Filed Pursuant to Rule 424(b)(3)
Registration Statement No. 333-213719

PROSPECTUS SUPPLEMENT NO. 2
(TO PROSPECTUS DATED APRIL 5, 2017)

YUM CHINA HOLDINGS, INC.

This prospectus supplement updates and supplements the prospectus filed by Yum China Holdings, Inc. ("Yum China") with the Securities and Exchange Commission (the "SEC") on April 3, 2017 as part of Post-Effective Amendment No. 2 to Registration Statement on Form S-1 (the "prospectus") relating to the 10,000,000 shares of common stock, par value $0.01 per share, of Yum China that may be acquired by participants in the Yum China Holdings, Inc. Long Term Incentive Plan (the "Plan") upon the exercise of certain options to purchase shares of such common stock, the exercise of certain stock appreciation rights with respect to such common stock and upon vesting of certain awards issued pursuant to the Plan.

This prospectus supplement should be read in conjunction with, and may not be delivered or utilized without, the prospectus.

Recent Developments

On July 7, 2017, Yum China filed with the SEC its Quarterly Report on Form 10-Q for the quarter ended May 31, 2017 (the "Quarterly Report"). The Quarterly Report is attached to this prospectus supplement. Any statement contained in the prospectus shall be deemed to be modified or superseded to the extent that information in this prospectus supplement modifies or supersedes such statement. Any statement that is modified or superseded shall not be deemed to constitute a part of the prospectus except as modified or superseded by this prospectus supplement.

In reviewing this prospectus supplement, you should carefully consider the matters referred to under the caption "*Risk Factors*" on page 6 of the prospectus.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is July 7, 2017.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended May 31, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to ________________

Commission file number 001-37762

Yum China Holdings, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**81-2421743** (I.R.S. Employer Identification No.)
7100 Corporate Drive **Plano, Texas 75024** **United States of America**	**16/F Two Grand Gateway** **3 Hong Qiao Road** **Shanghai 200030** **People's Republic of China**

(Address, Including Zip Code, of Principal Executive Offices)
(469) 980-2898
(Registrant's Telephone Number, Including Area Code)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒ (Do not check if a small reporting company)	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock as of June 29, 2017 was 383,336,203 shares.

Yum China Holdings, Inc.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated and Combined Statements of Income (Unaudited)
Yum China Holdings, Inc.
(in US$ millions, except for per share data)

	Quarter ended		Year to date ended	
Revenues	5/31/2017	5/31/2016	5/31/2017	5/31/2016
Company sales	$ 1,563	$ 1,558	$ 2,820	$ 2,836
Franchise fees and income	31	30	58	55
Total revenues	1,594	1,588	2,878	2,891
Costs and Expenses, Net				
Company restaurants				
Food and paper	453	462	798	847
Payroll and employee benefits	358	342	615	587
Occupancy and other operating expenses	513	558	879	960
Company restaurant expenses	1,324	1,362	2,292	2,394
General and administrative expenses	107	104	174	170
Franchise expenses	15	17	28	31
Closures and impairment expenses, net	17	31	17	31
Refranchising gain, net	(1)	(1)	(2)	(4)
Other income, net	(11)	(12)	(28)	(27)
Total costs and expenses, net	1,451	1,501	2,481	2,595
Operating Profit	143	87	397	296
Interest income, net	5	2	7	4
Income Before Income Taxes	148	89	404	300
Income tax provision	(35)	(16)	(111)	(78)
Net income – including noncontrolling interests	113	73	293	222
Net income (loss) – noncontrolling interests	6	(4)	11	—
Net Income – Yum China Holdings, Inc.	$ 107	$ 77	$ 282	$ 222
Basic Earnings Per Common Share	$ 0.28	$ 0.21	$ 0.73	$ 0.61
Diluted Earnings Per Common Share	$ 0.27	$ 0.21	$ 0.71	$ 0.61

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.

Condensed Consolidated and Combined Statements of Comprehensive Income (Unaudited)
Yum China Holdings, Inc.
(in US$ millions)

	Quarter ended		Year to date ended	
	5/31/2017	5/31/2016	5/31/2017	5/31/2016
Net income - including noncontrolling interests	$ 113	$ 73	$ 293	$ 222
Other comprehensive income, net of tax of nil:				
Foreign currency gains (losses) arising during the period	13	(7)	35	(29)
Comprehensive income - including noncontrolling interests	126	66	328	193
Comprehensive income (loss) - noncontrolling interests	6	(3)	12	1
Comprehensive Income - Yum China Holdings, Inc.	$ 120	$ 69	$ 316	$ 192

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.

Condensed Consolidated and Combined Statements of Cash Flows (Unaudited)
Yum China Holdings, Inc.
(in US$ millions)

	Year to date ended	
	5/31/2017	5/31/2016
Cash Flows – Operating Activities		
Net income – including noncontrolling interests	$ 293	$ 222
Depreciation and amortization	160	171
Closures and impairment expenses	17	31
Refranchising gain	(2)	(4)
Deferred income taxes	(1)	(29)
Equity income from investments in unconsolidated affiliates	(30)	(26)
Distributions of income received from unconsolidated affiliates	26	13
Share-based compensation expense	10	5
Changes in accounts receivable	3	(8)
Changes in inventories	7	(30)
Changes in prepaid expenses and other current assets	5	—
Changes in accounts payable and other current liabilities	7	35
Changes in income taxes payable	3	25
Other, net	(25)	18
Net Cash Provided by Operating Activities	473	423
Cash Flows – Investing Activities		
Capital spending	(177)	(172)
Purchases of short-term investments	(229)	(54)
Proceeds from refranchising of restaurants	3	13
Acquisition of business, net of cash acquired	(25)	—
Other, net	(4)	(1)
Net Cash Used in Investing Activities	(432)	(214)
Cash Flows – Financing Activities		
Net transfers to Parent	—	(118)
Payment of capital lease obligation	(1)	(1)
Repurchase of shares of common stock	(30)	—
Proceeds from exercise of stock options	4	—
Other, net	(16)	—
Net Cash Used in Financing Activities	(43)	(119)
Effect of Exchange Rates on Cash and Cash Equivalents	9	(7)
Net Increase in Cash and Cash Equivalents	7	83
Cash and Cash Equivalents - Beginning of Period	885	425
Cash and Cash Equivalents - End of Period	$ 892	$ 508
Supplemental Cash Flow Data		
Cash paid for income tax	115	84

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.

Condensed Consolidated Balance Sheets
Yum China Holdings, Inc.
(in US$ millions, except for number of shares)

	5/31/2017 (Unaudited)	12/31/2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 892	$ 885
Short-term investments	310	79
Accounts receivable, net	74	74
Inventories, net	266	268
Prepaid expenses and other current assets	150	120
Total Current Assets	1,692	1,426
Property, plant and equipment, net	1,617	1,647
Goodwill	103	79
Intangible assets, net	105	88
Investments in unconsolidated affiliates	51	71
Other assets	287	254
Deferred income taxes	166	162
Total Assets	$ 4,021	$ 3,727
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	$ 966	$ 971
Income taxes payable	36	33
Total Current Liabilities	1,002	1,004
Capital lease obligations	27	28
Other liabilities and deferred credits	260	252
Total Liabilities	1,289	1,284
Redeemable Noncontrolling Interest	5	—
Equity		
Common stock, $0.01 par value; 1,000,000,000 shares authorized; 386,617,759.42 shares and 383,344,835.42 shares issued at May 31, 2017 and December 31, 2016, respectively; 384,760,471 shares and 383,344,835.42 shares outstanding at May 31, 2017 and December 31, 2016, respectively	4	4
Treasury stock	(59)	(20)
Additional paid-in capital	2,367	2,352
Retained earnings	322	40
Accumulated other comprehensive income	35	1
Total Equity – Yum China Holdings, Inc.	2,669	2,377
Noncontrolling interests	58	66
Total Equity	2,727	2,443
Total Liabilities, Redeemable Noncontrolling Interest and Equity	$ 4,021	$ 3,727

See accompanying Notes to Condensed Consolidated and Combined Financial Statements.

Notes to Condensed Consolidated and Combined Financial Statements (Unaudited)
(Tabular amounts in US$ millions)

Note 1 – Description of the Business

Yum China Holdings, Inc. ("Yum China" and, together with its subsidiaries, the "Company," "we," "us" and "our") was incorporated in Delaware on April 1, 2016. The Company separated from Yum! Brands, Inc. ("YUM" or the "Parent") on October 31, 2016 (the "separation"), becoming an independent publicly traded company as a result of a pro rata distribution (the "distribution") of all outstanding shares of Yum China common stock to shareholders of YUM. On October 31, 2016, YUM's shareholders of record as of 5:00 p.m. Eastern Time on October 19, 2016 received one share of Yum China common stock for every one share of YUM common stock held as of the record date. Yum China's common stock began trading "regular way" under the ticker symbol "YUMC" on the New York Stock Exchange on November 1, 2016.

The Company owns, franchises or has an ownership in entities that own and operate restaurants under the KFC, Pizza Hut Casual Dining, Pizza Hut Home Service, East Dawning, Little Sheep and Taco Bell concepts (collectively, the "Concepts"). In connection with the separation of the Company from YUM, Yum! Restaurants Asia Pte. Ltd., a wholly-owned indirect subsidiary of YUM, and Yum Restaurants Consulting (Shanghai) Company Limited ("YCCL"), a wholly-owned indirect subsidiary of Yum China, entered into a 50-year master license agreement with automatic renewals for additional consecutive renewal terms of 50 years each, subject only to YCCL being in "good standing" and unless YCCL gives notice of its intent not to renew, for the exclusive right to use and sub-license the use of intellectual property owned by YUM and its subsidiaries for the development and operation of the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands and their related marks and other intellectual property rights for restaurant services in the People's Republic of China excluding Hong Kong, Taiwan and Macau (the "PRC" or "China"). In exchange, we pay a license fee to YUM equal to 3% of net system sales from both our Company and franchise restaurants. We own the East Dawning and Little Sheep intellectual property and pay no license fee related to these concepts.

