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 March 31, 2022

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**	**Yum China Building** **20 Tian Yao 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	YUMC	New York Stock Exchange
	9987	The Stock Exchange of Hong Kong Limited

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 every Interactive Data File required to be submitted 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 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	☐	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 May 2, 2022 was 421,430,362 shares.

Yum China Holdings, Inc.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Quarter Ended	
Revenues	**3/31/2022**	**3/31/2021**
Company sales	$ 2,548	$ 2,331
Franchise fees and income	24	42
Revenues from transactions with franchisees and unconsolidated affiliates	77	171
Other revenues	19	13
Total revenues	2,668	2,557
Costs and Expenses, Net		
Company restaurants		
Food and paper	792	704
Payroll and employee benefits	667	544
Occupancy and other operating expenses	738	648
Company restaurant expenses	2,197	1,896
General and administrative expenses	151	130
Franchise expenses	10	17
Expenses for transactions with franchisees and unconsolidated affiliates	75	169
Other operating costs and expenses	17	11
Closures and impairment expenses (income), net	2	(2)
Other expenses (income), net	25	(6)
Total costs and expenses, net	2,477	2,215
Operating Profit	191	342
Interest income, net	12	15
Investment loss	(37)	(12)
Income Before Income Taxes and Equity in Net Earnings (Losses) from Equity Method Investments	166	345
Income tax provision	(55)	(102)
Equity in net earnings (losses) from equity method investments	(1)	—
Net income – including noncontrolling interests	110	243
Net income – noncontrolling interests	10	13
Net Income – Yum China Holdings, Inc.	$ 100	$ 230
Weighted-average common shares outstanding (in millions):		
Basic	426	420
Diluted	430	434
Basic Earnings Per Common Share	$ 0.23	$ 0.55
Diluted Earnings Per Common Share	$ 0.23	$ 0.53

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Quarter Ended	
	3/31/2022	**3/31/2021**
Net income – including noncontrolling interests	$ 110	$ 243
Other comprehensive income (loss), net of tax of nil:		
Foreign currency translation adjustments	13	(18)
Comprehensive income – including noncontrolling interests	123	225
Comprehensive income – noncontrolling interests	12	12
Comprehensive Income – Yum China Holdings, Inc.	$ 111	$ 213

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Quarter Ended	
	3/31/2022	**3/31/2021**
Cash Flows – Operating Activities		
Net income – including noncontrolling interests	$ 110	$ 243
Depreciation and amortization	164	128
Non-cash operating lease cost	120	101
Closures and impairment expenses (income)	2	(2)
Investment loss	37	12
Equity income from investments in unconsolidated affiliates	—	(17)
Distributions of income received from unconsolidated affiliates	—	11
Deferred income taxes	1	15
Share-based compensation expense	11	10
Changes in accounts receivable	(2)	(3)
Changes in inventories	88	52
Changes in prepaid expenses and other current assets	38	20
Changes in accounts payable and other current liabilities	(322)	(175)
Changes in income taxes payable	26	51
Changes in non-current operating lease liabilities	(106)	(104)
Other, net	4	(11)
Net Cash Provided by Operating Activities	171	331
Cash Flows – Investing Activities		
Capital spending	(205)	(165)
Purchases of short-term investments	(1,041)	(1,180)
Maturities of short-term investments	1,281	1,258
Acquisition of business, net of cash acquired	(23)	—
Acquisition of equity investment	—	(261)
Other, net	1	1
Net Cash Provided by (Used in) Investing Activities	13	(347)
Cash Flows – Financing Activities		
Repurchase of shares of common stock	(224)	—
Cash dividends paid on common stock	(51)	(50)
Dividends paid to noncontrolling interests	(17)	(1)
Contribution from noncontrolling interests	18	—
Other, net	—	(4)
Net Cash Used in Financing Activities	(274)	(55)
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	1	(3)
Net Decrease in Cash, Cash Equivalents and Restricted Cash	(89)	(74)
Cash, Cash Equivalents and Restricted Cash – Beginning of Period	1,136	1,158
Cash, Cash Equivalents and Restricted Cash – End of Period	$ 1,047	$ 1,084
Supplemental Cash Flow Data		
Cash paid for income tax	23	40
Non-cash Investing and Financing Activities		
Capital expenditures included in accounts payable and other current liabilities	182	151

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Balance Sheets
Yum China Holdings, Inc.
(in US$ millions)

	3/31/2022 (Unaudited)	12/31/2021
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,047	$ 1,136
Short-term investments	2,622	2,860
Accounts receivable, net	70	67
Inventories, net	345	432
Prepaid expenses and other current assets	182	221
Total Current Assets	4,266	4,716
Property, plant and equipment, net	2,231	2,251
Operating lease right-of-use assets	2,546	2,612
Goodwill	2,163	2,142
Intangible assets, net	251	272
Investments in unconsolidated affiliates	305	292
Deferred income tax assets	96	106
Other assets	781	832
Total Assets	$ 12,639	$ 13,223
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	$ 2,008	$ 2,332
Income taxes payable	77	51
Total Current Liabilities	2,085	2,383
Non-current operating lease liabilities	2,214	2,286
Non-current finance lease liabilities	41	40
Deferred income tax liabilities	418	425
Other liabilities	173	167
Total Liabilities	4,931	5,301
Redeemable Noncontrolling Interest	14	14
Equity		
Common stock, $0.01 par value; 1,000 million shares authorized; 449 million shares and 449 million shares issued at March 31, 2022 and December 31, 2021, respectively; 423 million shares and 428 million shares outstanding at March 31, 2022 and December 31, 2021, respectively	4	4
Treasury stock	(1,035)	(803)
Additional paid-in capital	4,704	4,695
Retained earnings	2,941	2,892
Accumulated other comprehensive income	279	268
Total Yum China Holdings, Inc. Stockholders' Equity	6,893	7,056
Noncontrolling interests	801	852
Total Equity	7,694	7,908
Total Liabilities, Redeemable Noncontrolling Interest and Equity	$ 12,639	$ 13,223

See accompanying Notes to Condensed Consolidated Financial Statements.

Notes to Condensed Consolidated Financial Statements (Unaudited)
(Tabular amounts in US$ millions, except as otherwise noted)

Note 1 – Description of 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 owns, franchises or has ownership in entities that own and operate restaurants (also referred to as "stores" or "units") under the KFC, Pizza Hut, Little Sheep, Huang Ji Huang, Lavazza, COFFii & JOY and Taco Bell concepts (collectively, the "concepts"). In connection with the separation of the Company in 2016 from its former parent company, YUM! Brands, Inc. ("YUM"), a master license agreement was entered into between Yum Restaurants Consulting (Shanghai) Company Limited ("YCCL"), a wholly-owned indirect subsidiary of the Company, and YUM, through YRI China Franchising LLC, a subsidiary of YUM, effective from January 1, 2020 and previously through Yum! Restaurants Asia Pte. Ltd., another subsidiary of YUM, from October 31, 2016 to December 31, 2019. Pursuant to the master license agreement, we are the exclusive licensee of KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones as amended in April 2022, Taco Bell brands and their related marks and other intellectual property rights for restaurant services in the People's Republic of China (the "PRC" or "China"), excluding Hong Kong, Macau and Taiwan. The term of the license is 50 years from October 31, 2016 for the KFC and Pizza Hut brands and, subject to achieving certain agreed-upon milestones, 50 years from April 15, 2022 for the Taco Bell brand, 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. 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 intellectual property of Little Sheep, Huang Ji Huang and COFFii & JOY, and pay no license fee related to these concepts.

In the second quarter of 2020, the Company partnered with Luigi Lavazza S.p.A. ("Lavazza Group"), the world renowned family-owned Italian coffee company, and entered into a joint venture to explore and develop the Lavazza coffee shop concept in China. In September 2021, the Company and Lavazza Group entered into agreements for the previously formed joint venture ("Lavazza joint venture") to accelerate the expansion of Lavazza coffee shops in China. Upon execution of these agreements, the Company controls and consolidates the joint venture with its 65% equity interest. The acquisition was considered immaterial.

During the fourth quarter of 2021, the Company completed its investment of a 28% equity interest in Hangzhou Catering Service Group ("Hangzhou Catering"), for cash consideration of $255 million. Upon closing, the Company directly and indirectly holds an approximately 60% equity interest in the Hangzhou KFC joint venture that operates KFC stores in and around Hangzhou, China ("Hangzhou KFC"), allowing the Company to consolidate Hangzhou KFC. The acquisition was considered immaterial.

As part of our strategy to drive growth from off-premise occasions, we have also developed our own retail brand operations, SoulFun, since 2018, which sells ready meals such as steak, fried rice and pasta through online and offline channels. The operating results of SoulFun are included in our e-commerce business operating segment.

The Company has two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of Little Sheep, Huang Ji Huang, Lavazza, COFFii & JOY, Taco Bell, East Dawning, Daojia and our e-commerce business, are combined and referred to as All Other Segments, as those operating segments are insignificant both individually and in the aggregate. East Dawning was severely impacted by the COVID-19 pandemic. As a result, the Company decided to wind down the operations of the brand in 2021. In the first quarter of 2022, the Company closed all five remaining East Dawning units in China. Additional details on our reportable operating segments are included in Note 14.

The Company's common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "YUMC". On September 10, 2020, the Company completed a secondary listing of its common stock on the Main Board of the Hong Kong Stock Exchange ("HKEX") under the stock code "9987", in connection with a global offering of 41,910,700 shares of its common stock. Net proceeds raised by the Company from the global offering after deducting underwriting fees and the offering expenses amounted to $2.2 billion.

Note 2 – Basis of Presentation

Our preparation of the accompanying Condensed Consolidated 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.

We have prepared the Condensed Consolidated 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 Financial Statements include all normal and recurring adjustments considered necessary to present fairly our financial position as of March 31, 2022, and our results of operations, comprehensive income and cash flows for the quarters ended March 31, 2022 and 2021. 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 financial statements and notes thereto included in the Company's Annual Report on Form 10-K as filed with the SEC on February 28, 2022.

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 is entitled to substantially all of the profits and has the obligation to absorb 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.

The results of the Lavazza joint venture and Hangzhou KFC's operations have been included in the Company's Condensed Consolidated Financial Statements since the acquisition dates.

<u>Recently Adopted Accounting Pronouncements</u>

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-06, *Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40)* ("ASU 2020-06"), which eliminates two of the three models in ASC 470-20 that require separate accounting for embedded conversion features and eliminates some of the conditions for equity classification in ASC 815-40 for contracts in an entity's own equity. The guidance also requires entities to use the if-converted method for all convertible instruments in the diluted earnings per share calculation and generally requires them to include the effect of share settlement for instruments that may be settled in cash or shares. We adopted this standard on January 1, 2022, and such adoption did not have a material impact on our financial statements.

In May 2021, the FASB issued ASU 2021-04, *Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options* ("ASU 2021-04"). It requires issuers to account for a modification or exchange of freestanding equity-classified written call options that remain equity-classified after the modification or exchange based on the economic substance of the modification or exchange. We adopted this standard on January 1, 2022, and such adoption did not have a material impact on our financial statements.

In July 2021, the FASB issued ASU 2021-05, *Lessors — Certain Leases with Variable Lease* ("ASU 2021-05"). It requires lessors to classify leases as operating leases if they have variable lease payments that do not depend on an index or rate and would have selling losses if they were classified as sales-type or direct financing leases. We adopted this standard on January 1, 2022, and such adoption did not have a material impact on our financial statements.

Note 3 – Business Acquisitions and Equity Investments

Consolidation of Hangzhou KFC and Equity Investment in Hangzhou Catering

During the fourth quarter of 2021, the Company completed its investment of a 28% equity interest in Hangzhou Catering for cash consideration of $255 million. Hangzhou Catering holds a 45% equity interest in Hangzhou KFC, of which the Company previously held a 47% equity interest. Along with the investment, the Company also obtained two additional seats on the board of directors of Hangzhou KFC. Upon completion of the transaction, the Company directly and indirectly holds an approximately 60% equity interest in Hangzhou KFC and has majority representation on its board of directors, and thus obtained control over Hangzhou KFC and started to consolidate its results from the acquisition date.

As a result of the acquisition of Hangzhou KFC, $66 million of the purchase price was allocated to the reacquired franchise right, which is amortized over the remaining franchise contract period of 1 year.

In addition to its equity interest in Hangzhou KFC, Hangzhou Catering operates approximately 60 Chinese dining restaurants under four time-honored brands and a food processing business. The Company applies the equity method of accounting to the 28% equity interest in Hangzhou Catering excluding the Hangzhou KFC business and classified this investment in Investment in unconsolidated affiliates based on its then fair value. The Company elected to report its share of Hangzhou Catering's financial results with a one-quarter lag because its results are not available in time for the Company to record them in the concurrent period. In the first quarter of 2022, the Company's equity losses from Hangzhou Catering, net of taxes, was immaterial, which was included in Equity in net earnings (losses) from equity method investments in our Condensed Consolidated Statement of Income. As of March 31, 2022, the carrying amount of the Company's equity method investment in Hangzhou Catering was $52 million, exceeding the Company's interest in Hangzhou Catering's underlying net assets by $30 million. Substantially all of this difference was attributable to its self-owned properties and impact of related deferred tax liabilities determined upon acquisition, which is being depreciated over a weighted average remaining useful life of 20 years.

Fujian Sunner Development Co., Ltd. ("Sunner") Investment

In the first quarter of 2021, the Company acquired a 5% equity interest in Sunner, a Shenzhen Stock Exchange-listed company, for total consideration of approximately $261 million. Sunner is China's largest white-feathered chicken producer and the Company's largest poultry supplier.

The Company accounted for the equity securities at fair value based on their closing market price on each measurement date, with unrealized loss of $17 million recorded in Investment loss in our Condensed Consolidated Statements of Income for the quarter ended March 31, 2021, representing subsequent fair value changes during the quarter.

In May 2021, a senior executive of the Company was nominated and appointed to Sunner's board of directors upon Sunner's shareholder approval. Through this representation, the Company participates in Sunner's policy making process. The representation on Sunner's board, along with the Company being Sunner's second largest shareholder, provides the Company with the ability to exercise significant influence over the operating and financial policies of Sunner. As a result, the Company started to apply the equity method of accounting to the investment and reclassified this investment from Other assets to Investment in unconsolidated affiliates in May 2021 based on its then fair value. The Company elected to report its share of Sunner's financial results with a one-quarter lag because Sunner's results are not available in time for the Company to record them in the concurrent period. In the first quarter of 2022, the Company's equity income from Sunner, net of taxes, was immaterial, which was included in Equity in net earnings (losses) from equity method investments in our Condensed Consolidated Statement of Income.

The Company purchased inventories of $92 million from Sunner for the quarter ended March 31, 2022, and the Company's accounts payable and other current liabilities due to Sunner were $33 and $56 million as of March 31, 2022 and December 31, 2021, respectively.

