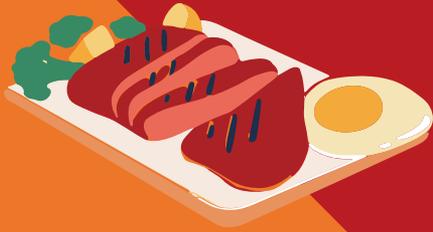
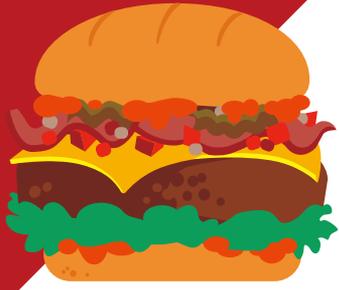


2023 ANNUAL REPORT





Joey Wat
Chief Executive Officer

Dear Stockholders,

2023 was a landmark year for Yum China, one of our strongest ever. Transitioning out of the pandemic, we were able not only to seize opportunities amid China’s reopening, but also adapt quickly to the year’s challenges and sustain strong momentum. My deepest gratitude goes to our 430,000 employees: they are the backbone of our business, and it is their hard work and dedication that powers the agility and innovation that allow us to succeed, no matter the market conditions.

We also want to thank our long-term stockholders who have stood by us along the way. Returning to stockholders and enhancing return on capital invested are always on the top of our agenda. In 2023, we disbursed a record \$833 million in dividends and share repurchases, representing 75% of our annual operating profit, bringing the total to \$3 billion since the spin-off in late 2016. We intend to step up the pace going forward, planning dividends and share repurchases of at least \$3 billion from 2024 to 2026, with \$1.5 billion planned for 2024.

Record-breaking results and major business milestones

**2023 Full Year
Total Revenues**
\$ 11 Billion
+\$15% yoy

**2023 Full Year
Operating Profit/
Adjusted Operating Profit¹**
\$ 1.1 Billion
+76%/+77% yoy

**2023 Full Year
Stockholder Return**
\$ 833 Million*
+25% yoy
*Through share repurchases and cash dividends

In 2023, we achieved record-breaking revenue of approximately \$11 billion, while our full-year adjusted operating profit hit an all-time high. We also celebrated two important milestones: KFC became the first western QSR chain to pass the 10,000-store mark in China and Pizza Hut surpassed 3,000 stores.

¹ Please see page 78 for a reconciliation of operating profit under GAAP to adjusted operating profit.

KFC remained our primary growth engine, achieving a record operating profit in 2023. Pizza Hut accelerated its new store openings to 409 net new stores, with significant further growth potential ahead. Additionally, our Chinese dining brands made notable progress. Huang Ji Huang tripled profits in 2023, opening 40 net new stores, to reach 631 stores both in China and abroad by year-end.

We ended 2023 with a total of 14,644 stores, adding 1,697 net new stores, which contributed 9% of incremental sales for the year, while maintaining healthy payback periods of around 2 years for KFC and 3 years for Pizza Hut.

Seizing China's tremendous future growth potential

The growth opportunities in China, both near and long term, continue to be incredibly exciting. China is expected to contribute more than a quarter of the world's GDP growth in 2024 – the largest proportion of any individual country.² Even at a 5% GDP growth rate for 2024, China's economy would expand by nearly \$900 billion.³

The China market will offer us ample white space for the foreseeable future. Operating in over 2,000 cities across China, Yum China currently serves approximately one-third of the country's population. Our target of 20,000 stores nationwide by 2026 will extend our reach to roughly 700 million people, still just around half of China's population.

But that's not all – on top of the opportunity to serve more people is a favorable mix change, as Chinese consumers in lower-tier cities are gradually upgrading their consumption. A recent Boston Consulting Group report estimates that China's affluent and middle classes will continue to see double digit growth from 2022–2030, with 70 percent of middle class entrants coming from third-tier cities and below.⁴ Our plan is to reach 20,000 stores, and to target an additional 1,000 cities across China, and a good share of our future growth should come from the growing pool of consumers in such markets.

