition among aggregator platforms, we know clearly what will happen. That's not the first time we see such things happening. The first time was nine, 10 years ago. We had some learning and experience from the past.

When it first started, we actually were very calm. We adopted a balanced approach. In the short run, we participated, but only to a limited extent. For example, for KCOFFEE, for Lavazza, our beverage, drinks offerings, we participated to drive traffic growth, but on the precondition that we have a healthy profit and do not suffer a loss. When we interact with the shareholders, investors, the most important thing is to make money, to maintain a healthy profit margin. That's easy math.

The problem is that with very low TA order, it is not profitable. With that simple calculation, we know what we can do, what we cannot do. In the short run, we have a very balanced approach. We were not very greedy, and we didn't stay out of it completely. And also in the short run, we benefited from the hike in traffic. And with that, we also negotiated with the aggregator platforms on our long-term arrangements, so our fee structure in the long run. We took this opportunity to have the negotiations, discussions that are otherwise difficult with the platforms.

For drinks, the subsidies are already been reduced. And for food and snacks, subsidies have not been as high. I'm not sure what it will be like for other brands, but for us at least, I think it's fully manageable. No need to worry. That's the first thing.

And second, in terms of the aggregators mix in our performance, and the delivery is now accounting for a larger share of our sales. Indeed, we see this increasing trend, but it's manageable. Why? It's not like this happened in the past one year or two. It's always been this case that we have this principle. We will maintain full control over our business, even until today. Our business, at least 60%, 70% is controlled within our private domain, our own channels. In addition to delivery, we have dine-in and the takeaway service. We also have our loyalty programs. For our members we offer some exclusive benefits. And certain promotional gifts, such as feather dusters, will only be available to dine-in customers. We don't offer these gifts to delivery customers, so the best exclusive offers are for dine-in and takeaway customers.

I think this can answer your question to a great extent and I'll leave the third answer to Adrian.

Adrian Ding^ (Interpreted) So for capital return, I know that you closely follow this and many international investors are here. I'll respond in English.

Regarding capital return and, you know, some of the strategic transactions, obviously as a matter of policy we are not able to comment on any particular M&A transactions, but in terms of our philosophy, we have been adopting a very prudent approach towards M&As and it will continue to be the case and we set a very high bar. So only to the extent on a transaction that creates a lot of value to our shareholders. When it's very strategically sound, then we'll potentially consider. And it's worth noting that obviously all the M&A transactions are subject to rigorous internal discussions as well as discussions with our board. So that's the first part.

The second part of that question on capital return, in particular, is, I guess what we can share at this point in time is we currently do not have a plan to change our capital return, which is shared earlier today just now. And we have been a very shareholder value-conscious company, and it will continue to be the case. And hopefully that addresses your question, Luo Chen. Thank you.

Florence Lip^ Let's take our second question, Michelle from Goldman Sachs.

Michelle Cheng^ (Interpreted) Hello to Joey, Adrian and the management team. I'll also raise the question in Chinese.

First, I want to say it's a great pleasure and very impressive to come back every two years to see you have new achievements, to always break new records. My question is about competition.

Joey you showed a very interesting diagram over the past 30, 40 years, for the catering players from the second to the tenth, they kept changing but you are always the number one. But your chain ratio is still relatively low. Even for KFC, it's about one to two percent market share. So now in such a dynamic market environment, there are more possibilities to penetrate to lower tier cities and white space. Is there an inflection point to see your market share gain to pick up more rapidly?

And also, we see recently that for many foreign brands, they're talking about the change and potential change to ownership. Could you please comment on that, the changes to the competitive landscape?

Another spectrum is that two years ago when we were here, people were concerned about the rise of local players, but no one's talking about that now. Could you please elaborate on the changes, latest dynamics in a competitive landscape?

And relevant to that question, very interesting, in the guidance you talked about the 2030 active member is expected to grow about to 400 million. So more detailed information you can share. For the active member versus normal member, what's the current matrix?