As of March 31, 2022, the carrying amount of the Company's investment in Sunner was $250 million, exceeding the Company's interest in Sunner's underlying net assets by $172 million. Of this basis difference, $20 million was related to finite-lived intangible assets determined upon acquisition, which are being amortized over estimated useful life of 20 years. The remaining differences were related to goodwill and indefinite-lived intangible assets, which are not subject to amortization, as well as deferred tax liabilities impact. As of March 31, 2022, the market value of the Company's investment in Sunner was $195 million based on its quoted closing price.

Meituan Dianping (“Meituan”) Investment

In the third quarter of 2018, the Company subscribed for 8.4 million, or less than 1%, of the ordinary shares of Meituan, an e-commerce platform for services in China, for total consideration of approximately $74 million, when it launched its initial public offering on the HKEX in September 2018. In the second quarter of 2020, the Company sold 4.2 million of the ordinary shares of Meituan.

The Company accounts for the equity securities at fair value with subsequent fair value changes recorded in our Condensed Consolidated Statements of Income. The fair value of the investment in Meituan is determined based on the closing market price for the shares at the end of each reporting period. The fair value change, to the extent the closing market price of shares of Meituan as of the end of reporting period is higher than our cost, is subject to U.S. tax.

A summary of pre-tax gains or losses on investment in equity securities of Meituan recognized, which was included in Investment loss in our Condensed Consolidated Statements of Income, is as follows:

	Quarter Ended	
	3/31/2022	3/31/2021
Unrealized (losses) gains recorded on equity securities still held as of the end of the period	$ (38)	$ 1
(Losses) gains recorded on equity securities	$ (38)	$ 1

Note 4 – Revenue Recognition

The Company’s revenues primarily include Company sales, Franchise fees and income and Revenues from transactions with franchisees and unconsolidated affiliates.

Company Sales

Revenues from Company-owned restaurants are recognized when a customer takes possession of the food and tenders payment, which is when our obligation to perform is satisfied. The Company presents sales net of sales-related taxes. We also offer our customers delivery through both our own mobile applications and third-party aggregators’ platforms. For delivery orders placed through our mobile applications, we use our dedicated riders, while for orders placed through third-party aggregators’ platforms, we either used our dedicated riders or third-party aggregators’ delivery staff in the past. With respect to delivery orders delivered by our dedicated riders, we control and determine the price for the delivery service and generally recognize revenue, including delivery fees, when a customer takes possession of the food. When orders are fulfilled by the delivery staff of third-party aggregators, who control and determine the price for the delivery service, we recognize revenue, excluding delivery fees, when control of the food is transferred to the third-party aggregators’ delivery staff. The payment terms with respect to these sales are short-term in nature. Starting in 2019, we use our own dedicated riders to deliver orders placed through aggregators’ platforms to customers of KFC and Pizza Hut stores.

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

Our privilege membership programs offer privilege members rights to multiple benefits, such as free delivery and discounts on certain products. For certain KFC and Pizza Hut privilege membership programs offering a pre-defined amount of benefits that can be redeemed ratably over the membership period, revenue is ratably recognized over the period based on the elapse of time. With respect to the KFC and Pizza Hut family privilege membership program offering members a mix of distinct benefits, including a welcome gift and assorted discount coupons with pre-defined quantities, consideration collected is allocated to the benefits provided based on their relative standalone selling price and revenue is recognized when food or services are delivered or the benefits expire. In determining the relative standalone selling price of the benefits, the Company considers likelihood of future redemption based on historical redemption pattern and reviews such estimates periodically based upon the latest available information regarding redemption and expiration patterns.

Franchise Fees and Income

Franchise fees and income primarily include upfront franchise fees, such as initial fees and renewal fees, and continuing fees. We have determined that the services we provide in exchange for upfront franchise fees and continuing fees are highly interrelated with the franchise right. We recognize upfront franchise fees received from a franchisee as revenue over the term of the franchise agreement or the renewal agreement because the franchise rights are accounted for as rights to access our symbolic intellectual property. The franchise agreement term is generally 10 years for KFC and Pizza Hut, five or 10 years for Little Sheep and three or 10 years for Huang Ji Huang. We recognize continuing fees, which are based upon a percentage of franchisee sales, as those sales occur.

Revenues from Transactions with Franchisees and Unconsolidated Affiliates

Revenues from transactions with franchisees and unconsolidated affiliates consist primarily of sales of food and paper products, advertising services and other services provided to franchisees and unconsolidated affiliates that operate our concepts.

The Company centrally purchases substantially all food and paper products from suppliers for substantially all of our restaurants, including franchisees and unconsolidated affiliates that operate our concepts, and then sells and delivers them to the restaurants. In addition, the Company owns seasoning facilities for its Chinese dining business unit, which manufacture and sell seasoning products to Huang Ji Huang and Little Sheep franchisees. The performance obligation arising from such transactions is considered distinct from the franchise agreement as it is not highly dependent on the franchise agreement and the customer can benefit from the procurement service on its own. We consider ourselves the principal in this arrangement as we have the ability to control a promised good or service before transferring that good or service to the franchisees and unconsolidated affiliates that operate our concepts. Revenue is recognized upon transfer of control over ordered items, generally upon delivery to the franchisees and unconsolidated affiliates.

For advertising services, the Company often engages third parties to provide services and acts as a principal in the transaction based on our responsibilities of defining the nature of the services and administering and directing all marketing and advertising programs in accordance with the provisions of our franchise agreements. The Company collects advertising contributions, which are generally based on certain percentage of sales from substantially all of our restaurants, including franchisees and unconsolidated affiliates. Other services provided to franchisees and unconsolidated affiliates consist primarily of customer and technology support services. Advertising services and other services provided are highly interrelated to franchise right, and are not considered individually distinct. We recognize revenue when the related sales occur.

Loyalty Programs

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

Disaggregation of Revenue

The following table presents revenue disaggregated by types of arrangements and segments:

	Quarter Ended 3/31/2022						
Revenues	**KFC**	**Pizza Hut**	**All Other Segments**	**Corporate and Unallocated**	**Combined**	**Elimination**	**Consolidated**
Company sales	$ 1,991	$ 542	$ 15	$ —	$ 2,548	$ —	$ 2,548
Franchise fees and income	16	2	6	—	24	—	24
Revenues from transactions with franchisees and unconsolidated affiliates	8	1	11	57	77	—	77
Other revenues	2	2	131	10	145	(126)	19
Total revenues	$ 2,017	$ 547	$ 163	$ 67	$ 2,794	$ (126)	$ 2,668

	Quarter Ended 3/31/2021						
Revenues	**KFC**	**Pizza Hut**	**All Other Segments**	**Corporate and Unallocated**	**Combined**	**Elimination**	**Consolidated**
Company sales	$ 1,783	$ 538	$ 10	$ —	$ 2,331	$ —	$ 2,331
Franchise fees and income	33	2	7	—	42	—	42
Revenues from transactions with franchisees and unconsolidated affiliates	15	1	26	129	171	—	171
Other revenues	1	—	35	2	38	(25)	13
Total revenues	$ 1,832	$ 541	$ 78	$ 131	$ 2,582	$ (25)	$ 2,557

Accounts Receivable

Accounts receivable primarily consist of trade receivables and royalties from franchisees, and are generally due within 30 days of the period in which the corresponding sales occur and are classified as Accounts receivable on the Condensed Consolidated Balance Sheets. Our provision of credit losses for accounts receivable is based upon the current expected credit losses ("CECL") model. The CECL model requires an estimate of the credit losses expected over the life of accounts receivable since initial recognition, and accounts receivable with similar risk characteristics are grouped together when estimating CECL. In assessing the CECL, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical credit loss experience, adjusted for relevant factors impacting collectability and forward-looking information indicative of external market conditions. While we use the best information available in making our determination, the ultimate recovery of recorded receivables is also dependent upon future economic events and other conditions that may be beyond our control. Accounts receivable that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts. As of March 31, 2022 and December 31, 2021, the ending balances of provision for accounts receivable were both $1 million and amounts of accounts receivable past due were immaterial. Accounts receivable due from unconsolidated affiliates were both insignificant as of March 31, 2022 and December 31, 2021.

Costs to Obtain Contracts

Costs to obtain contracts consist of upfront franchise fees that we paid to YUM prior to the separation in relation to initial fees or renewal fees we received from franchisees and unconsolidated affiliates that operate our concepts, as well as license fees that are payable to YUM in relation to our deferred revenue of prepaid stored-value products, privilege membership programs and customer loyalty programs. They meet the requirements to be capitalized as they are incremental costs of obtaining contracts with customers and the Company expects to generate future economic benefits from such costs incurred. Such costs to obtain contracts are included in Other assets on the Condensed Consolidated Balance Sheets and are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. Subsequent to the separation, we are no longer required to pay YUM initial or renewal fees that we receive from franchisees and unconsolidated affiliates. The Company did not incur any impairment losses related to costs to obtain contracts during any of the periods presented. Costs to obtain contracts were $6 million and $7 million at March 31, 2022 and December 31, 2021, respectively.

Contract Liabilities

Contract liabilities at March 31, 2022 and December 31, 2021 were as follows:

Contract liabilities	**3/31/2022**	**12/31/2021**
– Deferred revenue related to prepaid stored-value products	$ 128	$ 134
– Deferred revenue related to upfront franchise fees	31	30
– Deferred revenue related to customer loyalty programs	26	25
– Deferred revenue related to privilege membership programs	16	18
– Others	—	1
Total	$ 201	$ 208

Contract liabilities primarily consist of deferred revenue related to prepaid stored-value products, privilege membership programs, customer loyalty programs and upfront franchise fees. Deferred revenue related to prepaid stored-value products, privilege membership programs and customer loyalty programs is included in Accounts payable and other current liabilities in the Condensed Consolidated Balance Sheets. Deferred revenue related to upfront franchise fees that we expect to recognize as revenue in the next 12 months is included in Accounts payable and other current liabilities, and the remaining balance is included in Other liabilities in the Condensed Consolidated Balance Sheets. Revenue recognized that was included in the contract liability balance at the beginning of each period amounted to $62 million and $71 million for the quarters ended March 31, 2022 and 2021, respectively. Changes in contract liability balances were not materially impacted by business acquisition, change in estimate of transaction price or any other factors during any of the periods presented.

The Company has elected, as a practical expedient, not to disclose the value of remaining performance obligations associated with sales-based royalty promised to franchisees in exchange for the franchise right and other related services. The remaining duration of the performance obligation is the remaining contractual term of each franchise agreement. We recognize continuing franchisee fees and revenues from advertising services and other services provided to franchisees and unconsolidated affiliates that operate our concepts based on a certain percentage of sales, as those sales occur.

Note 5 – Earnings Per Common Share (“EPS”)

The following table summarizes the components of basic and diluted EPS (in millions, except per share data):

	Quarter Ended	
	3/31/2022	**3/31/2021**
Net Income – Yum China Holdings, Inc.	$ 100	$ 230
Weighted-average common shares outstanding (for basic calculation)[a]	426	420
Effect of dilutive share-based awards[a]	4	6
Effect of dilutive warrants[b]	—	8
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)[a]	430	434
Basic Earnings Per Common Share	$ 0.23	$ 0.55
Diluted Earnings Per Common Share	$ 0.23	$ 0.53
Share-based awards excluded from the diluted EPS computation[c]	3	2

(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 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 incremental shares arising from outstanding equity awards are included in the computation of diluted EPS, if there is dilutive effect. In September 2020, 41,910,700 common shares were issued as a result of the Company’s global offering and secondary listing on the HKEX and they were included in the calculated weighted-average common shares outstanding.

(b) Pursuant to the investment agreements dated September 1, 2016, Yum China issued to strategic investors two tranches of warrants on January 9, 2017, with each tranche initially providing the right to purchase 8,200,405 shares of Yum China common stock, at an initial exercise price of $31.40 and $39.25 per share, respectively, subject to customary anti-dilution adjustments. The warrants were exercisable at any time through October 31, 2021. The incremental shares arising from outstanding warrants were included in the computation of diluted EPS, if there is dilutive effect when the average market price of Yum China common stock for the periods exceeds the applicable exercise price of the warrants. During the second half of 2021, an aggregate of 7,534,316 common shares were issued as a result of the cashless exercise of all warrants outstanding, which upon exercise were excluded from the calculation of dilutive warrants and included in the weighted-average common shares outstanding.

(c) These outstanding stock appreciation rights (“SARs”), restricted stock units (“RSUs”) and performance stock units (“PSUs”) were excluded from the computation of diluted EPS because to do so would have been antidilutive for the quarters presented, or because certain PSUs are contingently issuable based on the achievement of performance and market conditions, which have not been met as of March 31, 2022 and 2021.

Note 6 – Equity

Changes in Equity and Redeemable Noncontrolling Interest (in millions)

	Yum China Holdings, Inc.									
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interest
	Shares	Amount				Shares	Amount			
Balance at December 31, 2021	**449**	**$ 4**	**$ 4,695**	**$ 2,892**	**$ 268**	**(21)**	**$ (803)**	**$ 852**	**$ 7,908**	**$ 14**
Net Income				100				10	110	—
Foreign currency translation adjustments					11			2	13	—
Comprehensive income									123	—
Cash dividends declared ($0.12 per common share)				(51)					(51)	
Dividends declared								(81)	(81)	
Contribution from noncontrolling interests								18	18	
Repurchase of shares of common stock						(5)	(232)		(232)	
Exercise and vesting of share-based awards	—	—	(2)						(2)	
Share-based compensation			11						11	
Balance at March 31, 2022	**449**	**$ 4**	**$ 4,704**	**$ 2,941**	**$ 279**	**(26)**	**$ (1,035)**	**$ 801**	**$ 7,694**	**$ 14**
Balance at December 31, 2020	**440**	**$ 4**	**$ 4,658**	**$ 2,105**	**$ 167**	**(20)**	**$ (728)**	**$ 253**	**$ 6,459**	**$ 12**
Net Income				230				13	243	—
Foreign currency translation adjustments					(17)			(1)	(18)	—
Comprehensive income									225	—
Cash dividends declared ($0.12 per common share)				(50)					(50)	
Dividends declared								(39)	(39)	
Exercise and vesting of share-based awards	—	—	(4)						(4)	
Share-based compensation			10						10	
Balance at March 31, 2021	**440**	**$ 4**	**$ 4,664**	**$ 2,285**	**$ 150**	**(20)**	**$ (728)**	**$ 226**	**$ 6,601**	**$ 12**

Share Repurchase Program

Our Board of Directors has authorized an aggregate of $2.4 billion for our share repurchase program, including its most recent increase in authorization in March 2022. The Company repurchased 5 million shares of Yum China common stock at a total cost of $232 million during the quarter ended March 31, 2022, and no shares of Yum China common stock were repurchased for the quarter ended March 31, 2021. The total repurchase cost included $8 million settled subsequent to March 31, 2022, for shares repurchased with trade dates on and prior to March 31, 2022. As of March 31, 2022, $1,385 million remained available for future share repurchases under the authorization.

