



Joey Wat
Chief Executive Officer

Dear Stockholders,

2024 was another record-breaking year for Yum China. Amid a challenging external environment, we delivered excellent results, reflecting the strength and resilience of our business. The hard work and unwavering dedication of our people made these achievements possible.

Record 2024 results featured both strong top- and bottom-line growth, along with substantial capital returns to stockholders.



On the top line, we opened a record 1,751 net new stores, driving system sales and revenue to new heights, both growing at 5% year-over-year¹. We have chalked up eight consecutive quarters of same-store transaction growth, while our same-store sales index improved sequentially since the second quarter of 2024.

¹ System sales and Revenue growth exclude the impact of F/X.

² Please see page 81 of our Annual Report on Form 10-K for a reconciliation from GAAP Operating profit to Core operating profit.



On the bottom line, we protected our margins by generating value at scale. Core operating profit surged to \$1.2 billion, a 12% increase year-over-year². In 2024, we returned approximately \$1.5 billion in capital to our stockholders, a historic high, representing approximately 9% of Yum China’s market capitalization at the year end. We are on track to return \$4.5 billion to stockholders from 2024 to 2026, fully committed to providing attractive returns to our stockholders.

Our core brands, KFC and Pizza Hut, tapped into underserved markets and grew incremental traffic, sales, and profit in 2024. This was achieved through constant product innovation, expanding into different food categories, different price ranges, and different strategic locations and geographies.

At KFC, we introduced exciting new takes on classics like the Original Recipe Chicken Burger and Gigantic Egg Tart. At Pizza Hut, our revamped menu featured lower prices on some of our iconic products, and introduced new or upgraded offerings like Pizza Dough Burgers and Golden Salty Egg Chicken Pizza. During the year, both brands rolled out breakthrough models, KFC’s KCOFFEE Cafe and Pizza Hut’s WOW, both helped drive sales and transaction growth. The number of KCOFFEE Cafes and Pizza Hut WOW stores surpassed 700 and 200 respectively by year-end.

We continue to see fantastic long-term growth opportunities in China. Relatively low housing and living costs in lower-tier cities leave ample potential for consumer spending. To spearhead our expansion into smaller cities and towns, we created another new flexible store model – the KFC small town mini. This model requires just a half million RMB investment, roughly one-third that of a normal store. Our flexible store models allow us to penetrate effectively across city tiers and locations. In 2024, our payback period for new stores held steady at two years for KFC and improved to two to three years at Pizza Hut.

We have also identified opportunities in strategic locations like highway service centers, college campuses, hospitals, gas stations and other tourist areas. KFC's store at Tongji University is a notable example, gaining lots of traction on campus.

We are leveraging partnerships with franchisees with local resources to unlock opportunities in these strategic locations and lower-tier cities that were previously beyond our reach. We view franchising as complementary to our equity business, a strategic tool to drive incremental growth and buttress our market position. We are accelerating franchise store opening, anticipating our franchise mix to gradually increase to 40-50% of KFC's and 20-30% of Pizza Hut's net new stores over the next few years.

Our other brands also made progress. Lavazza continued to grow through its dual growth engines of coffee shops and retail business. Store economics have meaningfully improved due to better operational efficiency and reduced new store capex. Its retail business saw sales grow over 30% and became profitable in 2024. We have also made good progress in building appreciation for Lavazza's coffee expertise and enriching food choices. For Little Sheep and Huang Ji Huang, our focus has been on improving their menus, refining store models, and strengthening their supply chain. For Taco Bell, in 2024, we pruned our store portfolio to focus on our key markets, Beijing and Shanghai, leading to improved operating results.