During the quarter ended May 31, 2017, the Company completed the acquisition of a controlling interest in the holding company of DAOJIA.com.cn ("Daojia"), an established online food delivery service provider. The Company agreed to pay cash consideration of $36.7 million to the sellers and made a concurrent capital contribution of $25.0 million to Daojia. As of the completion of the acquisition, the Company held 90% of Daojia's outstanding shares of common stock, or 80% of its equity interests on a fully-diluted basis. Daojia became an operating segment of the Company. The acquisition was considered immaterial.

The operations of each Concept also represent an operating segment of the Company. In connection with the previously-announced plans to integrate the businesses of Pizza Hut Casual Dining and Pizza Hut Home Service, beginning with the quarter ended May 31, 2017, the two businesses were combined and reported together as the Pizza Hut reportable segment. As a result, the Company has two reportable segments: KFC, which remains unchanged, and Pizza Hut. Our remaining operating segments, including the operations of East Dawning, Little Sheep, Taco Bell and Daojia, are combined and referred to as All Other Segments, as those operating segments are insignificant both individually and in the aggregate. Segment financial information for prior periods has been recast to align with this change in segment reporting. There was no impact to the consolidated and combined financial statements of the Company as a result of this change.

Note 2 – Basis of Presentation

In connection with our separation from YUM, the direct and indirect equity interests of all of our operating subsidiaries and intermediate holding companies were transferred from YUM to Yum China, when Yum China was still one of YUM's subsidiaries, through a series of transactions, which were completed in August 2016. The Company separated from YUM on October 31, 2016, becoming an independent publicly traded company as a result of a pro rata distribution of all outstanding shares of Yum China common stock to shareholders of YUM.

The financial statements presented herein represent (i) for periods prior to October 31, 2016, the combined financial statements of YUM's China businesses and operations when Yum China was a wholly-owned subsidiary of YUM (referred to as "Condensed Combined Financial Statements") and (ii) for periods subsequent to October 31, 2016, the consolidated financial statements of the Company as a separate publicly traded company following its separation from YUM (referred to as "Condensed Consolidated Financial Statements" and, together with the Condensed Combined Financial Statements, referred to as the "Condensed Consolidated and Combined Financial Statements").

Our preparation of the accompanying Condensed Consolidated and Combined Financial Statements in conformity with Generally Accepted Accounting Principles in the United States of America ("GAAP") requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The accompanying Condensed Combined Financial Statements have been prepared on a standalone basis and are derived from YUM's consolidated financial statements and underlying accounting records. Transactions between the Company and YUM that were not cash settled were considered to be effectively settled at the time the transactions were recorded. The Condensed Combined Financial Statements include all revenues, costs, assets and liabilities directly attributable to the Company either through specific identification or allocation. The Condensed Combined Statements of Income include allocations for certain of YUM's Corporate functions that provided a direct benefit to the Company. These costs have been allocated based on Company system sales relative to YUM's global system sales. System sales includes the sales results of all restaurants regardless of ownership. All allocated costs have been deemed to have been paid to YUM in the period in which the costs were recorded. The Company considers the cost allocation methodology and results for the periods prior to October 31, 2016 to be reasonable. However, the allocations may not be indicative of the actual expense that would have been incurred had the Company operated as an independent publicly traded company for the periods prior to October 31, 2016. Upon the separation, Parent Company Investment was adjusted as a result of settlement of certain assets and liabilities with YUM and formed the Company's common stock and additional paid-in capital. See Note 3 for further discussion.

We have prepared the Condensed Consolidated and Combined Financial Statements in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The Condensed Consolidated and Combined Financial Statements include all normal and recurring adjustments considered necessary to present fairly our financial position as of May 31, 2017, and the results of our operations and comprehensive income for the quarters and years to date ended May 31, 2017 and 2016, and cash flows for the years to date ended May 31, 2017 and 2016. Our results of operations, comprehensive income and cash flows for these interim periods are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the Consolidated and Combined Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K as filed with the SEC on March 8, 2017.

Through the acquisition of Daojia, the Company also acquired a variable interest entity ("VIE") and subsidiaries of the VIE effectively controlled by Daojia. There exists a parent-subsidiary relationship between Daojia and its VIE as a result of certain exclusive agreements that require Daojia to consolidate its VIE and subsidiaries of the VIE because Daojia is the primary beneficiary that possesses the power to direct the activities of the VIE that most significantly impact its economic performance and has the obligation to absorb substantially all of the profits and all of the expected losses of the VIE. The acquired VIE and its subsidiaries were considered immaterial, both individually and in the aggregate. The results of Daojia's operations have been included in the Company's Condensed Consolidated Financial Statements since the acquisition date.

Recently Adopted Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2015-11, *Inventory (Topic 330)* (ASU 2015-11), which requires inventory within the scope of the standard to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for the Company in the first quarter of 2017, with early adoption permitted. We adopted ASU 2015-11 during the quarter ended February 28, 2017, and such adoption did not have a material impact on our financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718)* (ASU 2016-09): *Improvements to Employee Share-Based Payment Accounting.* ASU 2016-09 includes provisions to simplify several aspects of accounting for share-based payment transactions, including income tax consequences, accounting for forfeitures, classification of awards as either equity or liability, and classification on the statement of cash flows. ASU 2016-09 includes a requirement that the tax effect related to the settlement of share-based awards be recorded within income tax expense or benefit in the income statement. The simplification of income tax accounting for share-based payment transactions also impacts the computation of weighted-average diluted shares outstanding under the treasury stock method. ASU 2016-09 is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016, with early adoption permitted. The Company adopted ASU 2016-09 during the quarter ended February 28, 2017 and the impact of the adoption resulted in the following:

- The Company elected to continue to estimate the number of awards expected to be forfeited and adjust the estimate when appropriate, as is currently required. This adoption did not have a material impact on the Company’s consolidated results of operations, financial condition or cash flows.

- The Company recorded an excess tax benefit of $5.9 million and $6.8 million within provision for income taxes for the quarter and year to date ended May 31, 2017, respectively, related to excess tax benefits on awards, on a prospective basis. Prior to adoption, the tax effect of share-based awards would have been recognized in additional paid-in capital.

- Under ASU 2016-09, excess tax benefits from share-based arrangements are classified within cash flow from operating activities, rather than within cash flow from financing activities. The Company applied this provision on a retrospective basis and the prior period statement of cash flows was adjusted. This adoption did not have a material impact on the Company’s cash flows.

- There was no material impact on the computation of weighted-average diluted shares outstanding.

Certain comparative items in the Condensed Consolidated and Combined Financial Statements have been reclassified to conform to the current period’s presentation to facilitate comparison.

Our fiscal year ends on December 31. The Company operates on a fiscal monthly calendar, with two months in the first quarter, three months in the second and third quarters and four months in the fourth quarter.

Note 3 – Transactions with YUM

Prior to the separation, there existed a parent-subsidiary relationship between YUM and the Company. We had the following transactions with YUM for the quarter and year to date ended May 31, 2016:

<u>Allocation of Corporate Expenses</u>

Prior to October 31, 2016, YUM historically performed centralized corporate functions on our behalf. Accordingly, certain YUM costs have been allocated to the Company and reflected as expenses in the Condensed Combined Financial Statements. Management considers the allocation methodologies used to be reasonable and appropriate reflections of the historical expenses attributable to the Company. The expenses reflected in the Condensed Combined Financial Statements may not be indicative of the actual expenses that would have been incurred during the periods presented if we had operated as a separate, standalone entity.

Corporate expense allocations primarily relate to centralized corporate functions, including finance, accounting, treasury, tax, legal, internal audit and risk management functions. In addition, corporate expense allocations include, among other costs, IT maintenance, professional fees for legal services and expenses related to litigation, investigations or similar matters. Corporate allocations of $3 million and $6 million were allocated to the Company during the quarter and year to date ended May 31, 2016, respectively, and have been included in general and administrative (“G&A”) expenses in the Condensed Combined Statements of Income. All of the corporate allocations of costs are deemed to have been incurred and settled through Parent Company Investment in the Condensed Combined Balance Sheets in the period where the costs were recorded. Following the separation from YUM, we perform these functions using our own resources or purchased services.

License Fee

The Condensed Combined Statements of Income include license fees that were historically paid to YUM comprised of initial fees and continuing fees equal to 3% of our Company and franchise sales prior to October 31, 2016. Total license fees paid during the quarter and year to date ended May 31, 2016 are reflected in the table below:

	Quarter ended	Year to date ended
	5/31/2016	5/31/2016
Initial fees - Company	$ 2	$ 4
Initial fees - Franchise	1	1
Continuing Fees - Company	44	82
Continuing Fees - Franchise	12	22
Total	$ 59	$ 109

Cash Management and Treasury

The Company funds its operations through cash generated from the operation of its Company-owned stores, franchise operations and dividend payments from unconsolidated affiliates. Prior to October 31, 2016, excess cash was historically repatriated to YUM through intercompany loans or dividends. Transfers of cash both to and from YUM are included within Parent Company Investment in the Condensed Combined Balance Sheets. YUM has issued debt for general corporate purposes but in no case has any such debt been guaranteed or assumed by the Company or otherwise secured by the assets of the Company. As YUM's debt and related interest is not directly attributable to the Company, no such amounts have been allocated to the Condensed Combined Financial Statements.