As the largest restaurant company in China⁵, we are uniquely positioned to capitalize on this trend – in fact, over half of our new stores have been in lower-tier cities in recent years. In those cities, we benefit from lower labor and rent costs, plus we enjoy a ticket average comparable to higher-tier cities. We've also developed a suite of flexible store formats which lower our upfront investment. These favorable economics have allowed us to extend our potential site opportunities across city tiers. Further, our extensive proprietary supply chain management and logistics capabilities enable us to capture opportunities in remote areas which would otherwise be difficult to reach.

**2023 Full Year
System Sales**

+21% yoy*

*Excluding F/X Impact

**2023 Full Year
Diluted EPS**

\$ 1.97

+89% yoy

2 [China Daily](#) interview with Steven Barnett, senior resident representative of the International Monetary Fund in China, February 2024.

3 Yum China estimate based on 2023 China GDP of RMB126.06 trillion (approximately \$17.7 trillion) as reported by China's National Bureau of Statistics.

Source: State Council of the People's Republic of China, [Factbox, Data Highlights of China's Economy in 2023](#), Updated 17 January 2024.

4 Boston Consulting Group, [Mind the Generation Gap: Understanding Generational Divides and Subdivides in the Chinese Consumer Market](#), May 2023.

5 Based on 2023 system sales

At the heart of our current and future success: industry-leading capabilities

Our core brands are deeply rooted in China. KFC and Pizza Hut have had a presence in the country since 1987 and 1990 respectively, and are beloved by millions of consumers. But consumer preferences are ever-changing, and the competition is unrelenting: we can never rest on our laurels. We've worked hard over the past decades to develop industry-leading operational capabilities, outstanding customer care, and a world-class supply chain – all backed by advanced technology. The breadth and depth of these capabilities set us apart and undergird our sustained success.

Continuous investment in our supply chain and logistics capabilities has been the foundation of our store expansion. Our logistics network currently has the capacity to cover more than 3,000 cities and towns across China, with plans to extend the coverage further. We are also committed to investing in automation at our logistics centers to increase storage capacity and improve efficiency – one example is a high-density four-way shuttle system, which is currently being piloted at our Xi'an logistics center and allows for fully automated ground level pick up and multi-level storage.

Food safety always has been – and always will be – our number-one priority. To further safeguard it, we have built an industry-leading cold chain temperature monitoring system, leveraging Internet of Things, big data, and cloud computing.

Being an early adopter of technology is in our roots. As early as 2015, we were one of the first restaurant companies in China to roll out digital payments in over 5,000 stores.

We were also an early adopter of AI. Since 2018, we began designing and implementing sophisticated digital and AI-enabled tools. During the pandemic, we launched an end-to-end digitalization initiative to connect our customer-facing functions with back-of-house restaurant operations and with our supply chain. This allowed us to implement real-time stock replenishment, ensuring we can meet sales requirements while reducing inventory loss. It's helped us streamline staff scheduling and rotation to better align with demand patterns. And it's enabled speedier testing, and iterating, of new products for faster rollouts.

AI-generated content (AIGC) promises to lead the next round of technological disruption, and we are on top of it. One of my initiatives is to work not only with our technology team, but also with our frontline store managers, and our marketing and operations teams, to explore how we can employ this technology to address their needs, to enhance customer experience and staff experience, and to improve operating efficiencies.

Delivering innovative menus and value, while protecting margins

We are relentless in pursuing food innovation. China comprises a heterogeneous set of customers of varying tastes and means; and accordingly, we offer a wide range of quality products at differentiated price points. This has allowed us to continuously expand our customer base. At KFC, for example, we offer KFC Weekday Value Combos starting from RMB20 as well as premium Wagyu beef burger combos at just above RMB40. At Pizza Hut, we are expanding our pizza selection below the RMB50 price point while still offering a range of more premium options.