Note 7 – Items Affecting Comparability of Net Income

Impact of COVID-19 Pandemic

Starting in the first quarter of 2020, the COVID-19 pandemic significantly impacted the Company's operations. The highly transmissible Omicron variant caused significant volatility in the Company's business operations in the first quarter of 2022. After a relatively stable period in January and February, the situation rapidly deteriorated in March, resulting in the largest outbreak in China since COVID-19 first emerged in early 2020. Operating profit was $191 million and $342 million for the quarters ended March 31, 2022 and 2021, respectively. The decrease in Operating profit for the quarter was mainly driven by same-store sales declines and temporary store closures resulting from the COVID-19 pandemic.

Fair Value Changes for Investment in Equity Securities

In September 2018, we invested in the equity securities of Meituan, the fair value of which is determined based on the closing market price for the shares at the end of each reporting period, with subsequent fair value changes recorded in our Condensed Consolidated Statements of Income. We recorded related pre-tax loss of $38 million and related pre-tax gain of $1 million for the quarters ended March 31, 2022 and 2021, respectively.

In the first quarter of 2021, we invested in a 5% equity interest in Sunner. The investment in Sunner was recorded at fair value based on its closing market price on each measurement date before it became subject to the equity method of accounting when the Company established significant influence over the operating and financial policies of Sunner in May 2021. We recorded related pre-tax loss of $17 million for the quarter ended March 31, 2021, representing changes in fair value during the quarter.

See Note 3 for additional information on our investment in Meituan and Sunner.

Note 8 – Other Expenses (Income), net

	Quarter Ended	
	3/31/2022	**3/31/2021**
Equity income from investments in unconsolidated affiliates[(a)]	$ —	$ (17)
Amortization of reacquired franchise rights[(b)]	26	9
Foreign exchange impact and others	(1)	2
Other expenses (income), net	$ 25	$ (6)

(a) Includes equity income from our investments in Hangzhou KFC and the Lavazza joint venture before we consolidated the results of these entities upon completion of the acquisitions in 2021. (See Note 3 for additional information).

(b) Increase in amortization of reacquired franchise rights resulted from the acquisition of Hangzhou KFC as disclosed in Note 3, with $66 million of the purchase price allocated to intangible assets related to reacquired franchise right, which is being amortized over the remaining franchise contract period of 1 year.

Note 9 – Supplemental Balance Sheet Information

Accounts Receivable, net	3/31/2022	12/31/2021
Accounts receivable, gross	$ 71	$ 68
Allowance for doubtful accounts	(1)	(1)
Accounts receivable, net	$ 70	$ 67

Prepaid Expenses and Other Current Assets	3/31/2022	12/31/2021
Receivables from payment processors and aggregators	$ 28	$ 45
Other prepaid expenses and current assets	154	176
Prepaid expenses and other current assets	$ 182	$ 221

Property, Plant and Equipment	3/31/2022	12/31/2021
Buildings and improvements	$ 2,776	$ 2,695
Finance leases, primarily buildings	55	52
Machinery and equipment, and construction in progress	1,864	1,878
Property, plant and equipment, gross	4,695	4,625
Accumulated depreciation	(2,464)	(2,374)
Property, plant and equipment, net	$ 2,231	$ 2,251

Other Assets	3/31/2022	12/31/2021
VAT assets	$ 324	$ 322
Land use right	137	138
Long-term deposits	101	101
Investment in long-term time deposits[(a)]	91	90
Investment in equity securities	84	122
Costs to obtain contracts	6	7
Others	38	52
Other Assets	$ 781	$ 832

Accounts Payable and Other Current Liabilities	3/31/2022	12/31/2021
Accounts payable	$ 592	$ 830
Operating lease liabilities	497	508
Accrued compensation and benefits	217	283
Accrued capital expenditures	182	269
Contract liabilities	174	182
Dividends payable	117	38
Accrued marketing expenses	86	71
Other current liabilities	143	151
Accounts payable and other current liabilities	$ 2,008	$ 2,332

Other Liabilities	3/31/2022	12/31/2021
Accrued income tax payable	$ 61	$ 56
Contract liabilities	27	26
Other non-current liabilities	85	85
Other liabilities	$ 173	$ 167

(a) As of March 31, 2022 and December 31, 2021, the Company had $91 million and $90 million invested in long-term time deposits, respectively, bearing a fixed interest rate, with original maturity of three years. The asset is restricted for use in order to secure the balance of prepaid stored-value cards issued by the Company pursuant to regulatory requirements.

Note 10 – Goodwill and Intangible Assets

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

	Total Company	KFC	Pizza Hut	All Other Segments
Balance as of December 31, 2021				
Goodwill, gross	$ 2,533	$ 2,040	$ 20	$ 473
Accumulated impairment losses [(a)]	(391)	—	—	(391)
Goodwill, net	2,142	2,040	20	82
Goodwill acquired[(b)]	16	15	1	—
Effect of currency translation adjustment	5	5	—	—
Balance as of March 31, 2022				
Goodwill, gross	2,554	2,060	21	473
Accumulated impairment losses [(a)]	(391)	—	—	(391)
Goodwill, net	$ 2,163	$ 2,060	$ 21	$ 82

(a) Accumulated impairment losses represent goodwill impairment attributable to the reporting units of Little Sheep and Daojia.

(b) Goodwill acquired resulted from the acquisition of restaurants from our existing franchisees. The acquisition is considered immaterial.

Intangible assets, net as of March 31, 2022 and December 31, 2021 are as follows:

	3/31/2022				12/31/2021			
	Gross Carrying Amount[(a)]	Accumulated Amortization	Accumulated Impairment Losses[(b)]	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment Losses[(b)]	Net Carrying Amount
Finite-lived intangible assets								
Reacquired franchise rights	$ 300	$ (217)	$ —	$ 83	$ 295	$ (191)	$ —	$ 104
Huang Ji Huang franchise related assets	23	(2)	—	21	23	(2)	—	21
Daojia platform	16	(4)	(12)	—	16	(4)	(12)	—
Customer-related assets	12	(9)	(2)	1	12	(9)	(2)	1
Others	10	(5)	—	5	10	(5)	—	5
	$ 361	$ (237)	$ (14)	$ 110	$ 356	$ (211)	$ (14)	$ 131
Indefinite-lived intangible assets								
Little Sheep trademark	$ 57	$ —	$ —	$ 57	$ 57	$ —	$ —	$ 57
Huang Ji Huang trademark	84	—	—	84	84	—	—	84
	$ 141	$ —	$ —	$ 141	$ 141	$ —	$ —	$ 141
Total intangible assets	$ 502	$ (237)	$ (14)	$ 251	$ 497	$ (211)	$ (14)	$ 272

(a) Changes in gross carrying amount include effect of currency translation adjustments.

(b) Accumulated impairment losses represent impairment charges on intangible assets acquired from Daojia primarily attributable to the Daojia platform.

Amortization expense of finite-lived intangible assets was $26 million and $10 million for the quarters ended March 31, 2022 and 2021, respectively. As of March 31, 2022, expected amortization expense for the unamortized finite-lived intangible assets is approximately $78 million for the remainder of 2022, $4 million in 2023, and $2 million in each of 2024, 2025 and 2026. Increase in amortization expenses for finite-lived intangible assets in 2022 primarily relates to reacquired franchise rights resulting from the acquisition of Hangzhou KFC (Note 3).

Note 11 – Leases

As of March 31, 2022, we leased over 10,300 properties in China for our Company-owned restaurants. We generally enter into lease agreements for our restaurants with initial terms of 10 to 20 years. Most of our lease agreements contain termination options that permit us to terminate the lease agreement early if the restaurant's unit contribution is negative for a specified period of time. We generally do not have renewal options for our leases. Such options are accounted for only when it is reasonably certain that we will exercise the options. The rent under the majority of our current restaurant lease agreements is generally payable in one of three ways: (i) fixed rent; (ii) the higher of a fixed base rent or a percentage of the restaurant's sales; or (iii) a percentage of the restaurant's sales. Most leases require us to pay common area maintenance fees for the leased property. In addition to restaurants leases, we also lease office spaces, logistics centers and equipment. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In limited cases, we sub-lease certain restaurants to franchisees in connection with refranchising transactions or lease our properties to other third parties. The lease payments under these leases are generally based on the higher of a fixed base rent or a percentage of the restaurant's annual sales. Income from sub-lease agreements with franchisees or lease agreements with other third parties are included in Franchise fees and income and Other revenues, respectively, within our Condensed Consolidated Statements of Income.

Supplemental Balance Sheet	**3/31/2022**	**12/31/2021**	**Account Classification**
Assets			
Operating lease right-of-use assets	$ 2,546	$ 2,612	Operating lease right-of-use assets
Finance lease right-of-use assets	35	33	Property, plant and equipment, net
Total leased assets	$ 2,581	$ 2,645	
Liabilities			
Current			
Operating lease liabilities	$ 497	$ 508	Accounts payable and other current liabilities
Finance lease liabilities	4	3	Accounts payable and other current liabilities
Non-current			
Operating lease liabilities	2,214	2,286	Non-current operating lease liabilities
Finance lease liabilities	41	40	Non-current finance lease liabilities
Total lease liabilities	$ 2,756	$ 2,837	

Summary of Lease Cost	**Quarter Ended**		
	3/31/2022	**3/31/2021**	**Account Classification**
Operating lease cost	$ 157	$ 136	Occupancy and other operating expenses, G&A or Franchise expenses
Finance lease cost			
Amortization of leased assets	1	1	Occupancy and other operating expenses
Variable lease cost[(a)]	96	95	Occupancy and other operating expenses or Franchise expenses
Short-term lease cost	3	2	Occupancy and other operating expenses or G&A
Sub-lease income	(6)	(8)	Franchise fees and income or Other revenues
Total lease cost	$ 251	$ 226	

(a) The Company was granted $3 million and $5 million in lease concessions from landlords related to the effects of the COVID-19 pandemic during the quarters ended March 31, 2022 and 2021, respectively. The lease concessions were primarily in the form of rent reduction over the period of time when the Company's restaurant business was adversely impacted. The Company applied the interpretive guidance in a FASB staff Q&A document issued in April 2020 and elected: (1) not to evaluate whether a concession received in response to the COVID-19 pandemic is a lease modification and (2) to assume such concession was contemplated as part of the existing lease contract with no contract modification. Such concession was recognized as negative variable lease cost in the period the concession was granted.

Supplemental Cash Flow Information	Quarter Ended	
	3/31/2022	3/31/2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 155	$ 144
Operating cash flows from finance leases	1	—
Financing cash flows from finance leases	1	1
Right-of-use assets obtained in exchange for new lease liabilities[b]:		
Operating leases	$ 28	$ 78
Finance leases	3	—

(b) This supplemental non-cash disclosure for right-of-use ("ROU") assets obtained in exchange for new lease liabilities also includes non-cash transactions resulting in adjustments to the lease liability or ROU asset due to modification or other reassessment events.

Lease Term and Discount Rate	3/31/2022	3/31/2021
Weighted-average remaining lease term (years)		
Operating leases	7.1	6.9
Finance leases	11.4	10.9
Weighted-average discount rate		
Operating leases	5.4%	5.8%
Finance leases	5.4%	5.8%

Summary of Future Lease Payments and Lease Liabilities

Maturities of lease liabilities as of March 31, 2022 were as follows:

	Amount of Operating Leases	Amount of Finance Leases	Total
Remainder of 2022	$ 484	$ 5	$ 489
2023	548	6	554
2024	480	6	486
2025	406	5	411
2026	345	5	350
Thereafter	1,015	34	1,049
Total undiscounted lease payment	3,278	61	3,339
Less: imputed interest[c]	567	16	583
Present value of lease liabilities	$ 2,711	$ 45	$ 2,756

(c) As the rate implicit in the lease cannot be readily determined, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the imputed interest and present value of lease payments. We used the incremental borrowing rate on January 1, 2019 for operating leases that commenced prior to that date.

As of March 31, 2022, we have additional lease agreements that have been signed but not yet commenced, with total undiscounted minimum lease payments of $168 million. These leases will commence between the second quarter of 2022 and 2026 with lease terms of 1 year to 20 years.

Note 12 – Fair Value Measurements and Disclosures

The Company's financial assets and liabilities primarily consist of cash and cash equivalents, short-term investments, long-term time deposits, accounts receivable, accounts payable and lease liabilities, and the carrying values of these assets and liabilities approximate their fair value in general.

The Company accounts for its investment in equity securities of Meituan at fair value, which is determined based on the respective closing market price for the shares at the end of each reporting period, with subsequent fair value changes recorded in our Condensed Consolidated Statements of Income.

The following table is a summary of our financial assets measured on a recurring basis or disclosed at fair value and the level within the fair value hierarchy in which the measurement falls. The Company classifies its cash equivalents, short-term investments, long-term time deposits and investment in equity securities within Level 1 or Level 2 in the fair value hierarchy because it uses quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value, respectively. No transfers among the levels within the fair value hierarchy occurred during the quarters ended March 31, 2022 and 2021.

		Fair Value Measurement or Disclosure at March 31, 2022		
	Balance at March 31, 2022	**Level 1**	**Level 2**	**Level 3**
Cash equivalents:				
Money market funds	$ 41	$ 41		
Fixed income debt securities[(a)]	100		100	
Total cash equivalents	141	41	100	—
Short-term investments:				
Time deposits	1,530		1,530	
Fixed income debt securities[(a)]	950		950	
Structured deposits	142		142	
Total short-term investments	2,622	—	2,622	—
Other assets:				
Investment in equity securities	84	84		
Long-term time deposits	91		91	
Total	$ 2,938	$ 125	$ 2,813	$ —

		Fair Value Measurement or Disclosure at December 31, 2021		
	Balance at December 31, 2021	**Level 1**	**Level 2**	**Level 3**
Cash equivalents:				
Time deposits	$ 321		$ 321	
Money market funds	45	45		
Fixed income debt securities[(a)]	163	63	100	
Total cash equivalents	529	108	421	—
Short-term investments:				
Time deposits	1,726		1,726	
Fixed income debt securities[(a)]	1,055		1,055	
Variable return investments	79	79		
Total short-term investments	2,860	79	2,781	—
Other assets:				
Investment in equity securities	122	122		
Long-term time deposits	90		90	
Total	$ 3,601	$ 309	$ 3,292	$ —

(a) Classified as held-to-maturity investments and measured at amortized cost.

Non-Recurring Fair Value Measurements

In addition, certain of the Company's restaurant-level assets (including operating lease ROU assets, property, plant and equipment), goodwill and intangible assets, are measured at fair value based on unobservable inputs (Level 3) on a non-recurring basis, if determined to be impaired.