Note 4 – Earnings Per Common Share ("EPS")

On October 31, 2016, YUM's shareholders of record as of October 19, 2016 received one share of Yum China common stock for every one share of YUM common stock held as of the record date. For periods ended October 31, 2016 and prior, basic and diluted earnings per share were computed using the number of shares of Yum China common stock outstanding as of October 31, 2016, the date on which Yum China common stock was distributed to YUM's shareholders. The same number of shares was used to calculate basic and diluted earnings per share for the quarter and year to date ended May 31, 2016 since there were no dilutive securities until after the separation.

The following table summarizes the components of basic and diluted earnings per share:

	Quarter ended		Year to date ended	
	5/31/2017	5/31/2016	5/31/2017	5/31/2016
Net Income – Yum China Holdings, Inc.	$ 107	$ 77	$ 282	$ 222
Weighted-average common shares outstanding (for basic calculation) (a)	387,901,955	363,758,219	387,754,681	363,758,219
Effect of dilutive share-based employee compensation (a)	9,424,278	—	8,925,022	—
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)	397,326,233	363,758,219	396,679,703	363,758,219
Basic Earnings Per Share	$ 0.28	$ 0.21	$ 0.73	$ 0.61
Diluted Earnings Per Share	$ 0.27	$ 0.21	$ 0.71	$ 0.61
Employee stock options, stock appreciation rights and warrants excluded from the diluted EPS computation (b)	19,131,358	—	18,625,451	—

(a) As a result of the separation, shares of Yum China common stock were distributed to YUM's shareholders of record as of October 19, 2016 and included in the calculated weighted-average common shares outstanding. Holders of outstanding YUM equity awards generally received both adjusted YUM awards and Yum China awards, or adjusted awards on shares of common stock of either YUM or Yum China in their entirety. Any subsequent exercise of these awards, whether held by the Company's employees or YUM's employees, would increase the number of common shares outstanding. The outstanding equity awards are included in the computation of diluted EPS, if there is dilutive effect.

(b) These unexercised employee stock options, stock appreciation rights and warrants were not included in the computation of diluted EPS because to do so would have been antidilutive for the quarters and years to date presented.

Note 5 – Equity

Changes in Equity and Redeemable Noncontrolling Interest

	Yum China Holdings, Inc.									
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock		Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interest
	Shares	Amount				Shares	Amount			
Balance at December 31, 2016	**383,344,835.42**	**$ 4**	**$ 2,352**	**$ 40**	**$ 1**	**(784,686.42)**	**$ (20)**	**$ 66**	**$ 2,443**	**$ —**
Net Income				282				11	293	
Foreign currency translation gains					34			1	35	
Comprehensive income									328	—
Dividends declared								(22)	(22)	
Acquisition of Daojia								2	2	5
Repurchase of shares of common stock						(1,072,602.00)	(39)		(39)	
Exercise and vesting of share-based awards	3,272,924.00	—	5						5	
Share-based compensation			10						10	
Balance at May 31, 2017	**386,617,759.42**	**$ 4**	**$ 2,367**	**$ 322**	**$ 35**	**(1,857,288.42)**	**$ (59)**	**$ 58**	**$ 2,727**	**$ 5**

Share Repurchase Program

On February 7, 2017, we announced that our Board of Directors authorized a $300 million share repurchase program. Under this authorization, we repurchased shares of Yum China common stock during the year to date ended May 31, 2017 as indicated below. All amounts exclude applicable transaction fees.

Shares Repurchased (thousands)	Dollar Value of Shares Repurchased	Remaining Dollar Value of Shares that may be Repurchased
1,072,602 (a)	$ 39	$ 261

(a) Includes 0.2 million shares repurchased for $9 million with trade dates prior to May 31, 2017 but cash settlement dates subsequent to May 31, 2017.

Note 6 – Items Affecting Comparability of Net Income and Cash Flows

Refranchising Gain, net

The Refranchising gain, net by reportable segment and All Other Segments is presented below. We do not allocate such gains and losses to our segments for performance reporting purposes.

	Quarter ended		Year to date ended	
	5/31/2017	5/31/2016	5/31/2017	5/31/2016
KFC	$ —	$ 1	$ 1	$ 4
Pizza Hut	—	—	—	—
All Other Segments	1	—	1	—
Total Company	$ 1	$ 1	$ 2	$ 4

Store Closure and Impairment Activity

Store closure income and Store impairment charges by reportable segment and All Other Segments are presented below:

	Quarter ended 5/31/2017				Year to date ended 5/31/2017			
	Total Company	KFC	Pizza Hut	All Other Segments	Total Company	KFC	Pizza Hut	All Other Segments
Store closure income[(a)]	$ 3	$ 2	$ 1	$ —	$ 5	$ 3	$ 2	$ —
Store impairment charges	(20)	(10)	(10)	—	(22)	(12)	(10)	—
Closure and impairment expenses	$ (17)	$ (8)	$ (9)	$ —	$ (17)	$ (9)	$ (8)	$ —

	Quarter ended 5/31/2016				Year to date ended 5/31/2016			
	Total Company	KFC	Pizza Hut	All Other Segments	Total Company	KFC	Pizza Hut	All Other Segments
Store closure income[(a)]	$ 4	$ 2	$ 1	$ 1	$ 6	$ 4	$ 1	$ 1
Store impairment charges	(35)	(23)	(11)	(1)	(37)	(25)	(11)	(1)
Closure and impairment expenses	$ (31)	$ (21)	$ (10)	$ —	$ (31)	$ (21)	$ (10)	$ —

(a) Store closure income include proceeds from forced store closures, lease reserves established when we cease using a property under an operating lease and subsequent adjustments to those reserves and other facility-related expenses from previously closed stores. Remaining lease obligations for closed stores were not material at May 31, 2017 or December 31, 2016.

Note 7 – Other Income, net

	Quarter ended		Year to date ended	
	5/31/2017	5/31/2016	5/31/2017	5/31/2016
Equity income from investments in unconsolidated affiliates	$ 13	$ 10	$ 30	$ 26
Foreign exchange net (loss) gain and other	(2)	2	(2)	1
Other income, net	$ 11	$ 12	$ 28	$ 27

Note 8 – Supplemental Balance Sheet Information

Accounts Receivable, net	5/31/2017	12/31/2016
Accounts receivable, gross	$ 75	$ 76
Allowance for doubtful accounts	(1)	(2)
Accounts receivable, net	$ 74	$ 74

Prepaid Expenses and Other Current Assets	5/31/2017	12/31/2016
Prepaid rent	$ 38	$ 39
Other prepaid expenses and current assets[(a)]	112	81
Prepaid expenses and other current assets	$ 150	$ 120

(a) Includes receivables of $10 million and $16 million due from payment processors or aggregators as of May 31, 2017 and December 31, 2016, respectively.

Property, Plant and Equipment	5/31/2017	12/31/2016
Buildings and improvements	$ 2,100	$ 2,029
Capital leases, primarily buildings	29	29
Machinery and equipment	1,078	1,081
Property, plant and equipment, gross	3,207	3,139
Accumulated depreciation and amortization	(1,590)	(1,492)
Property, plant and equipment, net	$ 1,617	$ 1,647

Accounts Payable and Other Current Liabilities	5/31/2017	12/31/2016
Accounts payable	$ 492	480
Accrued capital expenditures	89	132
Accrued compensation and benefits	168	191
Accrued taxes, other than income taxes	14	14
Dividends payable	5	—
Other current liabilities	198	154
Accounts payable and other current liabilities	$ 966	$ 971

Other Liabilities and Deferred Credits	5/31/2017	12/31/2016
Deferred escalating minimum rent	$ 156	$ 153
Other noncurrent liabilities and deferred credits	104	99
Other liabilities and deferred credits	$ 260	$ 252

Note 9 – Goodwill and Intangible Assets

The changes in the carrying amount of goodwill are as follows:

	Total Company	KFC	Pizza Hut	All Other Segments(a)
Balance as of December 31, 2016				
Goodwill, gross	$ 461	$ 70	$ 9	$ 382
Accumulated impairment losses	(382)	—	—	(382)
Goodwill, net	79	70	9	—
Goodwill acquired and allocated	23	5	9	9
Effect of currency translation adjustment	1	1	—	—
Balance as of May 31, 2017				
Goodwill, gross	485	76	18	391
Accumulated impairment losses	(382)	—	—	(382)
Goodwill, net	$ 103	$ 76	$ 18	$ 9

(a) Goodwill, gross and Accumulated impairment losses as of December 31, 2016 represent Little Sheep goodwill and related impairment.

Intangible assets, net as of May 31, 2017 and December 31, 2016 are as follows:

	5/31/2017			12/31/2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets						
Reacquired franchise rights	$ 95	$ (76)	$ 19	$ 93	$ (71)	$ 22
Daojia platform	16	—	16	—	—	—
Customer-related assets	12	(4)	8	7	(4)	3
Other	19	(10)	9	19	(9)	10
	$ 142	$ (90)	$ 52	$ 119	$ (84)	$ 35
Indefinite-lived intangible assets						
Little Sheep trademark	$ 53	$ —	$ 53	$ 53	$ —	$ 53
Total intangible assets	$ 195	$ (90)	$ 105	$ 172	$ (84)	$ 88

Amortization expense of definite-lived intangible assets was $3 million and $3 million for the quarters ended May 31, 2017 and 2016, respectively, and $5 million and $5 million for the years to date ended May 31, 2017 and 2016, respectively. As of May 31, 2017, expected amortization expense for the unamortized definite-lived intangible assets is approximately $9 million for the remainder of 2017, $16 million in 2018, $8 million in 2019, $4 million in 2020 and $4 million in 2021.

Note 10 – Fair Value Measurements

As of May 31, 2017, the carrying values of cash and cash equivalents, short-term investments, accounts receivable and accounts payable approximated their fair values because of the short-term nature of these instruments.

In addition, certain of the Company’s assets, such as property, plant and equipment, goodwill and intangible assets, are measured at fair value on a non-recurring basis, if determined to be impaired.