In 2023, we rolled out more than 500 new or upgraded products. Our "\$100 Million Club" – categories which exceed \$100 million in USD sales – continues to grow year by year. A notable addition in 2023 was KFC's Golden Chicken SPA Burger, which we make using chicken breast meat. Beef burgers and whole chickens, which were introduced in recent years, contributed close to 6% of KFC's sales in 2023, exceeding Original Recipe Chicken, one of our longest-running menu items in China.

Yum China \$100 Million Club Additions, 2014-2023

Product categories achieving over \$100 million USD sales



Durian Pizza

Pizza Hut



Single-Bone Chicken

KFC



Beef Burger

KFC



Juicy Whole Chicken

KFC



KCOFFEE

KFC



Golden SPA Chicken Burger

KFC

With more and more consumers in China becoming coffee drinkers, we are extremely excited about the future growth prospects of our coffee business. We serve entry-level consumers with KFC's KCOFFEE and premium-level connoisseurs via our joint venture with Lavazza. At KCOFFEE, with competitive coffee prices averaging below RMB9.9, we sold over 190 million cups in 2023, a 35% year-over-year increase. Our sleek and beautifully designed Lavazza cafés offer authentic Italian coffee and food experiences to meet customers' discerning tastes. With locations in over 10 cities across China as of the end of 2023, our Lavazza cafés also serve as platforms to support our growing retail and wholesale sales of Lavazza coffee beans.

We have managed to maintain our margins while providing a greater diversity of meal options at various price points, with effective cost control. Our strategic efforts to rebase our cost structure have bolstered the resilience of our brands by making traditionally fixed costs variable. Notably, a majority of our new store leases have variable rent terms. Our rent ratio in 2023 fell to the lowest level in the past decade. Going forward, we are steadfastly committed to continuing to enhance our operational excellence and efficiency.

**2023 Full Year
Restaurant Margin**

16.3%

+220 basis points yoy

Positioned for continued growth in 2024 and beyond

Our vision remains consistent: to maintain our trajectory of robust growth and innovation, to seize new opportunities, and to expand our reach across China's dynamic market.

In 2024, we are planning to open approximately 1,500 to 1,700 net new stores, tapping into rising demand in lower-tier cities while continuing to grow our presence in higher-tier cities. We intend to continue our focus on innovative new menu options while broadening our product offerings and price points to attract a greater diversity of customers. We also plan to continue to deliver exciting and engaging campaigns, leveraging both online and traditional marketing channels. These initiatives will not only expand our customer base but also drive incremental sales, solidifying our position as a market leader. Meanwhile, we plan to continue to invest in technology, operational and supply chain capabilities to optimize our cost base, further improve resilience and fortify our strategic moat.

Yum China Total Store Count (2017-2023)



As a purpose-driven company and a leader in our industry, we embrace our responsibilities to the communities we serve, and we are committed to sustainable practices across our value chain. In 2023, we strengthened our sustainability governance and enhanced Board-level oversight of sustainability-related issues. We have integrated Environmental, Social, and Governance (ESG) into our leadership team's performance metrics, driving positive impact for both our business and society at large.

We are making strides in our transition to renewable energy. In 2023, we inaugurated our first 100% renewable-powered logistics center and launched a Distributed Photovoltaic and Virtual Green Power Purchase Alliance with 40 key suppliers. We are also making strides to support the circular economy. A particularly exciting initiative is our recycling of coffee grounds into environment-friendly baskets and trays. 95% of our KFC stores recycle their used coffee grounds and 1,500 stores are now using these baskets and trays made from recycled grounds.

As we look to the future, we remain steadfast in our pursuit of excellence and innovation, and unwavering in our commitment to achieving our three-year growth targets and generating long-term sustainable value for our stockholders.

Joey Wat

Chief Executive Officer

“\$” refers to U.S. Dollar. “yoy” refers to “year over year.”

This letter contains “forward-looking statements”. We intend all forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Refer to page 1 of our Annual Report on Form 10-K for additional information.