We review long-lived assets of restaurants semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. We recorded restaurant-level impairment of nil for both quarters ended March 31, 2022 and 2021, excluding fair value measurements made for restaurants that were subsequently closed or refranchised prior to those respective quarter-end dates.

Note 13 – Income Taxes

	Quarter Ended	
	3/31/2022	3/31/2021
Income tax provision	$ 55	$ 102
Effective tax rate	33.1 %	29.6 %

The higher effective tax rate for the quarter ended March 31, 2022 as compared to prior year was primarily due to higher impact of foreign withholding tax due to lower pre-tax income and less tax benefit from equity income from investments in unconsolidated affiliates.

In December 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "Tax Act"), which included a broad range of tax reforms. The Tax Act requires a U.S. shareholder to be subject to tax on Global Intangible Low Taxed Income ("GILTI") earned by certain foreign subsidiaries. We have elected the option to account for current year GILTI tax as a period cost as incurred, and therefore included it in estimating the annual effective tax rate.

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

Note 14 –Segment Reporting

We have two reportable segments: KFC and Pizza Hut. Our remaining non-reportable operating segments, including the operations of Little Sheep, Huang Ji Huang, Lavazza, COFFii & JOY, Taco Bell, East Dawning, Daojia and our e-commerce business, are combined and referred to as All Other Segments, as these operating segments are insignificant both individually and in aggregate.

	Quarter Ended 3/31/2022						
Revenues	**KFC**	**Pizza Hut**	**All Other Segments**	**Corporate and Unallocated[(a)]**	**Combined**	**Elimination**	**Consolidated**
Revenue from external customers	$ 2,017	$ 547	$ 41	$ 63	$ 2,668	$ —	$ 2,668
Inter-segment revenue	—	—	122	4	126	(126)	—
Total	$ 2,017	$ 547	$ 163	$ 67	$ 2,794	$ (126)	$ 2,668

	Quarter Ended 3/31/2021						
Revenues	**KFC**	**Pizza Hut**	**All Other Segments**	**Corporate and Unallocated[(a)]**	**Combined**	**Elimination**	**Consolidated**
Revenue from external customers	$ 1,832	$ 541	$ 53	$ 131	$ 2,557	$ —	$ 2,557
Inter-segment revenue	—	—	25	—	25	(25)	—
Total	$ 1,832	$ 541	$ 78	$ 131	$ 2,582	$ (25)	$ 2,557

Operating Profit (Loss)	Quarter Ended 3/31/2022	3/31/2021
KFC[b]	$ 220	$ 327
Pizza Hut	30	60
All Other Segments	(17)	(3)
Unallocated revenues from transactions with franchisees and unconsolidated affiliates[c]	57	129
Unallocated Other revenues	10	2
Unallocated expenses from transactions with franchisees and unconsolidated affiliates[c]	(57)	(129)
Unallocated Other operating costs and expenses	(9)	(3)
Unallocated and corporate G&A expenses	(44)	(41)
Unallocated Other income, net	1	—
Operating Profit	$ 191	$ 342
Interest income, net[a]	12	15
Investment loss[a]	(37)	(12)
Income Before Income Taxes and Equity in Net Earnings (Losses) from Equity Method Investments	$ 166	$ 345

Impairment Charges	Quarter Ended 3/31/2022	3/31/2021
KFC[d]	$ 5	$ 2
Pizza Hut[d]	1	1
All Other Segments[d]	2	—
	$ 8	$ 3

	Total Assets 3/31/2022	12/31/2021
KFC	$ 5,976	$ 6,072
Pizza Hut	944	972
All Other Segments	454	454
Corporate and Unallocated[e]	5,265	5,725
	$ 12,639	$ 13,223

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

(b) Includes equity income from our investment in Hangzhou KFC of $19 million for the quarter ended March 31, 2021 before we consolidated the results of the entity upon completion of the acquisition. See Note 3 for details.

(c) Primarily includes revenues and associated expenses of transactions with franchisees and unconsolidated affiliates derived from the Company's central procurement model whereby the Company centrally purchases substantially all food and paper products from suppliers and then sells and delivers them to KFC and Pizza Hut restaurants, including franchisees and unconsolidated affiliates that operate our concepts. Amounts have not been allocated to any segment for purposes of making operating decisions or assessing financial performance as the transactions are deemed corporate revenues and expenses in nature.

(d) Primarily includes store closure impairment charges.

(e) Primarily includes cash and cash equivalents, short-term investments, investments in equity securities of Meituan, investments in Sunner and Hangzhou Catering, long-term time deposits and inventories that are centrally managed.

Note 15 – Contingencies

Indemnification of China Tax on Indirect Transfers of Assets

In February 2015, the STA 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 pro rata distribution of all outstanding shares of Yum China common stock to shareholders of YUM in connection with the separation (the "distribution"). However, 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 a 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 30 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 for Franchisees

From time to time, we have guaranteed certain lines of credit and loans of franchisees. As of March 31, 2022, no guarantees were outstanding for franchisees.

Legal Proceedings

The Company is subject to various lawsuits covering a variety of allegations from time to time. The Company believes that the ultimate liability, if any, in excess of amounts already provided for these matters in the Condensed Consolidated 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.

Note 16 – Subsequent Events

Cash Dividend

On May 3, 2022, the Company announced that the Board of Directors declared a cash dividend of $0.12 per share on Yum China's common stock, payable as of the close of business on June 21, 2022, to stockholders of record as of the close of business on May 31, 2022. Total estimated cash dividend payable is approximately $51 million.

Amendment to Master License Agreement

On April 15, 2022, the Company and YUM, through their respective subsidiaries, entered into an amendment to the master license agreement to amend the development milestones for the Taco Bell brand. The Company has committed to expanding the Taco Bell store network to at least 100 stores by the end of 2022 and at least 225 stores by the end of 2025, with certain investment support from YUM. Subject to achieving these milestones, the Company will have the exclusive right to operate and sublicense the Taco Bell brand in China for 50 years.

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 ongoing transfer pricing audit, the retail tax structure reform, impacts of COVID-19, our growth plans, future capital resources to fund our operations and anticipated capital expenditures, share repurchases and 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 in terms of system sales, with over 12,000 restaurants covering over 1,700 cities primarily in China as of March 31, 2022. Our growing restaurant base consists of our flagship KFC and Pizza Hut brands, as well as emerging brands such as Little Sheep, Huang Ji Huang, Lavazza, COFFii & JOY and Taco Bell. We have the exclusive right to operate and sublicense the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China, excluding Hong Kong, Macau and Taiwan, and own the intellectual property of the Little Sheep, Huang Ji Huang and COFFii & JOY concepts outright. KFC was the first major global restaurant brand to enter China as early as 1987. With more than 30 years of operations, we have developed extensive operating experience in the China market. We have since grown to become the largest restaurant company in China in terms of system sales. We believe that there are significant opportunities to expand within China, and we intend to focus our efforts on increasing our geographic footprint in both existing and new cities.

KFC is the leading and the largest quick-service restaurant ("QSR") brand in China in terms of system sales. As of March 31, 2022, KFC operated over 8,400 restaurants in over 1,700 cities across China. During the fourth quarter of 2021, the Company completed the acquisition of a 28% equity interest in Hangzhou Catering Service Group ("Hangzhou Catering"), which holds a 45% equity interest in an unconsolidated affiliate that operates KFC stores in and around Hangzhou, China ("Hangzhou KFC"), increasing our equity interest to approximately 60% directly and indirectly, and allowing the Company to consolidate Hangzhou KFC.

Pizza Hut is the leading and the largest casual dining restaurant ("CDR") brand in China in terms of system sales and number of restaurants. As of March 31, 2022, Pizza Hut operated over 2,600 restaurants in over 600 cities.

In the second quarter of 2020, the Company partnered with Luigi Lavazza S.p.A. ("Lavazza Group"), the world renowned family-owned Italian coffee company, and entered into a joint venture to explore and develop the Lavazza coffee shop concept in China. In September 2021, the Company and Lavazza Group entered into agreements for the previously formed joint venture ("Lavazza joint venture") to accelerate the expansion of Lavazza coffee shops in China. Upon execution of these agreements, the Company controls and consolidates the joint venture with its 65% equity interest.

On April 15, 2022, the Company and YUM, through their respective subsidiaries, entered into an amendment to the master license agreement to amend the development milestones for the Taco Bell brand. The Company has committed to expanding the Taco Bell store network to at least 100 stores by the end of 2022 and at least 225 stores by the end of 2025, with certain investment support from YUM. Subject to achieving these milestones, the Company will have the exclusive right to operate and sublicense the Taco Bell brand in China for 50 years.

The Company's common stock is listed on the NYSE under the symbol "YUMC". On September 10, 2020, the Company completed its secondary listing on the Main Board of the HKEX under the stock code "9987", in connection with a global offering of 41,910,700 shares of its common stock. Net proceeds raised by the Company from the global offering after deducting underwriting fees and the offering expenses amounted to US$2.2 billion.

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 sales from 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 an average rate of approximately 6% of system sales. Franchise and unconsolidated affiliate restaurant sales are not included in Company sales in the Condensed Consolidated Statements of Income; however, the franchise fees are included in the Company's revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit growth.

- Effective January 1, 2018, the Company revised its definition of same-store sales growth to represent the estimated percentage change in sales of food of all restaurants in the Company system that have been open prior to the first day of our prior fiscal year, excluding the period during which stores are temporarily closed. We refer to these as our "base" stores. Previously, same-store sales growth represented the estimated percentage change in sales of all restaurants in the Company system that have been open for one year or more, including stores temporarily closed, and the base stores changed on a rolling basis from month to month. This revision was made to align with how management measures performance internally and focuses on trends of a more stable base of stores.

- Company sales represent revenues from Company-owned restaurants. Company Restaurant profit ("Restaurant profit") is defined as Company sales less expenses incurred directly by our Company-owned restaurants in generating Company sales. Company restaurant margin 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.

All Note references in this MD&A refer to the Notes to the Condensed Consolidated 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.

Quarters Ended March 31, 2022 and 2021

Results of Operations

Summary

The Company has two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of Little Sheep, Huang Ji Huang, Lavazza, COFFii & JOY, Taco Bell, East Dawning, Daojia and our e-commerce business, are combined and referred to as All Other Segments, as those operating segments are insignificant both individually and in the aggregate. Additional details on our reportable operating segments are included in Note 14.

Quarterly highlights:

	% Change				
	System Sales[a]	Same-Store Sales[a]	Net New Units	Operating Profit (Reported)	Operating Profit (Ex F/X)
KFC	(4)	(9)	+14	(33)	(34)
Pizza Hut	(1)	(5)	+12	(50)	(51)
All Other Segments[b]	(14)	(15)	+3	NM	NM
Total	(4)	(8)	+13	(44)	(45)

NM refers to not meaningful.

(a) System sales and same-store sales percentages as shown in tables exclude the impact of F/X. Effective January 1, 2018, temporary store closures are normalized in the same-store sales calculation by excluding the period during which stores are temporarily closed.

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

As of March 31, 2022, the Company operated over 12,000 units, predominately KFC and Pizza Hut restaurants, which are the leading and largest QSR and CDR brands, respectively, in mainland China in terms of system sales. We believe that there are significant opportunities to expand within China, and we intend to focus our efforts on increasing our geographic footprint in both existing and new cities.

The highly transmissible Omicron variant caused significant volatility in the Company's business operations in the first quarter of 2022. After a relatively stable period in January and February, the situation rapidly deteriorated in March, resulting in the largest outbreak in China since COVID-19 first emerged in early 2020. In March 2022, over 1,700 of our stores, on average, were temporarily closed or offered only takeaway and delivery services. Same-store sales in March decreased by more than 20%. As a result, the Company incurred an operating loss in March.

As compared to the first quarter of 2021, Company sales in the first quarter of 2022 increased 9%, or 7% excluding the impact of F/X. The increase in Company sales for the quarter, excluding the impact of F/X, was attributable to net unit growth of 24% in Company-owned stores including the acquisition of Hangzhou KFC, partially offset by same-store sales decline of 8% and substantially more temporary store closures due to the impact of the COVID-19 pandemic.

The decrease in Operating profit for the quarter, excluding the impact of F/X, was primarily driven by same-store sales decline, temporary store closures due to the impact of the COVID-19 pandemic, wage inflation of 5%, increased rider cost associated with a rise of approximately five percentage points in delivery sales mix from the prior year period due to more severe outbreaks and commodity inflation of 1%, partially offset by the acquisition of Hangzhou KFC.

The Consolidated Results of Operations for the quarters ended March 31, 2022 and 2021 are presented below:

	Quarter Ended		% B/(W) [a]	
	3/31/2022	3/31/2021	Reported	Ex F/X
Company sales	$ 2,548	$ 2,331	9	7
Franchise fees and income	24	42	(42)	(44)
Revenues from transactions with franchisees and unconsolidated affiliates	77	171	(55)	(56)
Other revenues	19	13	46	43
Total revenues	$ 2,668	$ 2,557	4	2
Restaurant profit	$ 351	$ 435	(20)	(21)
Restaurant Margin %	13.8 %	18.7 %	(4.9) ppts.	(4.9) ppts.
Operating Profit	$ 191	$ 342	(44)	(45)
Interest income, net	12	15	(19)	(20)
Investment loss	(37)	(12)	NM	NM
Income tax provision	(55)	(102)	46	47
Equity in net earnings (losses) from equity method investments	(1)	—	NM	NM
Net Income – including noncontrolling interests	110	243	(55)	(56)
Net Income – noncontrolling interests	10	13	21	23
Net Income – Yum China Holdings, Inc.	$ 100	$ 230	(57)	(58)
Diluted Earnings Per Common Share	$ 0.23	$ 0.53	(57)	(57)
Effective tax rate	33.1 %	29.6 %		
Supplementary information – Non-GAAP Measures[b]				
Adjusted Operating Profit	$ 193	$ 345		
Adjusted Net Income – Yum China Holdings, Inc.	$ 102	$ 233		
Adjusted Diluted Earnings Per Common Share	$ 0.24	$ 0.54		
Adjusted Effective Tax Rate	32.7 %	29.3 %		
Adjusted EBITDA	$ 365	$ 476		

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

(b) See “Non-GAAP Measures” below for definitions and reconciliations of the most directly comparable GAAP financial measures to the non-GAAP measures.

Performance Metrics

	Quarter Ended 3/31/2022
	% Change
System Sales Decline	(2)%
System Sales Decline, excluding F/X	(4)%
Same-Store Sales Decline	(8)%

Unit Count	3/31/2022	3/31/2021	% Increase (Decrease)
Company-owned[a]	10,385	8,371	24
Unconsolidated affiliates[a]	—	709	(100)
Franchisees	1,732	1,645	5
	12,117	10,725	13

(a) As a result of the acquisition of Hangzhou KFC in the fourth quarter of 2021, the restaurant units of Hangzhou KFC were transferred from unconsolidated affiliates to Company-owned.