During the quarter and year to date ended May 31, 2017, we recorded restaurant-level impairment (Level 3) of $16 million and $18 million, respectively. During the quarter and year to date ended May 31, 2016, we recorded restaurant-level impairment (Level 3) of $33 million and $33 million, respectively. The remaining net book value of the assets measured at fair value as of May 31, 2017, subsequent to these impairments, was not significant.

Note 11 – Income Taxes

	Quarter ended		Year to date ended	
	5/31/2017	5/31/2016	5/31/2017	5/31/2016
Income tax provision	$ 35	$ 16	$ 111	$ 78
Effective tax rate	22.9%	18.6%	27.4%	26.2%

Our effective tax rate is generally lower than the U.S. federal statutory rate of 35% due to the majority of our income being earned in China where the tax rate is lower than the U.S. rate. Our quarter and year to date effective tax rates for the period ended May 31, 2017 were higher than the prior year primarily due to higher costs of repatriating current year foreign earnings.

Note 12 – Reportable Operating Segments

During the second quarter of 2017, we integrated the businesses of Pizza Hut Casual Dining and Pizza Hut Home Service and began reporting them together as the Pizza Hut reportable segment. As a result, the Company has two reportable segments: KFC, which remains unchanged, and Pizza Hut. Our remaining operating segments, including the operations of East Dawning, Little Sheep, Taco Bell and Daojia, are combined and referred to as All Other Segments, as these operating segments are insignificant both individually and in the aggregate. Segment financial information for prior periods has been recast to align with this change in segment reporting. See Note 1.

	Quarter ended		Year to date ended	
Revenues	5/31/2017	5/31/2016	5/31/2017	5/31/2016
KFC	$ 1,116	$ 1,107	$ 2,012	$ 2,028
Pizza Hut	468	466	847	833
All Other Segments	10	15	19	30
Total	$ 1,594	$ 1,588	$ 2,878	$ 2,891

	Quarter ended		Year to date ended	
Operating Profit	5/31/2017	5/31/2016	5/31/2017	5/31/2016
KFC(a)	$ 154	$ 109	$ 361	$ 300
Pizza Hut	30	12	97	50
All Other Segments	(2)	(2)	—	(1)
Unallocated and corporate expenses(b)	(40)	(37)	(63)	(61)
Unallocated Other income(b)	—	4	—	4
Unallocated Refranchising gain(b)	1	1	2	4
Operating Profit	$ 143	$ 87	$ 397	$ 296
Interest income, net(b)	5	2	7	4
Income Before Income Taxes	$ 148	$ 89	$ 404	$ 300

	Identifiable Assets	
	5/31/2017	12/31/2016
KFC(c)	$ 1,424	$ 1,411
Pizza Hut	667	628
All Other Segments	140	160
Corporate(d)	1,790	1,528
	$ 4,021	$ 3,727

	Long-Lived Assets(e)	
	5/31/2017	12/31/2016
KFC	$ 1,093	$ 1,099
Pizza Hut	586	553
All Other Segments	112	129
Corporate	34	33
	$ 1,825	$ 1,814

(a) Includes equity income from investments in unconsolidated affiliates of $13 million and $10 million for the quarters ended May 31, 2017 and 2016, respectively, and $30 million and $26 million for the years to date ended May 31, 2017 and 2016, respectively.

(b) Amounts have not been allocated to any segment for performance reporting purposes.

(c) Includes investments in three unconsolidated affiliates totaling $51 million and $71 million for the quarter ended May 31, 2017 and the year ended December 31, 2016, respectively.

(d) Primarily includes cash and inventories that are centrally managed.

(e) Includes property, plant and equipment, net, goodwill, and intangible assets, net.

Note 13 – Contingencies

Indemnification of China Tax on Indirect Transfers of Assets

In February 2015, the Chinese State Administration of Taxation ("SAT") issued Bulletin 7 on Income arising from Indirect Transfers of Assets by Non-Resident Enterprises. Pursuant to Bulletin 7, an "indirect transfer" of Chinese taxable assets, including equity interests in a Chinese resident enterprise, by a non-resident enterprise, may be recharacterized and treated as a direct transfer of Chinese taxable assets, if such arrangement does not have reasonable commercial purpose and the transferor has avoided payment of Chinese enterprise income tax. As a result, gains derived from such an indirect transfer may be subject to Chinese enterprise income tax at a rate of 10%.

YUM concluded and we concurred that it is more likely than not that YUM will not be subject to this tax with respect to the distribution. However, given how recently Bulletin 7 was promulgated, there are significant uncertainties regarding what constitutes a reasonable commercial purpose, how the safe harbor provisions for group restructurings are to be interpreted and how the taxing authorities will ultimately view the distribution. As a result, YUM's position could be challenged by Chinese tax authorities resulting in a 10% tax assessed on the difference between the fair market value and the tax basis of the separated China business. As YUM's tax basis in the China business is minimal, the amount of such tax could be significant.

Any tax liability arising from the application of Bulletin 7 to the distribution is expected to be settled in accordance with the tax matters agreement between the Company and YUM. Pursuant to the tax matters agreement, to the extent any Chinese indirect transfer tax pursuant to Bulletin 7 is imposed, such tax and related losses will be allocated between YUM and the Company in proportion to their respective share of the combined market capitalization of YUM and the Company during the thirty trading days after the separation. Such a settlement could be significant and have a material adverse effect on our results of operations and our financial condition. At the inception of the tax indemnity being provided to YUM, the fair value of the non-contingent obligation to stand ready to perform was insignificant and the liability for the contingent obligation to make payment was not probable or estimable.

Guarantees

From time to time we have guaranteed certain lines of credit and loans of franchisees and unconsolidated affiliates. As of May 31, 2017, we have provided guarantees of approximately $2 million on behalf of franchisees and no guarantees were outstanding for unconsolidated affiliates. The maximum guarantee exposure is approximately $2 million.

Legal Proceedings

From time to time, the Company is subject to various lawsuits covering a variety of allegations. The Company believes that the ultimate liability, if any, in excess of amounts already provided for these matters in the Condensed Consolidated and Combined Financial Statements, is not likely to have a material adverse effect on the Company's results of operations, financial condition or cash flows. Matters faced by the Company from time to time include, but are not limited to, claims from landlords, employees, customers and others related to operational, contractual or employment issues.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

References to the Company throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations (this "MD&A") are made using the first person notations of "we," "us" or "our." This MD&A contains forward-looking statements, including statements with respect to the retail tax structure reform and the potential effects thereof, our growth plans, future capital resources to fund our operations and anticipated capital expenditures, share repurchases, our ability to pay dividends and the impact of new accounting pronouncements not yet adopted. See "Cautionary Note Regarding Forward-Looking Statements" at the end of this Item 2 for information regarding forward-looking statements.

Introduction

Yum China Holdings, Inc. is the largest restaurant company in China, with over 7,600 restaurants as of May 31, 2017. Our growing restaurant base consists of China's leading restaurant brands, including KFC, Pizza Hut Casual Dining, Pizza Hut Home Service, East Dawning, Little Sheep and Taco Bell. Following our separation from YUM, we have had the exclusive right to operate and sub-license the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China, excluding Hong Kong, Taiwan and Macau (the "PRC" or "China"), and we own the East Dawning and Little Sheep marks outright. We were the first major global restaurant brand when we entered China in 1987 and we have developed deep operating experience in the market. We have since grown to become one of China's largest restaurant developers with locations in over 1,100 cities as of May 31, 2017 and opening an average of approximately two new restaurants per day over the past five years.

KFC is the leading Quick-Service Restaurant ("QSR") brand in the PRC in terms of system sales and number of restaurants. As of May 31, 2017, KFC operated over 5,300 restaurants in over 1,100 cities across China. Measured by number of restaurants, we believe KFC has a two-to-one lead over the nearest Western QSR competitor in China and KFC has continued to grow in both large and small cities. Similarly, Pizza Hut Casual Dining is the leading Casual Dining Restaurant ("CDR") brand in China as measured by system sales and number of restaurants. We believe Pizza Hut Casual Dining, has an approximately six-to-one lead in terms of number of restaurants over its nearest Western CDR competitor in China. Pizza Hut Home Service is the leading delivery concept in China. As of May 31, 2017, Pizza Hut Casual Dining and Pizza Hut Home Service combined ("Pizza Hut") operated over 2,100 restaurants in over 400 cities.

Separation from YUM

The Company separated from YUM on October 31, 2016, becoming an independent publicly traded company as a result of a pro rata distribution of all outstanding shares of Yum China common stock to shareholders of YUM. On October 31, 2016, YUM's shareholders of record as of 5:00 p.m. Eastern Time on October 19, 2016 received one share of Yum China common stock for every one share of YUM common stock held as of the record date. Yum China's common stock began trading "regular way" under the ticker symbol "YUMC" on the New York Stock Exchange on November 1, 2016.

Basis of Presentation

The financial statements presented in this Form 10-Q represent (i) for periods prior to October 31, 2016, the Condensed Combined Financial Statements of YUM's China businesses and operations when Yum China was a wholly-owned subsidiary of YUM and (ii) for periods subsequent to October 31, 2016, the Condensed Consolidated Financial Statements of the Company as a separate publicly traded company following its separation from YUM. Throughout this Form 10-Q, when we refer to the "financial statements," we are referring to the "Condensed Consolidated and Combined Financial Statements," unless the context indicates otherwise.