Warton Wang^ (Interpreted) I would take the first question on competitive landscape. I'll give you two sets of data. First, in the first half of this year in Beijing, the restaurant industry had a profit margin of 0.6%, and that for Shanghai was 1.6%. So, industry-wide profit margin was very thin in the first half of this year.

And the second thing I want to talk about is that the average lifespan of a restaurant brand is only two years. So I think for a brand to achieve sustainable success, there are three important preconditions. First, you need to be able to navigate business cycles with classic products. These products can maintain their popularity in the long run. So those are short-term hits. They're not sustainable. That's not what we're looking for.

Second, the brands need to have robust and strong supply chain capabilities and R&D capabilities. This can help us become more resilient in the face of challenges. For example, in extreme conditions such as the COVID-19 pandemic, we can still survive and outperform our competitors.

And third, the brand needs to be able to serve a wide array of customers in more diverse occasions. This requires the brand to always evolve and develop new capabilities. I think the industry dynamics are changing on a day-to-day basis. For a brand, we need to impose or inform ourselves to always evolve to respond to customer needs and that will help enhance our brand equity and enhance our sustainability in the long run.

Joey Wat^ Let me comment on two things. Competition between the local and multinational and then the membership. And this is my humble opinion and humble opinion only. I don't think the origin of whether a company is multinational or local is the biggest deciding factor about the result. What matters more is who are running the business. If we look at the local player, why

they're so strong? By the way, we have so much respect towards them and we keep learning from them. And I cannot agree with Warton more, and our optimism is always good time builds confidence, bad time builds character. If it's challenging, that means we have something to learn from the local like the lower-tier city. We need to learn from them how to be very effective in lower-tier city and we are learning, which is brilliant.

But who are the local players? They tend to be run by the founders. Look at the local player. Founders run business. My god. Founders, they're motivated. They're hard-working. They're insightful. Many good reason that they have in order to be successful except brands or money. But what matters in a company, of course, people first. Right?

And then you look at the multinational, and I'm pretty straightforward to my fellow friends or whoever from all over the world. I do personally believe that cultural difference or even language difference is overrated. However, whoever wants to win in whatever market, particular Chinese market, better have the bloody sharpest insight of business judgment. That is not only necessary but also absolutely critical.

And if we look at the multinationals, I'm not only talking about my industry. Overall, there are some really, really good multinational companies doing really well in China. If you look at the management team, there's something interesting. I'm not going to name some of them. They send the A team over, the best team over. Whoever -- if they can make it work in China, then they might have future career in the headquarter. That is the type of people they need to send over because this is not the market for soft people. This is for tough competitor.

But if the multinational only sends over the B team or C team, then I'm sorry. The top-notch MBA school does not give you any advantage in that regard. I went to one of them, right? But it's the real deal. We need a real business people to compete. From my humble opinion, it really has very little to do with whether you are multinational or local, it's whether you have the best team. And I have seen people who don't speak Chinese and work really, really well -- worked really well here, produce good result.

Then come to the membership. We need, we need another session to give more granularity of the active membership, but it is sort of, one of the first time we share about active members and what we want to get our team to focus on is move from quantity to also quality. We've been building a very, very big membership base, so big that bigger than the U.S. population. At the same time we have been focusing on the quality. Therefore, the number of our best customers who have the black card, which is not for sale, only to be given from our brand to them, there are 1 million of those in China. Not a small number. And the minimum requirement is more than 100 times shopping with KFC a year. And that's pretty high frequency.

We want to drive frequency. We want to focus more, even more on the quality. And when we look at what is active member right now, we define it as customer who shop with us in the last 12 months. It is about 265 million, and we want more of them. And then once we get to 12 months, we might look at, you know, six months and three months, but one step at a time, but this is the beginning. Thank you, Michelle.

Florence Lip^ Our next question from Lillian, Morgan Stanley.

Lillian Lou^ (Interpreted) Thank you. I think I will also use Mandarin. I've been to investor days for many, many years and I know Yum China is a very sizable business, but you have remained the number one. And every time I come here I can learn a lot from the management team. I know it's been very challenging in the Chinese market. We're all aware of that, especially in the past three to five years.