We carried out two major initiatives in 2024 – Project Fresh Eye and Project Red Eye. Both contributed to our 2024 bottom-line growth, and, just as importantly, they also brought further enhancements to our long-term operational efficiency and resilience. Project Fresh Eye assessed our operations through the lens of our Restaurant General Managers to identify measures that help them manage routine tasks more efficiently, so that they can focus more on customer service. Project Red Eye looked at our operations from our customers' perspective, aiming to improve cost of sales through spending better and buying better across our organization. Pursuing these multifaceted improvements while maintaining rapid growth was challenging, but they served us well, as we were able to invest much of the cost savings in providing enhanced value to our customers.

Winning behind the Scenes with Supply Chain and AI-powered Digital Capabilities

The China market, while complex and dynamic, continues to be ripe with opportunity and white space. To succeed, companies will need both the operational efficiency to ride out volatility and a deep understanding of consumer needs to drive continuous innovation. Some might view these two as trade-offs: to achieve one, you must compromise the other. But we are determined to deliver both, and this dual focus will continue in 2025 and beyond.

We believe we are able to simultaneously deliver operational efficiency and innovation mainly because of the hard-to-replicate competitive advantages we have built up over the past 37 years, while staying true to our core value of "People First."

Our brands are household names that customers know, trust, and have deep personal attachment to. We have amassed over 525 million members through our proprietary, home-grown super apps and other touchpoints such as mini programs, generating incredibly valuable consumer insights that allow us to better understand and cater to customers' needs.

Our long-term investments in key capabilities like supply chain and digital continue to pay off. Our industry-leading supply chain links us to over 800 suppliers and employs a logistics network with capacity to cover over 3,000 cities. These capabilities not only enable our rapid store expansion, but also play a crucial role in product innovation and cost optimization.

As one of the first restaurant companies in China to adopt digital payments back in 2015, we have consistently been a pioneer in successful adoption of digital solutions across our business. Since 2018, we began designing and experimenting with sophisticated digital and AI-enabled tools. In recent years, we have been continuously implementing our end-to-end digitalization initiatives, leveraging AI to connect our operations from customer-facing functions to back-end supporting functions. This helped us significantly improve operating efficiency and consistency. In 2023, we started to explore the application of Generative AI into our systems. We believe this will enable us to further enhance data and knowledge integration across our business, empowering our employees with more intelligent tools to run our restaurants more efficiently and effectively.

Catering to the Consumers of Tomorrow

Consumer insights are key to our ability to continually learn and connect with our customers. Recently, we have observed that emerging generations of consumers are placing greater emphasis on emotional value, both in physical and virtual worlds. To win over these consumers, we need to create products that resonate with them emotionally. For example, we created a new product "Original Recipe Chicken Burger" which combines Original Recipe Chicken with mashed potatoes in a bun. This is reminiscent of how a lot of customers in China used to enjoy Original Recipe Chicken when they were young – dipping it in mashed potatoes. This product went viral. As one customer told me, "It's a childhood dream come true!" Meanwhile, at Pizza Hut, we introduced limited-time offerings during Chinese New Year like the Fortune Cat Crust Pizza. Here, a combination of great taste and auspicious overtones made these

products big hits with our customers. At the same time, we actively seek to form emotional connections with our customers through our marketing. For example, KFC recently leveraged endorsements from Olympic ping-pong champion Sun Yingsha, who is adored by the Chinese public.

A Final Word of Gratitude

I want to express my deepest gratitude to our employees for their outstanding efforts, and we are grateful to our customers for their love of our products and brands. We also want to thank our stockholders who have stood by us along our journey. As we look ahead to 2025 and beyond, we expect our dual focus on operational efficiency and innovation will continue to be crucial to our success. Meanwhile, we remain committed to investing in our long-term capabilities which form the backbone of our competitive advantage. No matter how the world changes, we will focus on the fundamental elements we can control, which are “Good food, Good Fun, External Beauty and Internal Beauty”. These are the secrets to our long-lasting success, and we believe Yum China is well positioned to capture significant growth potential and deliver sustainable value for our stockholders.

With sincere appreciation,

Joey Wat
Chief Executive Officer
Yum China Holdings, Inc.

“\$” refers to U.S. Dollar.

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