The Condensed Combined Financial Statements have been prepared on a standalone basis and are derived from YUM's consolidated financial statements and underlying accounting records. Transactions between the Company and YUM that were not cash settled were considered to be effectively settled at the time the transactions were recorded. The Condensed Combined Financial Statements include all revenues, costs, assets and liabilities directly attributable to the Company either through specific identification or allocation. The Condensed Combined Statements of Income include allocations for certain of YUM's Corporate functions that provided a direct benefit to the Company. These costs have been allocated based on Company system sales relative to YUM's global system sales. All allocated costs have been deemed to have been paid to YUM in the period in which the costs were recorded. The Company considers the cost allocation methodology and results thereof for the periods prior to October 31, 2016 to be reasonable. However, the allocations may not be indicative of the actual expense that the Company would have experienced had the Company operated as an independent publicly traded company for the periods prior to October 31, 2016. Upon the separation from YUM, Parent Company Investment was adjusted as a result of settlement of certain assets and liabilities with YUM and formed Yum China's common stock and additional paid-in capital.

Overview

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

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

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

- Same-store sales growth is the estimated percentage change in sales of all restaurants that have been open and in the Company system one year or more.

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

- In addition to the results provided in accordance with GAAP throughout this MD&A, the Company provides non-GAAP measures which present Operating Profit before Special Items, Diluted Earnings Per Common Share before Special Items, Effective tax rate before Special Items and Adjusted EBITDA, which we define as net income including noncontrolling interests adjusted for income tax, interest income, depreciation, amortization and other items, including store impairment charges. Special Items consist of provision for losses associated with the sale of the aircraft and impact of the redemption of the Little Sheep noncontrolling interest which are described in (a), (b) and (c) in the accompanying notes. The Company excludes impact from Special Items for the purpose of evaluating performance internally. Special Items are not included in any of our segment results. These non-GAAP measures are not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of these non-GAAP measures provides additional information to investors to facilitate the comparison of past and present results, excluding those items that we do not believe are indicative of our ongoing operations due to their nature.

All Note references in this MD&A refer to the Notes to the Condensed Consolidated and Combined Financial Statements. Tabular amounts are displayed in millions of U.S. dollars except percentages and per share and unit count amounts, or as otherwise specifically identified. Percentages may not recompute due to rounding. References to quarters are references to the Company's fiscal quarters. The Company's second fiscal quarter of 2017 and 2016 consist of the three months ended May 31, 2017 and 2016, respectively. The Company's 2017 and 2016 year to date periods discussed in this MD&A consist of the first five months of 2017 and 2016, respectively.

Quarters and years to date ended May 31, 2017 and May 31, 2016

Results of Operations

Summary

During the second quarter of 2017, we integrated the businesses of Pizza Hut Casual Dining and Pizza Hut Home Service and began reporting them together as the Pizza Hut reportable segment. As a result, the Company has two reportable segments: KFC, which remains unchanged, and Pizza Hut. Our remaining operating segments, including the operations of East Dawning, Little Sheep, Taco Bell and Daojia (as defined below), are combined and referred to as All Other Segments, as these operating segments are insignificant both individually and in the aggregate. Segment financial information for prior periods has been recast to align with this change in segment reporting.

Quarterly highlights:

	% Change			
	System Sales[a]	Same-Store Sales[a]	Net New Units	Operating Profit
KFC	+8	+4	+5	+41
Pizza Hut	+7	—	+9	+157
All Other Segments	(31)	(4)	+2	(5)
Total	+7	+3	+6	+64

Year to date highlights:

	% Change			
	System Sales[a]	Same-Store Sales[a]	Net New Units	Operating Profit
KFC	+6	+3	+5	+20
Pizza Hut	+8	+1	+9	+95
All Other Segments	(36)	(9)	+2	+105
Total	+6	+2	+6	+34

(a) System Sales and Same-Store Sales percentages as shown in tables exclude the impact of F/X.

As of May 31, 2017, the Company operated over 7,600 units, predominately KFC and Pizza Hut restaurants, which are the leading quick service and casual dining restaurant brands, respectively, in mainland China. Given our strong competitive position, a growing economy and a population of approximately 1.4 billion in mainland China, the Company has rapidly added KFC, Pizza Hut Casual Dining and Pizza Hut Home Service restaurants.

As compared to the second quarter of 2016, Company sales in the second quarter of 2017 were flat and increased 6%, if excluding the impact of F/X. The increase in Company sales during the quarter, excluding the impact of F/X, was driven by net new unit growth and same-store sales growth. The increase in Restaurant profit was primarily due to the impact of the retail tax structure reform implemented on May 1, 2016 and also driven by same-store sales leverage, partially offset by wage inflation and commodity inflation. The benefit from the retail tax structure reform was most impactful on food and paper costs, although other items such as utility cost and rental expense also benefited from it.

The Consolidated and Combined Results of Operations for the quarters and year to date ended May 31, 2017 and 2016 are presented below:

	Quarter ended		% B/(W) [(a)]	Year to date ended		% B/(W) [(a)]
	5/31/2017	5/31/2016	Reported	5/31/2017	5/31/2016	Reported
Company sales	$ 1,563	$ 1,558	—	$ 2,820	$ 2,836	(1)
Franchise fees and income	31	30	6	58	55	6
Total revenues	$ 1,594	$ 1,588	—	$ 2,878	$ 2,891	—
Restaurant profit	$ 239	$ 196	21	$ 528	$ 442	19
Restaurant Margin %	15.3%	12.6%	2.7 ppts.	18.7%	15.6%	3.1 ppts.
Operating Profit	$ 143	$ 87	64	$ 397	$ 296	34
Interest income, net	5	2	66	7	4	59
Income tax provision	(35)	(16)	NM	(111)	(78)	(40)
Net Income - including noncontrolling interests	113	73	55	293	222	32
Net Income (loss) - noncontrolling interests	6	(4)	NM	11	—	NM
Net Income - Yum China Holdings, Inc.	$ 107	$ 77	39	$ 282	$ 222	27
Diluted Earnings Per Share	$ 0.27	$ 0.21	29	$ 0.71	$ 0.61	16
Effective tax rate	22.9%	18.6%		27.4%	26.2%	
Operating Profit before Special Items	$ 143	$ 88		$ 397	$ 297	
Diluted Earnings Per Common Share before Special Items	$ 0.27	$ 0.19		$ 0.71	$ 0.59	
Effective tax rate before Special Items	22.9%	18.6%		27.4%	26.2%	
Adjusted EBITDA	$ 259	$ 226		$ 579	$ 505	

(a) Represents period-over-period change in percentage. NM refers to changes over 100%, from negative to positive amounts or from zero to an amount.

Performance Metrics

	Quarter ended		Year to date ended	
	5/31/2017	5/31/2016	5/31/2017	5/31/2016
System Sales Growth (Decline)	1%	(1)%	—%	2%
System Sales Growth, excluding F/X	7%	3%	6%	7%
Same-store Sales Growth	3%	—%	2%	2%

Unit Count	5/31/2017	5/31/2016	% Increase
Company-owned	6,103	5,800	5
Unconsolidated affiliates	854	811	5
Franchisees	728	635	15
	7,685	7,246	6

Special Items

Special Items, along with the reconciliation to the most comparable GAAP financial measure, are presented below.

	Quarter ended		Year to date ended	
Detail of Special Items	5/31/2017	5/31/2016	5/31/2017	5/31/2016
Provision for loss associated with sale of aircraft[(a)]	$ —	$ (1)	$ —	$ (1)
Special Items Expense - Operating Profit	—	(1)	—	(1)
Special Items Expense, net of tax of nil - including noncontrolling interests	—	(1)	—	(1)
Special Items Expense, net of tax of nil - noncontrolling interests[(b)]	—	(8)	—	(8)
Special Items Income, net of tax of nil - Yum China Holdings, Inc.	$ —	$ 7	$ —	$ 7
Weighted average diluted shares outstanding	397,326,233	363,758,219	396,679,703	363,758,219
Special Items Diluted Earnings Per Common Share	$ —	$ 0.02	$ —	$ 0.02
Reconciliation of Reported Operating Profit to Operating Profit Before Special Items				
Reported Operating Profit	$ 143	$ 87	$ 397	$ 296
Special Items Expense - Operating Profit	—	(1)	—	(1)
Operating Profit before Special Items	$ 143	$ 88	$ 397	$ 297
Reconciliation of Reported EPS to EPS Before Special Items				
Reported Diluted Earnings Per Common Share	$ 0.27	$ 0.21	$ 0.71	$ 0.61
Special Items Diluted Earnings Per Common Share	—	0.02	—	0.02
Diluted Earnings Per Common Share before Special Items	$ 0.27	$ 0.19	$ 0.71	$ 0.59
Reconciliation of Reported Effective Tax Rate to Effective Tax Rate Before Special Items				
Reported effective tax rate (See Note 11)	22.9%	18.6%	27.4%	26.2%
Effective tax rate before Special Items[(c)]	22.9%	18.6%	27.4%	26.2%

(a) During the quarter ended May 31, 2016, we recognized a loss of $1 million associated with the sale of the aircraft.

(b) During the quarter ended May 31, 2016, the Little Sheep founding shareholders sold their remaining 7% Little Sheep ownership interest to the Company pursuant to their redemption rights. The difference between the purchase price of less than $1 million, which was determined using a non-fair value based formula pursuant to the agreement governing the redemption rights, and the carrying value of their redeemable noncontrolling interests was recorded as an $8 million loss attributable to noncontrolling interests.

(c) Impact on effective tax rate as a result of Special Items was nil.