Non-GAAP Measures

In addition to the results provided in accordance with GAAP throughout this MD&A, the Company provides non-GAAP measures adjusted for Special Items, which include Adjusted Operating Profit, Adjusted Net Income, Adjusted Earnings Per Common Share ("EPS"), Adjusted Effective Tax Rate and Adjusted EBITDA, which we define as net income including noncontrolling interests adjusted for equity in net earnings (losses) from equity method investments, income tax, interest income, net, investment gain or loss, certain non-cash expenses, consisting of depreciation and amortization as well as store impairment charges and Special Items.

The following table sets forth the reconciliations of the most directly comparable GAAP financial measures to the non-GAAP adjusted financial measures.

	Quarter Ended	
Non-GAAP Reconciliations	**3/31/2022**	**3/31/2021**
Reconciliation of Operating Profit to Adjusted Operating Profit		
Operating Profit	$ 191	$ 342
Special Items, Operating Profit	(2)	(3)
Adjusted Operating Profit	$ 193	$ 345
Reconciliation of Net Income to Adjusted Net Income		
Net Income – Yum China Holdings, Inc.	$ 100	$ 230
Special Items, Net Income – Yum China Holdings, Inc.	(2)	(3)
Adjusted Net Income – Yum China Holdings, Inc.	$ 102	$ 233
Reconciliation of EPS to Adjusted EPS		
Basic Earnings Per Common Share	$ 0.23	$ 0.55
Special Items, Basic Earnings Per Common Share	(0.01)	—
Adjusted Basic Earnings Per Common Share	$ 0.24	$ 0.55
Diluted Earnings Per Common Share	$ 0.23	$ 0.53
Special Items, Diluted Earnings Per Common Share	(0.01)	(0.01)
Adjusted Diluted Earnings Per Common Share	$ 0.24	$ 0.54
Reconciliation of Effective Tax Rate to Adjusted Effective Tax Rate		
Effective tax rate (See Note 13)	33.1%	29.6%
Impact on effective tax rate as a result of Special Items	0.4%	0.3%
Adjusted effective tax rate	32.7%	29.3%

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

	Quarter Ended	
Reconciliation of Net Income to Adjusted EBITDA	**3/31/2022**	**3/31/2021**
Net Income – Yum China Holdings, Inc.	$ 100	$ 230
Net Income – noncontrolling interests	10	13
Equity in net (earnings) losses from equity method investments	1	—
Income tax provision	55	102
Interest income, net	(12)	(15)
Investment loss	37	12
Operating Profit	191	342
Special Items, Operating Profit	2	3
Adjusted Operating Profit	193	345
Depreciation and amortization	164	128
Store impairment charges	8	3
Adjusted EBITDA	$ 365	$ 476

Details of Special Items are presented below:

Details of Special Items	Quarter Ended 3/31/2022	Quarter Ended 3/31/2021
Share-based compensation expense for Partner PSU Awards(1)	$ (2)	$ (3)
Special Items, Operating Profit	(2)	(3)
Tax Expenses on Special Items(2)	—	—
Special items, net income – including noncontrolling interests	(2)	(3)
Special items, net income – noncontrolling interests	—	—
Special Items, Net Income – Yum China Holdings, Inc.	$ (2)	$ (3)
Weighted-average diluted shares outstanding (in millions)	430	434
Special Items, Diluted Earnings Per Common Share	$ (0.01)	$ (0.01)

(1) In February 2020, the Company granted Partner PSU Awards to select employees who were deemed critical to the Company's execution of its strategic operating plan. These PSU awards will only vest if threshold performance goals are achieved over a four-year performance period, with the payout ranging from 0% to 200% of the target number of shares subject to the PSU awards. Partner PSU Awards were granted to address increased competition for executive talent, motivate transformational performance and encourage management retention. Given the unique nature of these grants, the Compensation Committee does not intend to grant similar special grants to the same employees during the performance period. The impact from these special awards is excluded from metrics that management uses to assess the Company's performance. The Company recognized share-based compensation expenses of $2 million and $3 million associated with the Partner PSU Awards for the quarters ended March 31, 2022 and 2021, respectively.

(2) The tax expense was determined based upon the nature, as well as the jurisdiction, of each Special Item at the applicable tax rate.

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

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

Segment Results

KFC

	Quarter Ended			
			% B/(W)	
	3/31/2022	3/31/2021	Reported	Ex F/X
Company sales	$ 1,991	$ 1,783	12	9
Franchise fees and income	16	33	(51)	(52)
Revenues from transactions with franchisees and unconsolidated affiliates	8	15	(47)	(48)
Other revenues	2	1	53	49
Total revenues	$ 2,017	$ 1,832	10	8
Restaurant profit	$ 302	$ 355	(15)	(17)
Restaurant margin %	15.2%	19.9%	(4.7) ppts.	(4.7) ppts.
G&A expenses	$ 65	$ 55	(20)	(17)
Franchise expenses	$ 9	$ 16	47	48
Expenses for transactions with franchisees and unconsolidated affiliates	$ 8	$ 15	50	51
Other operating costs and expenses	$ 1	$ —	NM	NM
Closures and impairment (income) expenses, net	$ (1)	$ —	NM	NM
Other expenses (income), net	$ 26	$ (9)	NM	NM
Operating Profit	$ 220	$ 327	(33)	(34)

	Quarter Ended 3/31/2022
	% Change
System Sales Decline	(2)%
System Sales Decline, excluding F/X	(4)%
Same-Store Sales Decline	(9)%

Unit Count	3/31/2022	3/31/2021	% Increase (Decrease)
Company-owned[(a)]	7,668	6,030	27
Unconsolidated affiliates[(a)]	—	704	(100)
Franchisees	773	639	21
	8,441	7,373	14

(a) As a result of the acquisition of Hangzhou KFC in the fourth quarter of 2021, the restaurant units of Hangzhou KFC were transferred from unconsolidated affiliates to Company-owned.

Company Sales and Restaurant Profit

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

	Quarter Ended				
Income (Expense)	3/31/2021	Store Portfolio Actions	Other	F/X	3/31/2022
Company sales	$ 1,783	$ 326	$ (158)	$ 40	$ 1,991
Cost of sales	(540)	(102)	34	(13)	(621)
Cost of labor	(398)	(90)	(3)	(10)	(501)
Occupancy and other operating expenses	(490)	(95)	29	(11)	(567)
Restaurant profit	$ 355	$ 39	$ (98)	$ 6	$ 302

The increase in Company sales for the quarter, excluding the impact of F/X, was primarily driven by net unit growth including the acquisition of Hangzhou KFC, partially offset by same-store sales decline and temporary store closures due to the impact of the COVID-19 pandemic. The decrease in Restaurant profit for the quarter, excluding the impact of F/X, was primarily driven by wage inflation of 5%, increased rider cost associated with a rise of approximately six percentage points in delivery sales mix from the prior year period due to more severe outbreaks and commodity inflation of 2%, partially offset by the increase in Company sales.

Franchise Fees and Income/Revenues from Transactions with Franchisees and Unconsolidated Affiliates

The decrease in Franchise fees and income and Revenues from transactions with franchisees and unconsolidated affiliates for the quarter, excluding the impact of F/X, was primarily driven by the acquisition of Hangzhou KFC in December 2021.

G&A Expenses

The increase in G&A expenses for the quarter, excluding the impact of F/X, was primarily driven by the acquisition of Hangzhou KFC in December 2021 and merit increases.

Operating Profit

The decrease in Operating profit for the quarter, excluding the impact of F/X, was primarily driven by the decrease in Restaurant profit.

Pizza Hut

	Quarter Ended			
			% B/(W)	
	3/31/2022	3/31/2021	Reported	Ex F/X
Company sales	$ 542	$ 538	1	(1)
Franchise fees and income	2	2	7	5
Revenues from transactions with franchisees and unconsolidated affiliates	1	1	(28)	(29)
Other revenues	2	—	NM	NM
Total revenues	$ 547	$ 541	1	(1)
Restaurant profit	$ 58	$ 82	(29)	(31)
Restaurant margin %	10.7%	15.3%	(4.6) ppts.	(4.6) ppts.
G&A expenses	$ 29	$ 25	(15)	(13)
Franchise expenses	$ 1	$ 1	(5)	(3)
Expenses for transactions with franchisees and unconsolidated affiliates	$ 1	$ 1	29	30
Other operating costs and expenses	$ 1	$ —	NM	NM
Closures and impairment expenses (income), net	$ 1	$ (2)	NM	NM
Operating Profit	$ 30	$ 60	(50)	(51)

	Quarter Ended 3/31/2022
	% Change
System Sales Growth	1%
System Sales Decline, excluding F/X	(1)%
Same-Store Sales Decline	(5)%

Unit Count	3/31/2022	3/31/2021	% Increase
Company-owned	2,543	2,255	13
Franchisees	136	127	7
	2,679	2,382	12

Company Sales and Restaurant Profit

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

	Quarter Ended				
Income (Expense)	3/31/2021	Store Portfolio Actions	Other	F/X	3/31/2022
Company sales	$ 538	$ 18	$ (25)	$ 11	$ 542
Cost of sales	(160)	(5)	3	(4)	(166)
Cost of labor	(143)	(9)	(2)	(3)	(157)
Occupancy and other operating expenses	(153)	(9)	4	(3)	(161)
Restaurant profit	$ 82	$ (5)	$ (20)	$ 1	$ 58

The decrease in Company sales for the quarter, excluding the impact of F/X, was primarily driven by same-store sales decline and temporary store closures due to the impact of the COVID-19 pandemic, partially offset by net unit growth. The decrease in Restaurant profit for the quarter, excluding the impact of F/X, was primarily driven by the decrease in Company sales and wage inflation of 6%.

G&A Expenses

The increase in G&A expenses for the quarter, excluding the impact of F/X, was primarily driven by merit increases.

Operating Profit

The decrease in Operating profit for the quarter, excluding the impact of F/X, was primarily driven by the decrease in Restaurant profit.

All Other Segments

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

	Quarter Ended			
			% B/(W)	
	3/31/2022	3/31/2021	Reported	Ex F/X
Company sales	$ 15	$ 10	38	35
Franchise fees and income	6	7	(11)	(13)
Revenues from transactions with franchisees and unconsolidated affiliates	11	26	(59)	(60)
Other revenues	131	35	NM	NM
Total revenues	$ 163	$ 78	NM	NM
Restaurant loss	$ (7)	$ (2)	NM	NM
Restaurant margin %	(50.9)%	(13.3)%	(37.6) ppts.	(37.6) ppts.
G&A expenses	$ 13	$ 9	(37)	(34)
Expenses for transactions with franchisees and unconsolidated affiliates	$ 9	$ 24	61	62
Other operating costs and expenses	$ 134	$ 33	NM	NM
Closures and impairment expenses, net	$ 2	$ —	NM	NM
Other expenses, net	$ —	$ 3	NM	NM
Operating Loss	$ (17)	$ (3)	NM	NM

	Quarter Ended 3/31/2022
	% Change
Same-Store Sales Decline	(15)%

Total Revenues

The increase in Total revenues of all other segments for the quarter, excluding the impact of F/X, was primarily driven by inter-segment revenue generated by our delivery team for services provided to KFC and Pizza Hut restaurants and the consolidation of the Lavazza joint venture.

Restaurant Loss

The increase in Restaurant loss for the quarter, excluding the impact of F/X, was primarily driven by the consolidation of the Lavazza joint venture.

G&A Expenses

The increase in G&A expenses for the quarter, excluding the impact of F/X, was primarily driven by the consolidation of the Lavazza joint venture.

Operating Loss

The increase in Operating loss for the quarter, excluding the impact of F/X, was primarily driven by the increase of Operating loss from certain emerging brands.

Corporate and Unallocated

	Quarter Ended			
			% B/(W)	
	3/31/2022	3/31/2021	Reported	Ex F/X
Revenues from transactions with franchisees and unconsolidated affiliates	$ 57	$ 129	(55)	(56)
Other revenues	$ 10	$ 2	NM	NM
Expenses for transactions with franchisees and unconsolidated affiliates	$ 57	$ 129	55	56
Other operating costs and expenses	$ 9	$ 3	NM	NM
Corporate G&A expenses	$ 44	$ 41	(7)	(5)
Other unallocated income, net	$ (1)	$ —	NM	NM
Interest income, net	$ 12	$ 15	(19)	(20)
Investment loss	$ (37)	$ (12)	NM	NM
Income tax provision (See Note 13)	$ (55)	$ (102)	46	47
Equity in net earnings (losses) from equity method investments	$ (1)	$ —	NM	NM
Effective tax rate (See Note 13)	33.1 %	29.6 %	(3.5)%	(3.5)%

Revenues from Transactions with Franchisees and Unconsolidated Affiliates

Revenues from transactions with franchisees and unconsolidated affiliates primarily include revenues derived from the Company's central procurement model whereby food and paper products are centrally purchased and then mainly sold to KFC and Pizza Hut franchisees and unconsolidated affiliates that operate our concepts. The decrease for the quarter, excluding the impact of F/X, was mainly due to the acquisition of Hangzhou KFC in December 2021.

Other Revenues/Operating Costs and Expenses

The increase in Other revenues/operating costs and expenses for the quarter, excluding the impact of F/X, was mainly driven by logistics and warehousing services provided to third parties.

G&A Expenses

The increase in Corporate G&A expenses for the quarter, excluding the impact of F/X, was primarily due to merit increases.

Investment Loss

The increase in investment loss for the quarter mainly relates to the decline in fair value of our investment in Meituan, partially offset by lapping the investment loss from our investment in Sunner recognized in the first quarter of 2021. See Note 7 for additional information.

Income Tax Provision

Our income tax provision includes tax on our earnings at the Chinese statutory tax rate of 25%, withholding tax on repatriation of earnings outside of China and U.S. corporate income tax, if any. The higher effective tax rate for the quarter ended March 31, 2022 as compared to prior year was primarily due to higher impact of foreign withholding tax due to lower pre-tax income and less tax benefit from equity income from investments in unconsolidated affiliates.

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

Impact of COVID-19 Pandemic

Starting in late January 2020, the COVID-19 pandemic has significantly impacted the Company's operations and financial results. The highly transmissible Omicron variant caused significant volatility in our business operations in the first quarter of 2022. After a relatively stable period in January and February, the situation rapidly deteriorated in March, resulting in the largest outbreak in China since COVID-19 first emerged in early 2020. As a result, the Company incurred an operating loss in March 2022. Looking into the second quarter of 2022, the situation is even more challenging. Many cities across large swaths of China have been fully or partially locked down for weeks or even months, including several economically important regions, such as Shanghai. Drastic public health measures are being stepped up nationwide, in line with the strict enforcement of the "dynamic zero-COVID" policy, resulting in further reductions of social activities, travel and consumption. In April, over 3,000 of our stores, on average, were either temporarily closed or offered only takeaway and delivery services, of which approximately 50% of the stores were temporarily closed. Same-store sales in April decreased by more than 20%. Unless conditions significantly improve in May and June, we expect to incur an operating loss in the second quarter of 2022.