My feeling is that actually before, the investors also very much concerned with the same store sales and -- but this year you make it very clear that going forward you want to hit from zero to two. At the same time, you're expanding very quickly in the Chinese market.

I want to know from Joey and your team, where does this confidence come from? And because just now we're seeing -- we're also seeing that there's a slight recovery of consumers' confidence, and the Pizza Hut is slashing ticket size and now Pizza Hut is saying that it's time to improve the margins. I want to know about the pricing, because pricing has been going down in the past few years. Do you think there will be an uptick ticket average going forward to boost the margins?

Another follow-up question. It seems that KFC does not give us a specific number on system sales. And also, you say 2028, you want to hit over 10 billion profits, but this year it's already 9 billion. The profit growth isn't that impressive. What is your view on that?

Warton Wang^ Okay, let me talk about where the confidence comes from in terms of same store sales. I think after COVID, we have seen a lot of changes in the market, in the catering business. Indeed, we have also made a lot of changes and in the past few years, we have learned a lot from what we have been doing. For example, what we should do with the products and how to drive sales through our products. And also, what is our biggest asset for KFC? We have so many classical products. We just strike a balance between innovation and the sales of our classic products.

Over the past two years, we have done a lot of experiments. For example, the spicy chicken Zinger could hit 4 billion RMB sales. So next year, it is definitely going to reach 5 billion RMB. We have for this high-value items, and they would boost the sales revenue for us for sure.

And also, we are seeing the growth of a new business. I've been talking to Joey that we are actually quite lucky because the success rate of a new business is pretty high. KPRO, KCOFFEE, and Drive-thru pickup, they're all new businesses that were developed in the past 1-2 years. Especially for KPRO, we launched this at the beginning of the year together with Maggie, and this year's progress actually was beyond my expectation.

So right now, it already over 120 stores and we previously thought that we could only do some experiments with eight to ten stores, but the market responded very well to our new KPRO business. Market manager saw the good performance so they expediated the openings. Our store managers strongly support this initiative. They see it improving synergies and driving sales growth, which directly increases their earnings and motivates them. Of course, I'm telling all the

store managers that we have to be rational and ensure a thorough evaluation. But what I want to say is that we see the new engine for growth.

Secondly, our team is more passionate and capable than before. They have more levers to reach to more consumers to drive sales. So that's why we are very confident in this 100 to 102 same store sales index.

Joey Wat ^ So let me make some additional comment. We are really grateful that this year we have the luxury to look at the long-term strategy, and I call the long-term strategy a luxury because during the COVID time we just have to be very, very efficient and effective in dealing with whatever unexpected thing. Then by end of 2023, we already noticed that the market is not the same anymore. By 2024, which is last year, that's when the challenge, looking back, the challenges are the most critical one, but at the same time our team were most productive one. Our team had huge amount of innovation coming out of it.

KCOFFEE. We started. When do we start KCOFFEE? 2024. I still remember our conversation, 2024, how many KCOFFEE we want to have extra growth driver. And then 2024, Pizza Hut have the WOW, because whatever we were doing seems to lose that momentum. We need something very different. We are very open-minded. The menu, the pricing and the operation of Pizza Hut WOW is completely different. But that's the beauty. When things are very challenging and we have amazing team, then the innovation come.

And actually, to make it really, really simple, how do we define strategy, where to focus come down to two factors; core competency or capability, and where are the opportunity. Two-by-two matrix, very simple. And then where to focus? Well, whatever our team, we are excited what we are good at.

And then I like to summarize thing into one sentence so that my entire group of RGM, 300,000 people team, they understand. (Interpreted) So if you do not have the capability, you cannot even pick up a gold even if it's there in front of your eyes.

With competency, with the competent team, even when there's very little opportunity, we can see the pockets of opportunity just like a piece of gold just shining at us. If the team is not capable enough, even the gold is in front of us, we cannot pick it up. And this is -- I learned it from Cantonese too, and that's what we focus on, and it works, and it gives us reasonable level optimism. The market will continue to be challenging.