Adjusted EBITDA

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

Reconciliation of Net Income to Adjusted EBITDA	Quarter ended 5/31/2017	Quarter ended 5/31/2016	Year to date ended 5/31/2017	Year to date ended 5/31/2016
Net Income (loss) — noncontrolling interests	$ 6	$ (4)	$ 11	$ —
Net Income — Yum China Holdings, Inc.	107	77	282	222
Income tax provision	35	16	111	78
Interest income, net	(5)	(2)	(7)	(4)
Operating Profit	143	87	397	296
Depreciation and amortization	96	103	160	171
Store impairment charges (See Note 6)	20	35	22	37
Special Items Expense – Operating profit	—	1	—	1
Adjusted EBITDA	$ 259	$ 226	$ 579	$ 505

Segment Results

KFC

	Quarter ended				Year to date ended			
			% B/(W)				% B/(W)	
	5/31/2017	5/31/2016	Reported	Ex F/X	5/31/2017	5/31/2016	Reported	Ex F/X
Company sales	$ 1,087	$ 1,078	1	7	$ 1,957	$ 1,975	(1)	4
Franchise fees and income	29	29	4	11	55	53	4	9
Total revenues	$ 1,116	$ 1,107	1	7	$ 2,012	$ 2,028	(1)	5
Restaurant profit	$ 174	$ 148	17	24	$ 379	$ 339	12	18
Restaurant margin %	16.0%	13.8%	2.2 ppts.	2.2 ppts.	19.4%	17.2%	2.2 ppts.	2.2 ppts.
G&A expenses	$ 39	$ 38	(3)	(10)	$ 64	$ 62	(5)	(10)
Closure and impairment expenses, net	$ 8	$ 21	65	63	$ 9	$ 21	61	59
Other income, net	$ (12)	$ (8)	36	44	$ (27)	$ (22)	21	28
Operating Profit	$ 154	$ 109	41	48	$ 361	$ 300	20	26

	Quarter ended 5/31/2017	Quarter ended 5/31/2016	Year to date ended 5/31/2017	Year to date ended 5/31/2016
System Sales Growth	2%	1%	—%	5%
System Sales Growth, excluding F/X	8%	5%	6%	10%
Same-Store Sales Growth	4%	3%	3%	7%

Unit Count	5/31/2017	5/31/2016	% Increase
Company-owned	3,978	3,815	4
Unconsolidated affiliates	854	811	5
Franchisees	469	413	14
	5,301	5,039	5

Company Sales and Restaurant Profit

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

	Quarter ended				
Income (Expense)	5/31/2016	Store Portfolio Actions	Other	F/X	5/31/2017
Company sales	$ 1,078	$ 33	$ 40	$ (64)	$ 1,087
Cost of sales	(330)	(10)	(9)	19	(330)
Cost of labor	(223)	(7)	(20)	14	(236)
Occupancy and other	(377)	(8)	18	20	(347)
Restaurant profit	$ 148	$ 8	$ 29	$ (11)	$ 174

	Year to date ended				
Income (Expense)	5/31/2016	Store Portfolio Actions	Other	F/X	5/31/2017
Company sales	$ 1,975	$ 50	$ 40	$ (108)	$ 1,957
Cost of sales	(605)	(14)	6	32	(581)
Cost of labor	(382)	(11)	(32)	22	(403)
Occupancy and other	(649)	(12)	35	32	(594)
Restaurant profit	$ 339	$ 13	$ 49	$ (22)	$ 379

The increases in Company sales and Restaurant profit associated with store portfolio actions for the quarter was driven by net new unit growth. Significant other factors impacting Company sales and Restaurant profit were the Company same-store sales growth of 4% and favorable impact from retail tax structure reform (primarily in cost of sales), partially offset by higher labor costs including wage inflation of 8%, promotion impact and commodity inflation of 4%.

The year to date increases in Company sales and Restaurant profit associated with store portfolio actions was driven by net new unit growth. Significant other factors impacting Company sales and Restaurant profit were the Company same-store sales growth of 3% and the favorable impact from retail tax structure reform (primarily in cost of sales), partially offset by higher labor costs including wage inflation of 8%, commodity inflation of 5% and promotion impact.

Franchise Fees and Income

The quarter and year to date increases in Franchise fees and income, excluding the impact of F/X, was primarily driven by the impact of refranchising and net new unit growth.

G&A Expenses

The quarter and year to date increases in G&A expenses, excluding the impact of F/X, was primarily driven by higher compensation costs due to wage inflation.

Operating Profit

The increase in Operating Profit for the quarter, excluding the impact of F/X, was primarily driven by same-store sales growth, net new unit growth, lower restaurant operating costs including the favorable impact of the retail tax structure reform and lower closure and impairment expenses, partially offset by higher G&A expenses.

The year to date increase in Operating Profit, excluding the impact of F/X, was primarily driven by same-store sales growth, net new unit growth, lower restaurant operating costs including the favorable impact of the retail tax structure reform and lower closure and impairment expenses, partially offset by higher G&A expenses. In addition, the leap year in 2016 added an extra day in February resulting in incremental Operating Profit of $4 million.

Pizza Hut

	Quarter ended				Year to date ended			
			% B/(W)				% B/(W)	
	5/31/2017	5/31/2016	Reported	Ex F/X	5/31/2017	5/31/2016	Reported	Ex F/X
Company sales	$ 467	$ 465	1	6	$ 846	$ 832	2	7
Franchise fees and income	1	1	23	30	1	1	27	34
Total revenues	$ 468	$ 466	1	6	$ 847	$ 833	2	7
Restaurant profit	$ 65	$ 48	33	42	$ 148	$ 102	44	51
Restaurant margin %	13.9%	10.4%	3.5 ppts.	3.5 ppts.	17.5%	12.4%	5.1 ppts.	5.0 ppts.
G&A expenses	$ 26	$ 26	2	(4)	$ 43	$ 43	2	(4)
Closure and impairment expenses, net	$ 9	$ 11	21	17	$ 8	$ 10	21	17
Operating Profit	$ 30	$ 12	157	174	$ 97	$ 50	95	105

	Quarter ended		Year to date ended	
	5/31/2017	5/31/2016	5/31/2017	5/31/2016
System Sales Growth (Decline)	1%	(5)%	2%	(5)%
System Sales Growth (Decline), excluding F/X	7%	(1)%	8%	—%
Same-Store Sales Growth (Decline)	—%	(10)%	1%	(11)%

Unit Count	5/31/2017	5/31/2016	% Increase
Company-owned	2,094	1,932	8
Franchisees	28	17	65
	2,122	1,949	9

Company Sales and Restaurant Profit

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

	Quarter ended				
Income (Expense)	5/31/2016	Store Portfolio Actions	Other	F/X	5/31/2017
Company sales	$ 465	$ 30	$ —	$ (28)	$ 467
Cost of sales	(127)	(8)	7	8	(120)
Cost of labor	(115)	(9)	(2)	7	(119)
Occupancy and other	(175)	(10)	13	9	(163)
Restaurant profit	$ 48	$ 3	$ 18	$ (4)	$ 65

	Year to date ended				
Income (Expense)	5/31/2016	Store Portfolio Actions	Other	F/X	5/31/2017
Company sales	$ 832	$ 56	$ 4	$ (46)	$ 846
Cost of sales	(232)	(13)	21	12	(212)
Cost of labor	(197)	(15)	(6)	11	(207)
Occupancy and other	(301)	(16)	23	15	(279)
Restaurant profit	$ 102	$ 12	$ 42	$ (8)	$ 148

The increases in Company sales and Restaurant profit associated with store portfolio actions for the quarter was primarily driven by net new unit growth. Significant other factors impacting Company sales and Restaurant profit were the favorable impact from retail tax structure reform (primarily in cost of sales), partially offset by higher labor costs including wage inflation of 6% and commodity inflation of 2%.

The year to date increases in Company sales and Restaurant profit associated with store portfolio actions was primarily driven by net new unit growth. Significant other factors impacting Company sales and Restaurant profit were the favorable impact from retail tax structure reform (primarily in cost of sales) and Company same-store sales growth of 1%, partially offset by higher labor costs including wage inflation of 6% and commodity inflation of 1%.

G&A Expenses

The quarter and year to date increases in G&A expenses, excluding the impact of F/X, was primarily driven by higher compensation costs due to wage inflation and increased headcounts.

Operating Profit

The increase in Operating Profit for the quarter, excluding the impact of F/X, was primarily driven by lower restaurant operating costs including the favorable impact of the retail tax structure reform and net new unit growth.

The year to date increase in Operating Profit, excluding the impact of F/X, was primarily driven by lower restaurant operating costs including the favorable impact of the retail tax structure reform, net new unit growth and same-store sales growth.

All Other Segments

All Other Segments includes East Dawning, Little Sheep, Taco Bell and Daojia.

	Quarter ended				Year to date ended			
			% B/(W)				% B/(W)	
	5/31/2017	5/31/2016	Reported	Ex F/X	5/31/2017	5/31/2016	Reported	Ex F/X
Company sales	$ 9	$ 15	(35)	(31)	$ 17	$ 29	(39)	(36)
Franchise fees and income	1	—	39	48	2	1	57	67
Total revenues	$ 10	$ 15	(30)	(26)	$ 19	$ 30	(34)	(30)
Restaurant (loss) profit	—	—	84	83	$ 1	$ 1	195	217
Restaurant margin %	(2.3)%	(9.3)%	7.0 ppts.	7.0 ppts.	4.0%	0.8%	3.2 ppts.	3.2 ppts.
G&A expenses	$ 2	$ 3	—	(6)	$ 4	$ 4	(5)	(9)
Operating Loss	$ (2)	$ (2)	(5)	(11)	$ —	$ (1)	105	111

The decrease in Company sales for the quarter, excluding the impact of F/X, was primarily driven by unit closures and refranchising.

The year to date decrease in Company sales, excluding the impact of F/X, was primarily driven by unit closures and refranchising and same-store sales decline of 9%.

Corporate & Unallocated

	Quarter ended			Year to date ended		
Income (Expense)	5/31/2017	5/31/2016	% B/(W)	5/31/2017	5/31/2016	% B/(W)
Corporate G&A expenses	$ (40)	$ (37)	(8)	$ (63)	$ (61)	(2)
Refranchising gain, net (See Note 6)	1	1	(73)	2	4	(67)
Other unallocated	—	4		—	4	
Interest income, net	5	2	66	7	4	59
Income tax provision (See Note 11)	(35)	(16)	NM	(111)	(78)	(40)
Effective tax rate (See Note 11)	22.9%	18.6%	(4.3)%	27.4%	26.2%	(1.2)%

Corporate G&A Expenses

The quarter and year to date increases in G&A expenses, excluding the impact of F/X, resulted from increased share-based compensation expenses, higher compensation costs and the expenses associated with becoming an independent publicly traded company, partially offset by government incentive received.