Management at this time cannot ascertain the extent to which our operations will continue to be impacted by the COVID-19 pandemic, which depends largely on future developments that are highly uncertain and cannot be accurately predicted, including resurgences and further spread of existing or new COVID-19 variants, the actions by government authorities to contain or treat its impact, the availability and effectiveness of vaccines, the economic recovery within China and globally, the impact on consumer behavior and other related factors. The Company expects that further developments related to the COVID-19 pandemic may continue to have a material and extended adverse impact on the Company's results of operations, as well as the Company's cash flows and financial condition.

Tax Examination on Transfer Pricing

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

PRC Value-Added Tax ("VAT")

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

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

As of March 31, 2022, an input VAT credit asset of $324 million and payable of $3 million were recorded in Other assets and Accounts payable and other current liabilities, respectively, on 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 VAT payables more than one year from March 31, 2022. Any input VAT credit asset would be classified as Prepaid expenses and other current assets if the credit expected to be used within one year can be reasonably determined.

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

Foreign Currency Exchange Rate

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

Condensed Consolidated Cash Flows

Our cash flows for the quarters ended March 31, 2022 and 2021 were as follows:

Net cash provided by operating activities was $171 million in 2022 as compared to $331 million in 2021. The decrease was primarily driven by the decrease in net income along with working capital changes.

Net cash provided by investing activities was $13 million in 2022 as compared to net cash used in investing activities of $347 million in 2021. The change was mainly due to lapping the impact of $261 million cash consideration for the acquisition of equity investment in Sunner in 2021 and net impact on cash flow resulting from purchases and maturities of short-term investments.

Net cash used in financing activities was $274 million in 2022 as compared to $55 million in 2021. The increase was primarily due to the resumption of share repurchases starting in the third quarter of 2021 and the increase in dividends paid to noncontrolling interests mainly due to the acquisition of Hangzhou KFC.

Liquidity and Capital Resources

Historically we have funded our operations through cash generated from the operation of our Company-owned stores, our franchise operations and dividend payments from our unconsolidated affiliates. Our global offering in September 2020 provided us with $2.2 billion in net proceeds.

Our ability to fund our future operations and capital needs will primarily depend on our ongoing ability to generate cash from operations. We believe our principal uses of cash in the future will be primarily to fund our operations and capital expenditures for accelerating store network expansion and store remodeling, to step up investments in digitalization, automation and logistics infrastructure, to provide returns to our stockholders, as well as to explore opportunities for acquisitions or investments that build and support our ecosystem. We believe that our future cash from operations, together with our funds on hand and access to the capital markets, will provide adequate resources to fund these uses of cash, and that our existing cash, net cash from operations and credit facilities will be sufficient to fund our operations and anticipated capital 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;
- the liquidity of the overall capital markets; and
- the state of the Chinese, U.S. and global economies, as well as relations between the Chinese and U.S. governments.

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

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

Share Repurchases and Dividends

In March 2022, our Board of Directors increased the share repurchase authorization by $1 billion to an aggregate of $2.4 billion. 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. Starting in the second quarter of 2020 through July 2021, our share repurchases were suspended due to the impact of the COVID-19 pandemic. During the quarter ended March 31, 2022, the Company repurchased $232 million or 5.0 million shares of common stock under the repurchase program.

For the quarters ended March 31, 2022 and 2021, the Company paid cash dividends of approximately $51 million and $50 million, respectively, to stockholders through a quarterly dividend payment of $0.12 per share.

On May 3, 2022, the Board of Directors declared a cash dividend of $0.12 per share, payable on June 21, 2022, to stockholders of record as of the close of business on May 31, 2022. The total estimated cash dividend payable is approximately $51 million.

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

Borrowing Capacity

As of March 31, 2022, the Company had credit facilities of RMB3,468 million (approximately $547 million), comprised of onshore credit facilities of RMB2,200 million (approximately $347 million) in aggregate and offshore credit facilities of $200 million in aggregate.

The credit facilities had remaining terms ranging from less than one year to two years as of March 31, 2022. Each credit facility bears interest based on the Loan Prime Rate ("LPR") published by the National Interbank Funding Centre of the PRC or London Interbank Offered Rate ("LIBOR") administered by the ICE Benchmark Administration. Each credit facility contains a cross-default provision whereby our failure to make any payment on a principal amount from any credit facility will constitute a default on other credit facilities. Some of the credit facilities contain covenants limiting, among other things, certain additional indebtedness and liens, and certain other transactions specified in the respective agreement. Some of the onshore credit facilities contain sublimits for overdrafts, non-financial bonding, standby letters of credit and guarantees. As of March 31, 2022, we had outstanding bank guarantees of RMB 181 million (approximately $28 million) mainly to secure our lease payments to landlords for certain Company-owned restaurants. The credit facilities were therefore reduced by the same amount, while there were no bank borrowings outstanding as of March 31, 2022.

Off-Balance Sheet Arrangements

See the Guarantees section of Note 15 for discussion of our off-balance sheet arrangements.

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

See Note 2 for details of recently adopted accounting pronouncements.

New Accounting Pronouncements Not Yet Adopted

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805) — Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* ("ASU 2021-08"). It requires issuers to apply ASC 606 *Revenue from Contracts with Customers* to recognize and measure contract assets and contract liabilities from contracts with customers acquired in a business combination. ASU 2021-08 is effective for the Company from January 1, 2023, with early adoption permitted. We are currently evaluating the impact the adoption of this standard may have on our financial statements.

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832) — Disclosures by Business Entities about Government Assistance* ("ASU 2021-10"). It requires issuers to make annual disclosures about government assistance, including the nature of the transaction, the related accounting policy, the financial statement line items affected and the amounts applicable to each financial statement line item, as well as any significant terms and conditions, including commitments and contingencies. We will adopt ASU 2021-10 in the fourth quarter of 2022, and do not expect the adoption of this standard will have a material impact on our financial statements.

In March 2022, the FASB issued ASU 2022-01 *Fair Value Hedging—Portfolio Layer Method* ("ASU 2022-01"), which allows entities to expand their use of the portfolio layer method for fair value hedges of interest rate risk. Under the guidance, entities can hedge all financial assets under the portfolio layer method and designate multiple hedged layers within a single closed portfolio. The guidance also clarifies the accounting for fair value hedge basis adjustments in portfolio layer hedges and how these adjustments should be disclosed. ASU 2022-01 is effective for the Company from January 1, 2023 with early adoption permitted. We are currently evaluating the impact the adoption of this standard may have on our financial statements.

In March 2022, the FASB issued ASU 2022-02 *Financial Instrument—Credit Losses* ("ASU 2022-02"), amending ASC 310 to eliminate the recognition and measurement guidance for a troubled debt restructuring for creditors that have adopted ASC 326 and requiring them to make enhanced disclosures about loan modifications for borrowers experiencing financial difficulty. The guidance also requires entities to present gross write-offs by year of origination in their vintage disclosures. ASU 2022-02 is effective for the Company from January 1, 2023 with early adoption permitted. We are currently evaluating the impact the adoption of this standard may have 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," "aim," "commit," "predict," "likely," "should," "forecast," "outlook," "model," "continue," "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 and events 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 foodborne illness concerns, (b) significant failure to maintain effective quality assurance 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 illnesses, including the COVID-19 pandemic, (e) the fact that the operation of our restaurants is subject to the terms of the master license agreement with YUM, (f) the fact that substantially all of our revenue is derived from our operations in China, (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 products and other supplies, (i) fluctuation of raw materials prices, (j) our inability to attain our target development goals, the potential cannibalization of existing sales by aggressive development and the possibility that new restaurants will not be profitable, (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) the occurrence of security breaches and cyber-attacks, (p) failure to protect the integrity and security of our customer or employee personal, financial or other data or our proprietary or confidential information that is stored in our information systems or by third parties on our behalf, (q) failures or interruptions of service or security breaches in our information technology systems, (r) the fact that our business depends on the performance of, and our long-term relationships with, third-party mobile payment processors, internet infrastructure operators, internet service providers and delivery aggregators, (s) failure to provide timely and reliable delivery services by our restaurants, (t) our growth strategy with respect to Lavazza and COFFii & JOY may not be successful, (u) the anticipated benefits of our acquisitions may not be realized in a timely manner or at all, (v) challenges and risks related to our new retail and e-commerce businesses, (w) our inability or failure to recognize, respond to and effectively manage the impact of social media, (x) failure to comply with anti-bribery or anti-corruption laws, (y) U.S. federal income taxes, changes in tax rates, disagreements with tax authorities and imposition of new taxes, (z) changes in consumer discretionary spending and general economic conditions, (aa) the fact that the restaurant industry in which we operate is highly competitive, (bb) loss of or failure to obtain or renew any or all of the approvals, licenses and permits to operate our business, (cc) our inability to adequately protect the intellectual property we own or have the right to use, (dd) our licensor's failure to protect its intellectual property, (ee) seasonality and certain major events in China, (ff) our failure to detect, deter and prevent all instances of fraud or other misconduct committed by our employees, customers or other third parties, (gg) the fact that our success depends on the continuing efforts of our key management and experienced and capable personnel as well as our ability to recruit new talent, (hh) our strategic investments or acquisitions may be unsuccessful; (ii) our investment in technology and innovation may not generate the expected level of returns, (jj) fair value changes for our investment in equity securities and lower yields of our short-term investments may adversely affect our financial condition and results of operations, and (kk) our operating results may be adversely affected by our investment in unconsolidated affiliates;

- Risks related to doing business in China, such as (a) changes in Chinese political policies and economic and social policies or conditions, (b) uncertainties with respect to the interpretation and enforcement of Chinese laws, rules and regulations, (c) audit reports included in our annual reports are prepared by auditors who are not currently inspected by the Public Company Accounting Oversight Board and, as such, our stockholders are deprived of the benefits of such inspection and our common stock is subject to the risk of delisting from the New York Stock Exchange in the future, (d) changes in political, business, economic and trade relations between the United States and China, (e) fluctuation in the value of the Chinese Renminbi, (f) the fact that we face increasing focus on environmental sustainability issues, (g) limitations on our ability to utilize our cash balances effectively due to governmental control of currency conversion and payments of foreign currency and the Chinese Renminbi out of mainland China, (h) changes in the laws and regulations of China or noncompliance with applicable laws and regulations, (i) reliance on dividends and other distributions on equity paid by our principal subsidiaries in China to fund offshore cash requirements, (j) potential unfavorable tax consequences resulting from our classification as a China resident enterprise for Chinese enterprise income tax purposes, (k) uncertainty regarding indirect transfers of equity interests in China resident enterprises and enhanced scrutiny by Chinese tax authorities, (l) difficulties in effecting service of legal process, conducting investigations, collecting evidence, enforcing foreign judgments or bringing original actions in China against us,

(m) the Chinese government may determine that the variable interest entity structure of Daojia does not comply with Chinese laws on foreign investment in restricted industries, (n) inability to use properties due to defects caused by non-registration of lease agreements related to certain properties, (o) risk in relation to unexpected land acquisitions, building closures or demolitions, (p) potential fines and other legal or administrative sanctions for failure to comply with Chinese regulations regarding our employee equity incentive plans and various employee benefit plans, (q) proceedings instituted by the SEC against certain China-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Exchange Act, (r) 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, and (s) difficulties in pursuing growth through acquisitions due to regulations regarding acquisitions;

- Risks related to the separation and related transactions, such as (a) 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, (b) 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, (c) potential indemnification liabilities owing to YUM pursuant to the separation and distribution agreement, (d) the indemnity provided by YUM to us with respect to certain liabilities in connection with the separation may be insufficient to insure us against the full amount of such liabilities, (e) the possibility that a court would require that we assume responsibility for obligations allocated to YUM under the separation and distribution agreement, and (f) potential liabilities due to fraudulent transfer considerations;

- General risks, such as (a) potential legal proceedings, (b) changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters, (c) failure of our insurance policies to provide adequate coverage for claims associated with our business operations, (d) unforeseeable business interruptions, and (e) failure by us to maintain effective disclosure controls and procedures and internal control over financial reporting in accordance with the rules of the SEC.

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 SEC (including the information set forth under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021) 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. While substantially all of our supply purchases are denominated in RMB, from time to time, we enter into agreements at predetermined exchange rates with third parties to purchase certain amount of goods and services sourced overseas and make payments in the corresponding local currencies when practical, to minimize the related foreign currency exposure with immaterial impact on our financial statements.

As substantially all of the Company's assets are located in China, the Company is exposed to movements in the RMB foreign currency exchange rate. For the quarter ended March 31, 2022, the Company's Operating profit would have decreased by approximately $18 million if the RMB weakened 10% relative to the US$. 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 risks associated with commodity prices. Our ability to recover increased costs through higher pricing is, at times, limited by the competitive environment in which we operate. We manage our exposure to this risk primarily through pricing agreements with our vendors.

Investment Risk

In September 2018, we invested $74 million in 8.4 million of Meituan's ordinary shares. The Company sold 4.2 million of its ordinary shares of Meituan in the second quarter of 2020 for proceeds of approximately $54 million. Equity investment in Meituan is recorded at fair value, which is measured on a recurring basis and is subject to market price volatility. See Note 3 for further discussion on our investment in Meituan.

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 Chief Financial Officer (the "CFO"), the Company's management, including the CEO and the CFO, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There were no changes with respect to the Company's internal control over financial reporting during the quarter ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II – Other Information

Item 1. Legal Proceedings

Information regarding legal proceedings is incorporated by reference from Note 15 to the Company's Condensed Consolidated 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. Except as set forth below, 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, 2021, which was filed with the SEC on February 28, 2022.

Health concerns arising from outbreaks of viruses or other illnesses may have a material adverse effect on our business. The COVID-19 pandemic has had, and may continue to have, adverse effects on our results of operations, cash flows and financial condition.

Our business could be materially and adversely affected by the outbreak of a widespread health epidemic, such as COVID-19, avian flu or African swine flu. Outbreaks of contagious illness occur from time to time around the world, including in China where virtually all of our restaurants are located. The occurrence of such an outbreak or other adverse public health developments in China could materially disrupt our business and operations, including if government authorities impose mandatory closures, seek voluntary closures or impose restrictions on operations of restaurants. Furthermore, the risk of contracting viruses or other illnesses that may be transmitted through human contact could cause employees or guests to avoid gathering in public places or interacting with other people, which could materially and adversely affect restaurant guest traffic or the ability to adequately staff restaurants. An outbreak could also cause disruption in our supply chain, increase our raw material costs, increase operational complexity and adversely impact our ability to provide safety measures to protect our employees and customers, which could materially and adversely affect our continuous operations. Our operating costs may also increase as a result of taking precautionary measures to protect the health and wellbeing of our customers and employees during an outbreak. If an outbreak reaches pandemic levels, there may also be long-term effects on the economies of affected countries. Any of the foregoing within China would severely disrupt our operations and could have a material adverse effect on our business, results of operations, cash flows and financial condition.