By the way, with or without macro challenge, China markets are always challenge because it's so big. It has so many opportunities going forward. Why would anyone not want to come? So, we better take it for granted and try to find a way to focus on the high growth one. With good team, we will find opportunity no matter how and when.

We'll move to the next one.

Adrian Ding^ Yes, sure. As to the particular breakdown by brands in our guidance, first, we would like to clarify that the \$10 billion plus -- 10 billion RMB plus is “整数”, is a whole figure,

a milestone figure. What we mean is really we aspire to be the first brand to get to that milestone. That doesn't mean we give a guidance 2028 is 10 billion RMB. We're definitely higher than that, right?

Joey Wat^ Yes. Look at the plus.

Adrian Ding^ Yes. But specifically on the breakdown between the brands, we would expect the KFC's growth CAGR to be similar to the Group's growth CAGR that we shared just now. And then Pizza Hut, as Jeff already mentioned in his presentation, that will be high single-digit system sales growth CAGR and double the OP in five years, which really translates to mid-teens of OP growth CAGR, right? Which is a significant step up.

And then, you know, by the way, I would like to add a couple of additional color. That high single-digit system sales growth CAGR for Pizza Hut, we even expect next year to achieve that, right? Remember this year is only like a 3% to 4% system sales growth for Pizza Hut. Next year is a significant step up. So that's on one hand, the breakdown between the two brands.

And then speaking of the Group, I mentioned in my remarks that all the guidance we shared is prudent, meaning that we do not account for any improvement in macro, which actually we are confident there will be improvement in macro, we're talking about China fundamentals. And also, it does not account for the full potential of the new store models and initiatives that we're currently developing, right? So, but we'll definitely update the market when some of these initiatives become more mature and in scale.

Lastly, I think it's important to note that we mentioned that we have double-digit EPS growth in the next three years, with double-digit FCF per share growth in the next three years on CAGR basis. What does that mean really? It means EPS growth coupled with our capital return that almost delivered to our shareholder without a multiple re-rating, delivered to our shareholder a teens percentage of almost guaranteed total shareholder return, right? I don't think the "almost guarantee" is the perfectly legally right way to say it. But, you know, as all of you may appreciate, the single most advantage for Yum China is really the execution certainty, right? Whatever we promise the market, we either meet it or beat it. And Jeff told me just now that he would like to add some additional color on the Pizza Hut role. With that, I will pass it to Jeff, please.

Jeff Kuai^ (Interpreted) Let me say a few words about Pizza Hut. Well, indeed, we're very confident about the next five-years prospect. So where does this confidence come from?

Just to follow what Joey said, indeed, we have a more capable, more competent team, not so just the management team, also the supporting teams. Particularly for Pizza Hut, actually, we started to work on many initiatives because we know that we have to enter a big segment to grow further. We need to have more attractive price range to drive more frequency, to serve more customers. We have to do a great job of a pizza.

In pizza category, we definitely have a very big market share, but on top of a pizza category, last year, we entered the burger category, which is even bigger than pizza segment and also the solo

dining segment. We are also working hard on that. Previously, the per person spending was 60 RMB, more expensive than 98% of the market players. And now it's down to 40 RMB. So as a result, the addressable market is much greater than the market we were in three to five years ago. All of a sudden, we have a much bigger market to grow. These two factors together open up more opportunities for us.

Well, as for whether we can raise price going forward, I think the price range would be kept very stable and our same store traffic is growing, giving us more support for the same store sales growth. When it comes to price increase, we will introduce value-for-money products in the higher-price category to increase the average ticket size and drive same-store traffic. Thank you.

Joey Wat^ For our next question, Xiaopo from Citi.

Xiaopo Wei^ (Interpreted) Thank you, management team. I want to say congratulations to Jeff. I still remember a couple years ago in Joey's presentation, your business felt like a middle-aged man. But now you are one of the leading drivers of the business. If we look at Adrian's guidance, Warton's margin is flat, but your margin will be a 2.5 percentage point improvement. So, I have a couple of questions.

Before, actually the investors that didn't quite pay attention to your business. You have many levers, and what are the levers that you are most certain and uncertain that can help your business grow? In terms of operation, what synergies do you see with KFC or Yum China that benefit your business outlook? Also, what is your approach to resource allocation?