Interest Income, Net

The quarter and year to date increases in interest income, net was driven by higher returns on larger balances of short-term investments and time deposits.

Income Tax Provision

Our income tax provision includes tax on our earnings at the Chinese statutory tax rate of 25%. To the extent those earnings are not deemed permanently reinvested in China, we are required to record U.S. tax on those earnings, net of a credit for the foreign taxes paid in China. Our effective tax rate was 22.9% and 18.6% for the quarters ended May 31, 2017 and 2016, respectively, and 27.4% and 26.2% for the year to date ended May 31, 2017 and 2016, respectively. The higher effective tax rate for the second quarter of 2017 was primarily due to higher costs of repatriating current year foreign earnings.

Significant Known Events, Trends or Uncertainties Expected to Impact Future Results

PRC Value-Added Tax ("VAT")

Effective May 1, 2016, the Chinese government implemented reform to its retail tax structure, which is intended to be a progressive and positive shift to more closely align with a more modern service-based economy. Under this reform, a 6% output VAT replaced the 5% business tax previously applied to certain restaurant sales. Input VAT would be creditable to the aforementioned 6% output VAT.

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

As of May 31, 2017, an input VAT credit asset of $111 million and payable of $0.1 million were recorded in Other assets and other current liabilities, respectively, in the Condensed Consolidated Balance Sheets. The Company has not made an allowance for the recoverability of the input VAT credit asset, as the balance is expected to be utilized to offset against net VAT payables more than one year from May 31, 2017. Any input VAT credit asset would be classified as Prepaid expenses and other current assets if the Company expected to use the credit within one year.

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

Foreign Currency Exchange Rate

The reporting currency of the Company is the US$. Most of the revenues, costs, assets and liabilities of the Company are denominated in Chinese Renminbi ("RMB"). Any significant change in the exchange rate between US$ and RMB may materially and adversely affect the Company's business, results of operations, cash flows and financial condition. See "Item 3. Quantitative and Qualitative Disclosures About Market Risk" for further discussion.

Consolidated and Combined Cash Flows

Our cash flows for the year to date ended May 31, 2017 and 2016 were as follows:

Net cash provided by operating activities was $473 million in 2017 as compared to $423 million in 2016. The increase was primarily driven by higher Net Income and timing of payments for inventory, partially offset by increased compensation and benefits payments.

Net cash used in investing activities was $432 million in 2017 as compared to $214 million in 2016. The increase was primarily driven by purchases of short-term investments.

Net cash used in financing activities of $43 million in 2017 was mainly related to share repurchases and net cash used in financing activities of $119 million in 2016 represented changes in net investment by Parent.

Liquidity and Capital Resources

Historically we have funded our operations through cash generated from the operation of our Company-owned stores and from our franchise operations and dividend payments from our unconsolidated affiliates. Prior to October 31, 2016, excess cash was historically repatriated to YUM through intercompany loans or dividends.

Our ability to fund our future operations and capital needs will depend on our ongoing ability to generate cash from operations. We believe our principal uses of cash in the future will be primarily to fund our operations, capital expenditures and any distributions to our stockholders or share repurchases we may make. We believe that our future cash from operations, together with our access to funds on hand and the capital markets, will provide adequate resources to fund these uses of cash and that our existing cash and net cash from operations will be sufficient to fund our operations and anticipated capital expenditures for the next 12 months.

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

- our financial performance;
- our credit ratings or absence of a credit rating;
- the liquidity of the overall capital markets; and
- the state of the Chinese, U.S. and global economies.

There can be no assurance, particularly as a new company that currently has no credit rating, that we will have access to the capital markets on terms acceptable to us or at all.

Generally our income is subject to the Chinese statutory tax rate of 25%. However, to the extent our cash flows from operations exceed our China cash requirements, the excess cash may be subject to an overall tax rate equal to the 35% U.S. statutory income tax rate.

Dividends and Share Repurchases

On February 7, 2017, we announced that our board of directors authorized a $300 million share repurchase program. Yum China may repurchase shares under this program from time to time in open market or privately negotiated transactions, including block trades, accelerated share repurchase transactions and the use of Rule 10b5-1 trading plans. As of May 31, 2017, the Company has repurchased $39 million or 1,072,602 shares of common stock under the repurchase program.

Our ability to declare and pay any dividends on our stock may be restricted by applicable Chinese laws. The laws, rules and regulations applicable to our Chinese subsidiaries permit payments of dividends only out of their accumulated profits, if any, determined in accordance with applicable Chinese accounting standards and regulations. Under Chinese law, an enterprise incorporated in China is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. As a result, our Chinese subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends. At the discretion of the board of directors, as an enterprise incorporated in China, each of our Chinese subsidiaries may allocate a portion of its after-tax profits based on Chinese accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

Borrowing Capacity

As of May 31, 2017, the Company had credit facilities of RMB2,300 million (approximately $330 million) in the aggregate.

The credit facilities have terms ranging from 1 to 3 years. Each credit facility bears interest based on the prevailing rate stipulated by the People's Bank of China and contains financial covenants including, among other things, limitations on certain additional indebtedness and liens, and certain other transactions specified in the respective agreement. Each credit facility contains a cross-default provision whereby our failure to make any payment on a principal amount from any credit facility will constitute a default on other credit facilities. Interest on any outstanding borrowings is due at least monthly. As of May 31, 2017, the full amount of borrowings was available to us under each facility.

Off-Balance Sheet Arrangements

See the Guarantees section of Note 13 for discussion of our off-balance sheet arrangements.

New Accounting Pronouncements

<u>Recently Adopted Accounting Pronouncements</u>

See Note 2 for details of recently adopted accounting pronouncements.

<u>New Accounting Pronouncements Not Yet Adopted</u>

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. In July 2015, the FASB approved a one-year deferral of the effective date of the new revenue standard. ASU 2014-09 is now effective for the Company in our first quarter of fiscal 2018 with early adoption permitted in the first quarter of 2017. The standard allows for either a full retrospective or modified retrospective transition method. In March and April 2016, the FASB issued the following amendments to clarify the implementation guidance: ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606)*: *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* and ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. We do not believe these standards will impact our recognition of revenue from Company-owned restaurants or our recognition of continuing fees from franchisees, which are based on a percentage of franchise sales. However, the initial fees from franchisees, which are currently recognized as revenue when we have performed substantially all initial services required by the franchise agreement, generally upon the opening of a store, will be recognized over the term of the franchise agreement because the franchise rights will be accounted for as rights to access our symbolic intellectual property. We recognized $2 million and $3 million of initial fees, including renewal fees, as revenue for the quarter and year to date ended May 31, 2017, respectively. We are evaluating whether the standards will have an impact on transactions currently not included in our revenues such as franchisee contributions to and subsequent expenditures from advertising programs. We act as an agent in regard to these franchisee contributions and expenditures and as such we do not currently include them in our statements of income or cash flows. We are evaluating whether the new standards will impact the principal/agent determinations in these arrangements. If we determine we are the principal in these arrangements we would include contributions to and expenditures from these advertising programs within our statements of income and cash flows. While any such change has the potential to materially impact our gross amount of reported revenues and expenses, such impact would largely be offsetting and we would not expect there to be a significant impact on our reported Net Income. In addition, we are continuing to evaluate the impact the adoption of these standards will have on the recognition and presentation of other revenue transactions with unconsolidated affiliates and franchisees.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for the Company in our first quarter of fiscal 2019 with early adoption permitted. The standard must be adopted using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We expect that this standard will have a material effect on our financial statements. While we are continuing to assess the effect of adoption, we currently believe the most significant changes relate to the recognition of right-of-use assets and lease liabilities on our balance sheet for operating leases of the land and/or building of our restaurants and office space. At May 31, 2017, we operated more than 6,100 restaurants, leasing the underlying land and/or building, with our commitments expiring within 20 years from the inception of the lease. The amount of our future minimum lease payments under operating leases was approximately $3 billion as of May 31, 2017. We anticipate continuing to add more restaurants and increase our leasing activity between now and adoption.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)* (ASU 2016-13): Measurement of Credit Losses on Financial Instruments, which requires measurement and recognition of expected versus incurred credit losses for financial assets held. ASU 2016-13 is effective for the Company in the first quarter of 2020, with early adoption permitted beginning in the first quarter of 2019. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)* (ASU 2016-15), which provides clarification regarding how certain cash receipts and cash payment are presented and classified in the statement of cash flows. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2017, which will require us to adopt these provisions in the first quarter of 2018 using a retrospective transition method, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* (ASU 2016-16), which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The guidance will require a modified retrospective application with a cumulative adjustment to opening retained earnings at the beginning of the first quarter of 2018, but permits adoption at the beginning of an earlier annual period. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU 2016-18), which requires that entities show the changes in total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (ASU 2017-01), which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04), which simplifies the subsequent measurement of goodwill by eliminating “Step 2” from the goodwill impairment test. ASU 2017-04 is effective for public companies’ annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not expect the adoption of this guidance to have a material impact on our financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting (ASU 2017-09)*, which clarifies that modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the changes in terms or conditions. ASU 2017-09 is effective for fiscal years beginning after December 15, 2018, and interim periods with fiscal years beginning after December 15, 2018, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our financial statements.