For example, starting in the first quarter of 2020, the COVID-19 pandemic significantly impacted the Company's operations, resulting in a significant decline in Operating profit mainly driven by same-store sales declines and temporary store closures. At the peak of the COVID-19 outbreak in China in 2020, approximately 35% of our restaurants were closed. Our operations and financial results of second half of 2021 were also significantly affected by multiple waves of Delta-variant outbreaks, spreading to nearly all provinces in China. In the first quarter of 2022, the highly transmissible Omicron variant caused significant volatility in our business operations. After a relatively stable period in January and February, the situation rapidly deteriorated in March 2022, resulting in the largest outbreak since COVID-19 first emerged in early 2020. Compared to the first quarter of 2020, the outbreaks were more severe, in terms of case counts, duration and geographical coverage, and restrictive measures were tighter during the first quarter of 2022. The Company incurred an operating loss in March 2022.

Looking into the second quarter of 2022, the situation has been even more challenging. Many cities across large swaths of China have been fully or partially locked down for weeks or even months, including several economically important regions, such as Shanghai. Drastic public health measures are being stepped up nationwide, in line with the strict enforcement of the "dynamic zero-COVID" policy, resulting in further reductions of social activities, travel and consumption. In April, over 3,000 of our stores, on average, were either temporarily closed or offered only take away and delivery service, of which approximately 50% of the stores were temporarily closed. Same-store sales in April decreased by more than 20%. Unless conditions significantly improve in May and June, we expect to incur an operating loss in the second quarter of 2022.

We expect that our operations will continue to be impacted by the COVID-19 pandemic, including outbreaks caused by existing or new COVID-19 variants and the actions taken by governmental authorities, such as regional lockdowns, measures restricting travel and large gatherings, and recommendations against dining out. It remains difficult to predict the full impact of the COVID-19 pandemic on the broader economy and how consumer behavior may change, and whether such change is temporary or permanent. Social distancing, telecommunicating and reductions in travel may become the new normal. These conditions could fundamentally impact the way we work and the services we provide, and could have continuing adverse effects on our results of operations, cash flows and financial condition after the pandemic subsides. The extent to which our operations continue to be impacted by the pandemic will depend largely on future developments, which are highly uncertain and cannot be accurately predicted, including resurgences and further spread of existing or new COVID-19 variants, the actions by the government authorities to contain the pandemic or treat its impact, the availability and effectiveness of vaccines, the economic recovery within China and globally, the impact on consumer behavior and other related factors. Our insurance policy does not cover any losses we incur as a result of the pandemic. The COVID-19 pandemic also may have the effect of heightening other risks disclosed in the "Risk Factors" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2021, such as, but not limited to, those related to supply chain management, labor shortage and cost, cybersecurity threats, as well as consumer perceptions of our brands.

Even if a virus or other illness does not spread significantly, the perceived risk of infection or health risk may affect our business. Our operations could also be disrupted if any of our employees or employees of our business partners were suspected of having a contagious illness or susceptible to becoming infected with a contagious illness, since this could require us or our business partners to screen and/or quarantine some or all of such employees or disinfect our restaurant facilities.

With respect to the avian flu, public concern over an outbreak may cause fear about the consumption of chicken, eggs and other products derived from poultry, which could cause customers to consume less poultry and related products. This would likely result in lower revenues and profits. Avian flu outbreaks could also adversely affect the price and availability of poultry, which could negatively impact our profit margins and revenues.

The audit reports included in our annual reports on Form 10-K are prepared by auditors who are not currently inspected by the Public Company Accounting Oversight Board and, as such, our stockholders are deprived of the benefits of such inspection and our common stock is subject to delisting from the New York Stock Exchange in the future.

As an auditor of companies that are publicly traded in the United States and a firm registered with the Public Company Accounting Oversight Board ("PCAOB"), our independent registered public accounting firm is required under the laws of the United States to undergo regular inspections by the PCAOB. However, because substantially all of our operations are conducted within China, our independent registered public accounting firm's audit documentation related to their audit reports included in our annual reports on Form 10-K is located in China. The PCAOB is currently unable to conduct full inspections in China or review audit documentation located within China without the approval of Chinese authorities, which has not been granted. Accordingly, the PCAOB has not inspected our independent registered public accounting firm or reviewed documentation related to the audit of our financial statements.

Inspections of other auditors conducted by the PCAOB outside of China have at times identified deficiencies in those auditors' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections of audit work undertaken in China prevents the PCAOB from evaluating our auditor's audits and its quality control procedures. As a result, our stockholders do not have the benefit of PCAOB inspections, and may lose confidence in our reported financial information and procedures and the quality of our financial statements.

On December 18, 2020, the Holding Foreign Companies Accountable Act (the "Act") was signed into law. The Act requires the SEC to prohibit the securities of any "covered issuer," including the Company, from being traded on any of the U.S. securities exchanges, including the New York Stock Exchange, or traded "over-the-counter," if the auditor of the covered issuer's financial statements is not subject to PCAOB inspection for three consecutive years, beginning in 2021. On December 2, 2021, the SEC adopted final rules implementing the Act, pursuant to which the SEC will implement the trading prohibition as soon as practicable after the covered issuer has been conclusively identified as a "Commission-Identified Issuer" for three consecutive years. In March 2022, the Company was conclusively identified as a Commission-Identified Issuer by the SEC.

On June 22, 2021, the U.S. Senate passed a bill which, if also passed by the U.S. House of Representatives and signed into law, would reduce the number of consecutive non-inspection years required to trigger the trading prohibition under the Act from three years to two (the "Senate Proposed Act Amendment"). On February 4, 2022, the U.S. House of Representatives passed a larger bill containing provisions identical to the Senate Proposed Act Amendment which, if also passed by the U.S. Senate and signed into law, would have the same effect (the "House Proposed Act Amendment").

Unless the Act is amended to exclude the Company or the PCAOB is able to conduct a full inspection of our independent registered public accounting firm's audit documentation related to their audit reports during the required timeframe, which is subject to a variety of factors outside our control including the approval of Chinese authorities, then our common stock will be delisted from the New York Stock Exchange in early 2024 or, if the House Proposed Act Amendment or Senate Proposed Act Amendment becomes law, in early 2023. Such delisting would limit the liquidity of our common stock and our access to U.S. capital markets, and as a result the market price of our common stock could be materially adversely affected.

On April 2, 2022, the China Securities Regulatory Commission (the "CSRC") proposed revisions to the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing (Draft for Comments) (the "Draft Provisions"). The Draft Provisions outline obligations of issuers listed in overseas markets with operations in China when they provide information involving state secrets or sensitive information to their securities service providers (e.g., auditors) and overseas regulators. In addition, under the Draft Provisions, such issuers will also be required to report to the CSRC and other PRC authorities before accepting any investigation or inspection by overseas regulators. The Draft Provisions have not yet been adopted, and it remains unclear whether any material changes will be made to the Draft Provisions before adoption, or how such measures and provisions will be enacted, interpreted or implemented and how they will affect us.

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

Our Board of Directors authorized an aggregate of $2.4 billion for our share repurchase program, including its most recent increase in authorization in March 2022. The authorizations do not have an expiration date.

The following table provides information as of March 31, 2022 with respect to shares of Yum China common stock repurchased by the Company during the quarter then ended:

Period	Total Number of Shares Repurchased (thousands)	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs (thousands)	Approximate Dollar Value of Shares that May Yet Be Repurchased under the Plans or Programs (millions)
1/1/22-1/31/22	1,692	$ 47.29	1,692	$ 537
2/1/22-2/28/22	1,291	$ 49.58	1,291	$ 473
3/1/22-3/31/22	1,999	$ 44.02	1,999	$ 1,385
Total	4,982	$ 46.57	4,982	$ 1,385

Item 6. Exhibits

Exhibit Number	Description of Exhibits
10.1**	Amendment No. 1 to Master License Agreement, dated as of April 15, 2022, by and between YRI China Franchising LLC and Yum Restaurants Consulting (Shanghai) Company Limited. *
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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document *
101.SCH	Inline XBRL Taxonomy Extension Schema Document *
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document *
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document *
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document *
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document *

* Filed or furnished herewith.
** Portions of this exhibit have been redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

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: May 6, 2022	/s/ Xueling Lu
	Controller and Principal Accounting Officer

Exhibit 10.1

Pursuant to Item 601(b)(10)(iv) of Regulation S-X, this exhibit omits certain information, identified by [*], that is not material and that the registrant treats as private or confidential.

AMENDMENT NO. 1 TO MASTER LICENSE AGREEMENT

This Amendment No. 1 to Master License Agreement ("Amendment No. 1"), is entered into as of April 15, 2022, by and between YRI China Franchising LLC, as assignee of Yum! Restaurants Asia Pte. Ltd. ("Licensor"), and Yum! Restaurants Consulting (Shanghai) Company Limited ("Licensee").

RECITALS

A. Licensor and Licensee are parties to that certain Master License Agreement, dated as of October 31, 2016 (the "Original Agreement").

B. Licensor and Licensee desire to modify the Original Agreement as set forth in this Amendment No. 1.

In consideration of the foregoing and the mutual covenants and consideration set forth herein, the receipt and sufficiency of which are hereby acknowledged, Licensor and Licensee agree as follows:

1. **AMENDMENT OF CERTAIN DEFINITIONS.** The following terms shall have the following meanings as used in the Agreement (as defined in this Section 1 below) and shall replace the corresponding terms set forth in the Original Agreement. Capitalized terms used and not otherwise defined in this Amendment No. 1 shall have the respective meanings assigned to them in the Original Agreement.

"Agreement" means the Original Agreement as modified by Amendment No. 1.

"Taco Bell Brand Development Initiative" means the specific development initiative for the Taco Bell Brand in the Territory set forth in Exhibit A-1.

2. **AMENDMENT OF EXHIBIT A-1.** Exhibit A-1 to the Agreement is hereby amended and restated in its entirety to read as set forth on Exhibit A-1 to this Amendment No. 1.

3. **CERTAIN AGREEMENTS REGARDING SGM CALCULATIONS.**

(a) For the Measurement Period of January 1, 2018 through December 31, 2022, the Parties hereby agree that such Measurement Period shall in respect of the Pizza Hut Brand omit the calendar year 2020 and the average annual Gross Revenue for each such Measurement Period in respect of the Pizza Hut Brand shall be calculated on the basis of the four remaining years in such Measurement Period.

(b) For purposes of determining Licensee's compliance with Section 2.1.3 of the Agreement for the Measurement Period that includes calendar years 2021 through 2025, the Parties agree that the Gross Revenue of the Pizza Hut Brand Restaurant Business for the Benchmark Year of 2020 shall be the average of the Gross Revenue such Brand Restaurant Business in each of 2019 and 2021.

(c) Section 2.1.3 of the Original Agreements is hereby deleted and replaced in its entirely as follows:

"2.1.3 Without limitation of Section 2.1.2, subject to Sections 2.1.3.A, through 2.1.3.E, Licensee shall cause the average annual Gross Revenue for each Brand Restaurant Business for each

Measurement Period to exceed the Gross Revenue of such Brand Restaurant Business for the applicable Benchmark Year ("Sales Growth Metric").

A. Within thirty (30) days after the beginning of each calendar year during the Term, Licensee shall calculate the average annual Gross Revenue for the relevant Measurement Period and the Gross Revenue for the relevant Benchmark Year for each Brand Restaurant Business and prepare and deliver to Licensor a written statement setting forth in reasonable detail its determination of the average annual Gross Revenue for the relevant Measurement Period and the Gross Revenue for the relevant Benchmark Year with respect to each Brand Restaurant Business (each, an "SGM Calculation Statement"). In the event Licensee's SGM Calculation Statement indicates a Brand Restaurant Business has failed to meet the Sales Growth Metric (an "SGM Breach"), Licensee may include with the SGM Calculation Statement a report setting forth specific factors, if any, beyond its reasonable control as the predominant cause for such SGM Breach (the "SGM Report").

B. Without limitation of Licensor's rights under Section 8.3, Licensor and its representatives shall have the right to inspect Licensee's books and records with respect to each Brand Restaurant Business, upon reasonable prior notice to Licensee and for purposes reasonably related to the verification of the SGM Calculation Statement, the SGM Report, if any, and any additional information relating to the Sales Growth Metric.

C. In the event the SGM Calculation Statement indicates that the Sales Growth Metric has been satisfied and Licensor agrees with the SGM Calculation Statement, Licensor shall provide written notice to Licensee confirming that the Sales Growth Metric has been satisfied for that particular Measurement Period within fifteen (15) days after receipt of the SGM Calculation Statement.

D. In the event an SGM Breach has occurred and Licensee has not included an SGM Report with the SGM Calculation Statement, Licensor shall provide written notice to Licensee confirming such SGM Breach within fifteen (15) days after receipt of the SGM Calculation Statement. Failure to submit an SGM Report with the SGM Calculation Statement shall be deemed a waiver of Licensee's right to submit an SGM Report for the relevant Measurement Period.

E. In the event an SGM Breach has occurred and Licensee has included an SGM Report with the SGM Calculation Statement, Licensor shall consider the SGM Report in good faith, while also taking into account factors within Licensee's control, such as Licensee's use of free cash and the amount of capital investments for Brand development, judged on both an historical and competitive basis. If Licensor, in its reasonable discretion, determines that the SGM Breach was predominantly caused by factors beyond Licensee's reasonable control, Licensor shall waive the SGM Breach with respect to the relevant Brand Restaurant Business and shall provide written notice to Licensee so indicating within fifteen (15) days after receipt of the SGM Calculation Statement. If Licensor, in its reasonable discretion, determines that the SGM Breach was not predominantly caused by factors beyond Licensee's reasonable control, Licensor shall provide written notice to Licensee confirming that an SGM Breach has occurred within fifteen (15) days after receipt of the SGM Calculation Statement.

In the event of two (2) consecutive SGM Breaches for a Brand Restaurant Business, Licensor shall be entitled to exercise its rights under Section 15.4.4."

4. **NO OTHER AMENDMENTS**. Except as expressly set forth herein, the Agreement shall remain in full force and effect and shall not be amended or modified. Nothing in this Amendment No. 1 shall affect or impair a Party's future exercise of any right or remedy under the Agreement.

5. **GOVERNING LAW**. This Amendment No. 1 shall be interpreted and construed under the laws of the United States of America and the State of Texas, U.S.A. (without regard to, and without giving effect to, their conflict of laws rules). All disputes under this Amendment No. 1, will be resolved in accordance with Article 17 of the Agreement.

6. **COUNTERPARTS**. This Amendment No. 1 may be executed in a number of identical counterparts, each of which will be deemed an original for all purposes and all of which will constitute, collectively, one agreement. Delivery of an executed signature page to this Amendment No. 1 by electronic transmission will be effective as delivery of a manually signed counterpart of this Amendment No. 1.