Jeff Kuai^ (Interpreted) Well, we have many levers, and I think all these levers together have high certainty to drive margin expansion. We have set very aggressive targets for 2028 compared to 2024, with the goal of increasing our margin by 250 basis points. For us, the most certain lever is labor productivity improvement. It's easier said than done, and we are implementing four key initiatives to achieve this.

So first, we want to streamline the processes. Because we are casual dining business, so in terms of menu and services, they are actually quite complex compared to our peers. The first thing is to streamline, what we do, like the menu. We want to reduce the number of raw materials and also, we want to simplify the processes of food preparation and management.

And also, for automation, I already discussed this in the video. So now, right now we are using many automated equipment, for example, noodle stir-frying machines, automatic ingredient dispensers, and food delivery robots. Similarly, management tasks like scheduling and ordering are being automated. A lot of the management work can be automated. Our staff at the restaurants can do co-pilot with the automated system. Then for the mid office, so it can actually create a lot of synergy, including with the KFC. We can do centralized scheduling and planning and so as to improve the efficiency of our restaurants.

And last but not least, so we're not only a process-driven, but also incentive-driven because a lot of labor work is still involved in our business. The employees need to have the incentive to work harder. We have a lot of research in this area. So right now, our incentive system is very precise

because first, you need to be able to tell if employees do a good job or not. We have the system in place to gauge their performance so that we make sure that a good performer can get more pay. Therefore, we will be able to incentivize these high performers, improve retention, and motivate them to enhance efficiency.

Warton Wang^ (Interpreted) So, let me talk about the synergies between the two brands. And this year we came up with a bold idea, the Gemini concept. In this summer we did a Gemini project in Dingjun Mountain in Shaanxi province. It's a Gemini store, two brands have their own image, space, menu, but they share the kitchen and they share the management team. So, as you can imagine how efficient it could become.

And KFC's Small Town's capex typically ranges from half a million to 700,000 RMB, whereas this Gemini also required capex of only 700,000 RMB. Customers have more choices, and they order from menu of Pizza Hut and the KFC at the same time. This was one of the first experiments of synergy building between the two brands. I think there are more potential going forward. I think there's a great opportunity to further improve efficiency.

Joey Wat^ (Interpreted) Let me comment in Chinese, as I think it better captures the essence.

In the past few decades, a lot of Chinese families only have one child. But a lot of overseas companies also only have one brand. But we have multiple brands, at least the two key brands. There are both tangible benefits and psychological benefits.

First is the size of the business. No matter what we do, we have the benefit of having and running a large business. So as a market leader, we set to take advantage of our size. And the second is synergies between the two brands. A lot of things can be shared.

And also, this creates psychological benefits for us as well. So, sorry to Jeff and Warton. So many of you have more than one kid. I know that Xiaopo, you have two kids, right? If you have two kids, how do you incentivize your kids? You ask the younger brother to look at the older brother's achievements. You tell him his older brother has done one, two, three things that are impressive. Then you turn to the older brother and tell him about his younger brother's achievements, which are impressive as well. They will talk back to you maybe, but when they finish the discussion, they will work harder. They will be incentivized.

Inside our team, I'll told -- tell Jeff say that KFC has done this and that, very good performance outcome. And I'll talk to Warton say, Pizza Hut's recent new innovations are seeing good results. So very healthy competition inside our group. I'm also grateful to our competitors in that sense. With competitors in the picture, we can be incentivized to work harder and come up with new and better ideas. So, more brands, more kids we have will be even happier.

And one more thing I want to add, the older and younger brother will not like you say that, why do you compare me to other people? I'm unique, right? Of course that is, but all the parents worldwide are doing this. We'll say to you that look at how your siblings are performing. Why? Because it's effective. This is the most effective way to incentivize.

Florence Lip^ Sorry, that's all the time we have for the Q&A as we want to save some time for you to interact with management directly. For those of you joining online, this is the end of our webcast. Thank you very much for your participation.