Cautionary Note Regarding Forward-Looking Statements

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements often include words such as “may,” “will,” “estimate,” “intend,” “seek,” “expect,” “project,” “anticipate,” “believe,” “plan,” “could,” “target,” “predict,” “likely,” “should,” “forecast,” “outlook,” “model,” “ongoing” or other similar terminology. Forward-looking statements are based on our expectations, estimates, assumptions or projections concerning future results or events as of the date of the filing of this Form 10-Q. Forward-looking statements are neither predictions nor guarantees of future events, circumstances or performance and are inherently subject to known and unknown risks, uncertainties and assumptions that could cause our actual results to differ materially from those indicated by those statements. We cannot assure you that any of our assumptions are correct or any of our expectations, estimates or projections will be achieved. Numerous factors could cause our actual results to differ materially from those expressed or implied by forward-looking statements, including, without limitation, the following:

- Risks related to our business and industry, such as (a) food safety and food-borne illness concerns, (b) failure to maintain effective quality control systems for our restaurants, (c) significant liability claims, food contamination complaints from our customers or reports of incidents of food tampering, (d) health concerns arising from outbreaks of viruses or other diseases, (e) the fact that we derive substantially all of our revenue from our operations in China, (f) the fact that the operation of our restaurants is subject to the terms of the master license agreement with YUM, (g) the fact that our success is tied to the success of YUM’s brand strength, marketing campaigns and product innovation, (h) shortages or interruptions in the availability and delivery of food and other supplies, (i) our inability to attain our target development goals and the potential cannibalization of existing sales by aggressive development, (j) fluctuation of raw materials prices, (k) risks associated with leasing real estate, (l) inability to obtain desirable restaurant locations on commercially reasonable terms, (m) labor shortages or increases in labor costs, (n) the fact that our success depends substantially on our corporate reputation and on the value and perception of our brands, (o) failure to protect the integrity and security of personal information of our customers and employees, (p) the dependence of our delivery business on the performance of, and our long-term relationships with, third-party aggregators and mobile payment processors, (q) our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media, (r) litigation and failure to comply with anti-bribery or anti-corruption laws, (s) U.S. federal income taxes, changes in tax rates, disagreements with taxing authorities and imposition of new taxes, (t) changes in consumer discretionary spending and general economic conditions, (u) competition in the retail food industry, (v) loss or failure to obtain or renew any or all of the approvals, licenses and permits to operate our business, (w) our inability to adequately protect the intellectual property we own or have the right to use, (x) YUM’s failure to protect its intellectual property, (y) seasonality and certain major events in China, (z) failure of or damage to information systems, (aa) our failure to detect, deter and prevent all instances of fraud or other misconduct committed by our employees, customers or other third parties, (bb) changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters, (cc) failure of our insurance policies to provide adequate coverage for claims associated with our business operations, (dd) failure by us to maintain effective disclosure controls and procedures and internal control over financial reporting in accordance with the rules of the SEC and (ee) unforeseeable business interruptions;

- Risks related to doing business in China, such as (a) changes in Chinese political policies and economic and social policies or conditions, (b) changes in laws and regulations, (c) uncertainties with respect to the interpretation and enforcement of Chinese laws, rules and regulations, (d) fluctuation in the value of the Chinese Renminbi, (e) limitations on our ability to utilize our cash balances effectively due to governmental control of currency conversion and payments of foreign currency, (f) reliance on distributions by our operating subsidiaries in China to fund offshore cash requirements, (g) potential unfavorable tax consequences resulting from our classification as a China resident enterprise for Chinese enterprise income tax purposes, (h) uncertainty regarding indirect transfers of equity interests and enhanced scrutiny by Chinese tax authorities, (i) inability to use properties due to defects caused by non-registration of lease agreements related to certain properties, (j) risk in relation to unexpected land acquisitions, building closures or demolitions, (k) potential fines for failure to comply with law and (l) restrictions on our ability to make loans or additional capital contributions to our Chinese subsidiaries due to Chinese regulation of loans to, and direct investment in, Chinese entities by offshore holding companies and governmental control of currency conversion;

- Risks related to the separation and related transactions, such as (a) not achieving all of the anticipated benefits, (b) incurring significant tax liabilities if the distribution does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes and the Company could be required to indemnify YUM for material taxes and other related amounts pursuant to indemnification obligations under the tax matters agreement, (c) being obligated to indemnify YUM for material taxes and related amounts pursuant to indemnification obligations under the tax matters agreement if YUM is subject to Chinese indirect transfer tax with respect to the distribution, (d) limitations on our ability to engage in strategic transactions as a result of the separation, (e) our inability to satisfy financial reporting and other requirements to which we are subject as an independent publicly traded company, (f) limited experience of our management in managing a public company, (g) inability to access capital markets on acceptable terms, (h) increased administrative and other costs incurred by virtue of our status as an independent public company, (i) limitations on our ability to compete with YUM and other restrictions on our operations contained in the master license agreement, (j) failure by YUM to perform its obligations under the transaction agreements that we entered into with it as part of the separation, (k) potential indemnification liabilities owing to YUM pursuant to the separation and distribution agreement and there being no assurance that the indemnity provided by YUM with respect to certain liabilities in connection with the separation will be sufficient to insure us against the full amount of such liabilities, (l) the possibility that a court would require that we assume responsibility for obligations allocated to YUM under the separation and distribution agreement, (m) potential liabilities due to fraudulent transfer considerations and (n) actual or potential conflicts of interest of certain of our executive officers and directors because of their previous positions at YUM; and

- Risks related to the acquisition of Daojia, including that (a) the PRC government may determine that the variable interest entity structure of Daojia does not comply with PRC laws on foreign investment in restricted industries, (b) the integration of Daojia may require significant time, attention and resources, potentially diverting attention from the conduct of our core businesses, and (c) the expected synergies from the acquisition may not be realized.

In addition, other risks and uncertainties not presently known to us or that we currently believe to be immaterial could affect the accuracy of any such forward-looking statements. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. You should consult our filings with the Securities and Exchange Commission (including the information set forth under the captions “Forward-Looking Statements” and “Risk Factors” included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016) for additional information regarding factors that could affect our financial and other results. You should not place undue reliance on forward-looking statements, which speak only as of the date of the filing of this Form 10-Q. We are not undertaking to update any of these statements, except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Rate Risk

Changes in foreign currency exchange rates impact the translation of our reported foreign currency denominated earnings, cash flows and net investments in foreign operations, virtually all of which are denominated in RMB. We chose not to hedge our foreign currency denominated earnings through the use of financial instruments, and attempted to minimize the related exposure by purchasing goods and services from third parties in local currencies when practical.

As substantially all of the Company’s assets are located in China, the Company is exposed to movements in the RMB foreign currency exchange rate. For the quarter ended May 31, 2017, the Company’s Operating Profit would have decreased approximately $15 million if the RMB weakened 10% relative to the U.S. dollar. This estimated reduction assumes no changes in sales volumes or local currency sales or input prices.

Commodity Price Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based on the evaluation, performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (the "CEO") and the Interim Chief Financial Officer (the "Interim CFO"), the Company's management, including the CEO and Interim CFO, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by the report.

Changes in Internal Control Over Financial Reporting

There were no changes with respect to the Company's internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the quarter ended May 31, 2017.

PART II – Other Information

Item 1. Legal Proceedings

Information regarding legal proceedings is incorporated by reference from Note 13 to the Company’s Condensed Consolidated and Combined Financial Statements set forth in Part I of this report.

Item 1A. Risk Factors

We face a variety of risks that are inherent in our business and our industry, including operational, legal and regulatory risks. Such risks could cause our actual results to differ materially from our forward-looking statements, expectations and historical trends. There have been no material changes from the risk factors disclosed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on March 8, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On February 7, 2017, we announced that our board of directors authorized a $300 million share repurchase program. This authorization does not have an expiration date. The following table provides information as of May 31, 2017 with respect to shares of common stock repurchased by the Company under this authorization during the quarter then ended:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (millions)
3/1/2017-3/31/2017	—	$ —	—	$ —
4/1/2017-4/30/2017	36,600	$ 33.06	36,600	$ 299
5/1/2017-5/31/2017	1,036,002	$ 36.39	1,036,002	$ 261
Total	1,072,602	$ 36.27	1,072,602	$ 261

Item 6. Exhibits

The Exhibit Index is incorporated herein by reference.

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Yum China Holdings, Inc.
(Registrant)

Date: July 7, 2017

/s/ Jacky Lo
Interim Chief Financial Officer,
Vice President, Controller and Principal Accounting Officer

Yum China Holdings, Inc.
Exhibit Index

Exhibit Number	Description of Exhibits
3.1	Amended and Restated Certificate of Incorporation of Yum China Holdings, Inc. (incorporated by reference to Exhibit 3.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
3.2	Amended and Restated Bylaws of Yum China Holdings, Inc. (incorporated by reference to Exhibit 3.2 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
3.3	Certificate of Designations of Preferred Stock (incorporated by reference to Exhibit 3.1 to Yum China Holdings, Inc.'s Registration Statement on Form 8-A filed on October 27, 2016).
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *

* Filed or furnished herewith.

Exhibit 31.1

CERTIFICATION

I, Micky Pant, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Yum China Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant, as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 7, 2017

/s/ Micky Pant
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Jacky Lo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Yum China Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant, as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 7, 2017

/s/ Jacky Lo
Interim Chief Financial Officer,
Vice President, Controller and Principal Accounting Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Yum China Holdings, Inc. (the “Company”) on Form 10-Q for the quarter ended May 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Periodic Report”), I, Micky Pant, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 7, 2017

/s/ Micky Pant
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Yum China Holdings, Inc. (the “Company”) on Form 10-Q for the quarter ended May 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Periodic Report”), I, Jacky Lo, Interim Chief Financial Officer, Vice President, Controller and Principal Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 7, 2017

/s/ Jacky Lo
Interim Chief Financial Officer,
Vice President, Controller and Principal Accounting Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.