IN WITNESS WHEREOF, the Parties have entered into this Amendment No. 1 as of the date first written above.

YRI CHINA FRANCHISING LLC

/s/ Jessica Holleran
By: Jessica Holleran
Title: President

YUM! RESTAURANTS CONSULTING (SHANGHAI) COMPANY LIMITED

/s/ Joseph Chan
By: Joseph Chan
Title: Chief Legal Officer

EXHIBIT A-1

TACO BELL BRAND DEVELOPMENT INITIATIVE

The Parties acknowledge and agree that the following provisions regarding the Taco Bell Brand are part of the Master License Agreement, as amended by Amendment No. 1 (the "Agreement"), and shall apply solely with respect to the Taco Bell Brand and solely in respect of the time periods below.

1.Certain Definitions.

For the avoidance of doubt, capitalized terms used and not otherwise defined in this Exhibit A-1 shall have the respective meanings assigned to such terms in the Agreement.

"2022 Measurement Condition" means that, as of the 2022 Measurement Date, there are at least 100 Taco Bell Restaurants that are (i) operated under the Taco Bell Brand by a Sublicensee in the Territory pursuant to a Sublicense and (ii) open to customers for business during regular business hours on a continuous basis (except as may be prohibited on a temporary basis by Government Authority due to COVID-19 or a similar epidemic or pandemic).

"2022 Measurement Date" means December 31, 2022; provided, however, that if, as of December 31, 2022, there are at least 90 (but less than 100) Taco Bell Restaurants that are operated under the Taco Bell Brand by a Sublicensee in the Territory pursuant to a Sublicense and that are open to customers for business during regular business hours on a continuous basis (except as may be prohibited temporary basis by Governmental Authority due to COVID-19 or a similar epidemic or pandemic), the 2022 Measurement Date shall be March 15, 2023.

"2025 Measurement Condition" means that, as of the 2025 Measurement Date, there are at least 225 Taco Bell Restaurants that are (i) operated under the Taco Bell Brand by a Sublicensee in the Territory pursuant to a Sublicense and (ii) open to customers for business during regular business hours on a continuous basis (except as may be prohibited on a temporary basis by Governmental Authority due to COVID-19 or a similar epidemic or pandemic).

"2025 Measurement Date" means (i) for purposes of determining whether the 2025 Measurement Condition has been satisfied, December 31, 2025, provided, however, that if, as of December 31, 2025 there are at least 220 (but less than 225) Taco Bell Restaurants that would satisfy the requirements set forth in clauses (i) and (ii) of the definition of 2025 Measurement Condition, the 2025 Measurement Date shall be extended to the end of the Grace Period, and (ii) for purposes of determining any amount payable pursuant to Section 5(a), the later of December 31, 2025 and the end of the Grace Period (if invoked by Licensee).

"Aggregate Investment Cap" means [*], reduced by [*] if there is a Net New Unit Shortfall for 2023 and reduced by [*] if there is a Net New Unit Shortfall for 2024 (it being understood that if there is a Net New Unit Shortfall for both 2023 and 2024, the aggregate reduction to the Aggregate Investment Cap shall be [*]).

"Grace Period" means, as to a date, the thirty (30) day period after such date.

"Net New Units" means, for any calendar year, the positive difference (if any) between (i) the number of Taco Bell Restaurants operated by a Sublicensee in the Territory that are open to customers for business during regular business hours on a continuous basis (except as may be prohibited on a temporary basis by Governmental Authority as a result of COVID-19 or a similar epidemic or pandemic) as of the end of such calendar year, and (ii) the number of Taco Bell Restaurants operated by a Sublicensee in the Territory that are open to customers for business during regular business hours on a continuous basis (except as may be prohibited on a temporary basis by Governmental Authority as a result of COVID-19 or a similar epidemic or pandemic) as of the end of the immediately prior calendar year. Notwithstanding anything to the contrary herein, if the 2022 Measurement Date is extended to March 15, 2023, Net New Units for calendar year 2023 will exclude any Taco Bell Restaurants that were opened in 2023 but that were required for Licensee to satisfy the 2022 Measurement Condition. Notwithstanding anything to the contrary herein, (1) if a Grace Period is invoked as contemplated by Section 5(a) in respect of calendar year 2023, Net New Units for calendar year 2024 will exclude any Taco Bell Restaurants that were opened during such Grace Period, and (2) if a Grace Period is invoked as contemplated by Section 5(a) in respect of calendar year 2024, Net New Units for calendar year 2025 will exclude any Taco Bell Restaurants that were opened during such Grace Period. In the event that a Grace Period has been invoked for a calendar year as contemplated by Section 5(a), "Net New Units" means, for that calendar year and for purposes of calculating any amount payable pursuant to Section 5(a), the positive difference (if any) between (x) the number of Taco Bell Restaurants operated by a Sublicensee in the Territory that are open to customers for business during regular business hours on a continuous basis (except as may be prohibited on a temporary basis by Governmental Authority as a result of COVID-19 or a similar epidemic or pandemic) as of the end of the Grace Period following such calendar year, and (y) the number of Taco Bell Restaurants operated by a Sublicensee in the Territory that are open to customers for business during regular business hours on a continuous basis (except as may be prohibited on a temporary basis by Governmental Authority as a result of COVID-19 or a similar epidemic or pandemic) as of the end of the immediately prior calendar year (or, if a Grace Period has been invoked for such immediately prior calendar year, as of the end of such Grace Period).

"Net New Unit Investment Amount" means:

(i) For calendar year 2023, (a) if Net New Units for calendar year 2023 are at least [*] but less than [*], [*] per Net New Unit, (b) if Net New Units for calendar year 2023 are at least [*] but less than [*], [*] per Net New Unit, and (c) if Net New Units for calendar year 2023 are at least [*], [*] per Net New Unit;

(ii) For calendar year 2024, (a) if Net New Units for calendar year 2024 are at least [*] but less than [*], [*] per Net New Unit, (b) if Net New Units for calendar year 2024 are at least [*] but less than [*], [*] per Net New Unit, and (c) if Net New Units for calendar year 2024 are at least [*], [*] per Net New Unit; and

(iii) For calendar year 2025, (a) if Net New Units for calendar year 2025 are at least [*] but less than [*], [*] per Net New Unit, (b) if Net New Units for calendar year 2025 are at least [*] but less than [*], [*] per Net New Unit, and (c) if Net New Units for calendar year 2025 are at least [*], [*] per Net New Unit.

"Net New Unit Shortfall" means (i) for 2023, that the Net New Units for 2023 are not at least [*]; (ii) for 2024, that the Net New Units for 2024 are not at least [*]; and (iii) for 2025, that the Net New Units for 2025 are not at least [*].

"NNU Narrow Shortfall" means a shortfall of [*] Net New Units or less from a NNU Milestone. For example, for calendar year 2024, there is a NNU Narrow Shortfall if the Net New Units for such calendar year are within [*] Net New Units or less of [*], [*], or [*].

"NNU Milestone" means for each calendar year, the milestone number of Net New Units to achieve an increase the US$ amount payable per Net New Unit, e.g., in calendar year 2024, the NNU Milestones are [*], [*] and [*] Net New Units.

"Taco Bell Restaurant" means a Restaurant operated under the Taco Bell Brand.

"Up-front Investment" means [*].

2.Up-front Investment. Within seven (7) Business Days after execution and delivery of Amendment No. 1 by each of Licensor and Licensee, Licensor shall pay to Licensee the Up-front Investment by wire transfer of immediately available funds to an account designated by Licensee in writing to Licensor.

3.License and Term.

(a) Notwithstanding anything in the Agreement to the contrary, the continuation of the license granted with respect to the Taco Bell Brand and associated Brand System IP is expressly conditioned on Licensee's fulfillment of each of the 2022 Measurement Condition and the 2025 Measurement Condition. If Licensee fails to satisfy the 2022 Measurement Condition or the 2025 Measurement Condition (each, a "Development Shortfall"), each of Licensee's right to enter into new Taco Bell Sublicenses (including new single unit franchise agreements under any then-existing multi-unit development arrangement) and the territorial protections set forth in Section 2.2 of the Agreement with respect to the Taco Bell Brand shall terminate upon Licensor's written notice to Licensee of such termination. However, in such event, Licensee would continue to have the right and obligation to support the Taco Bell Sublicenses in effect as of the effective date of the termination, in accordance with the terms of the Agreement and such Sublicenses. Licensee acknowledges and agrees that any multi-unit development rights for Taco Bell Restaurants granted to a Sublicensee shall be expressly contingent upon Licensee's possession of development rights for Taco Bell Restaurants under the Agreement at the time the Sublicensee seeks to exercise its rights. If Licensee has a Development Shortfall, such Development Shortfall will not negatively affect the rights of Licensee under the Agreement with respect to the development or operation, or the territorial protections set forth in Section 2.2 of the Agreement, of the KFC or Pizza Hut Brand Restaurant Businesses in the Territory.

(b) If Licensee satisfies both the 2022 Measurement Condition and the 2025 Measurement Condition, the Initial Term solely as relates to the Taco Bell Brand shall be extended to the date that is fifty (50) years after the date of Amendment No. 1 (the "TB Initial Term"), unless sooner terminated as provided in the Agreement (it being understood that all other terms and conditions of the Agreement shall continue to apply without modification), and, for the avoidance of doubt, the term "Initial Term" as used in Section 13.2 of the Agreement in relation to the Taco Bell Brand shall be the TB Initial Term.

(c) For the avoidance of doubt, if Licensee satisfies the 2022 Measurement Condition, the territorial protections set forth in Section 2.2 of the Agreement with respect to the Taco Bell Brand shall apply until the 2025 Measurement Date.

4.Taco Bell Investment Reports.

(a) No later than thirty (30) Business Days after the 2022 Measurement Date, the end of the calendar year 2023 (plus any Grace Period invoked by Licensee), the end of the calendar year 2024 (plus any Grace Period invoked by Licensee), and the 2025 Measurement Date (or each 2025 Measurement Date if the 2025 Measurement Date for purposes of clause (i) of the definition thereof differs from the 2025 Measurement Date for purposes of clause (ii) of the definition thereof), Licensee shall provide Licensor with a written report (the "Taco Bell Investment Report") setting forth (i) for calendar year 2022 (and, if the 2022 Measurement Date has been extended to March 15, 2023, for the period from January 1, 2023 and ending on March 15, 2023), information sufficient, in Licensor's reasonable judgment, to enable Licensor to determine whether the 2022 Measurement Condition was satisfied, (ii) for each of calendar year 2023 and 2024 (plus any applicable Grace Period invoked by Licensee as contemplated by Section 5(a)) and for the calendar year 2025 (plus any applicable Grace Period invoked by Licensee as contemplated by Section 5(a)), and provided that the 2022 Measurement Condition has been satisfied, information sufficient, in Licensor's reasonable judgment, to enable Licensor to determine the number of Net New Units for such period and (iii) as of December 31, 2025 (or, if applicable pursuant to clause (i) of the definition of 2025 Measurement Date, the end of the Grace Period), and provided that the 2022 Measurement Condition has been satisfied, information sufficient, in Licensor's reasonable judgment, to enable Licensor to determine whether the 2025 Measurement Condition has been satisfied. Without limitation of Licensor's rights under Section 8.3 of the Agreement, Licensor and its representatives shall have the right to inspect Licensee's books and records with respect to the Taco Bell Brand Restaurant Business, upon reasonable notice to Licensee and for purposes reasonably related to the verification of the Taco Bell Investment Report and any information relating thereto.

(b) If Licensor agrees in writing with the Taco Bell Investment Report as provided by Licensee pursuant to the foregoing clause (a), such Taco Bell Investment Report shall be final and binding and thereafter be known as the "Final Taco Bell Investment Report" for the applicable period. If Licensor does not agree in writing with the Taco Bell Investment Report as provided by Licensee pursuant to the foregoing clause (a) within fifteen (15) Business Days after receipt thereof, the Parties shall resolve their dispute with respect thereto pursuant to Article XVII of the Agreement and the Taco Bell Investment Report as finally determined pursuant thereto shall be the "Final Taco Bell Investment Report" for the applicable period.

5. Investment Payments.

(a) If there is a NNU Narrow Shortfall for calendar year 2023, 2024 or 2025, Licensee may, at its option, invoke the application of a Grace Period in respect of such calendar year, in which case Licensee's Taco Bell Investment Report for such calendar year shall measure Net New Units as contemplated by the final sentence of the definition thereof. Within seven (7) Business Days after the determination of the Final Taco Bell Investment Report for each of calendar year 2023, 2024 and 2025 (after giving effect to any applicable Grace Period), and provided that the 2022 Measurement Condition has been satisfied, there has been no Net New Unit Shortfall and Licensee and its Sublicensees are in substantial compliance with the applicable Brand Standards and have exercised commercially reasonable, good faith efforts to comply with such Brand Standards, Licensor shall pay to License an amount equal to (i) the number of Net New Units for the applicable calendar year, after giving effect to any applicable Grace Period, as set forth in the applicable Final Taco Bell Investment Report, *multiplied by*, (ii) the applicable Net New Unit Investment Amount, in each case in respect of the period covered in such Final Taco Bell Investment Report, after giving effect to any applicable Grace Period. Such payment shall be made by wire transfer of immediately available funds to an account designated by Licensee, such designation to be made in writing to Licensor no later than three (3) Business Days after the determination of the Final Taco Bell Investment Report for the applicable period.

(b) Notwithstanding anything to the contrary herein, in no event shall the amount Licensor is obligated to pay Licensee pursuant to Section 2 of this Exhibit A-1, together with the amount Licensor is obligated to pay Licensee pursuant to Section 5(a) of this Exhibit A-1, exceed the Aggregate Investment Cap.

(c) Notwithstanding anything to the contrary herein and for the avoidance of doubt, there will be no double counting of Net New Units across measurement periods.

6.<u>Qualifying Units</u>. Notwithstanding anything to the contrary in the Agreement, Licensee may operate mobile or temporary units, pop-up stores, vending machines or similar units as Taco Bell Restaurants, but such units will not count toward Net New Units or toward satisfaction of the 2022 Measurement Condition or 2025 Measurement Condition.

Exhibit 31.1

CERTIFICATION

I, Joey Wat, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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: May 6, 2022

/s/ Joey Wat
Joey Wat
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Andy Yeung, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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: May 6, 2022

/s/ Andy Yeung
Andy Yeung
Chief Financial 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 March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Periodic Report"), I, Joey Wat, Chief Executive Officer of the Company, hereby 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: May 6, 2022	/s/ Joey Wat
	Joey Wat
	Chief Executive Officer

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

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL 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 March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Periodic Report"), I, Andy Yeung, Chief Financial Officer of the Company, hereby 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: May 6, 2022	/s/ Andy Yeung
	Andy Yeung
	Chief Financial Officer

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