

Dear Stockholders,

I write this letter with mixed emotions. We are joyful and proud to report another set of outstanding results for 2019, our third full year as an independent, publicly-traded company. At the same time, we are cautiously managing the impacts arising from the novel coronavirus ("COVID-19") outbreak, and we remain optimistic on the long-term growth potential of our business in China.

As you review our performance in the pages that follow, you will see that 2019 was another solid year. We achieved strong growth in total revenues and same store sales, opened over 1,000 new stores, and strengthened our operations across multiple aspects. Most importantly, we grew earnings per share and rewarded stockholders with a significant return. We have now delivered over \$1 billion to stockholders via dividends and share repurchases since becoming an independent company. We also maintain a healthy balance sheet and cash position that would enable us to withstand unexpected challenges.



The test kitchen in Yum China's new Innovation Center in Shanghai

Innovation Powering Growth

Our vision is to be the world's most innovative pioneer in the restaurant industry. Innovation has been powering our growth, as we highlighted at our investor day in March 2019.

Customers are drawn to us for four reasons: delicious food; great value; a pleasant customer experience enhanced by our digital efforts; and convenience. In 2019, we made meaningful progress in each of these strategic areas.

Let's start with the core of our business, the **food**. Our customers expect delicious new menu alternatives, and we constantly seek to exceed their expectations. We are continuously refreshing our menu, introducing popular new items such as Double Chili Chicken at KFC, or Durian Pie at Pizza Hut. Our new Innovation Center in Shanghai demonstrates our commitment to offering new, delicious, high value menu alternatives.

+4% or +9%*

Total Revenues Growth

+3%*

Same-store sales growth

1,006

New Stores,
entered **100+** new cities

9,200

stores
at year end 2019

**\$1.08 billion in terms
of dividends and
shares repurchases
since spin-off**

**\$1.66 billion in cash,
cash equivalents and
short term investments
at year end 2019**

* Excluding foreign exchange impact.

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.



KFC Coffee (left) and Super (right) privilege subscription programs

Pizza Hut Family (left) and Steak (right) privilege subscription programs



KFC Double Chili Chicken



Pizza Hut Durian Pie

Second, we offer **great value**, providing delicious meals at price points accessible to consumers. In 2019, we minimized price increases by managing food costs through enhanced operating efficiencies. Additionally, our smart value promotions such as Crazy Thursday at KFC and Scream Wednesday at Pizza Hut continue to be popular. These great promotions not only appealed to our customers but also protected our margins.

Third, our **digital** strategy is proving effective in strengthening the relationship with our customers, thus increasing loyalty and driving sales. Our KFC and Pizza Hut Super Apps offer customers a multi-faceted, fully-digitized experience. For example, pre-order or tableside order, loyalty point accumulation and redemption, social gifting and birthday party reservations can all be done via the Super Apps. Digital also improves our marketing efficiency by enabling us to better understand customer behavior, and thereafter tailor offers and promotions accordingly. In our experience, this is far more powerful and cost-effective than mass marketing. For example, our privilege subscription programs successfully increased frequency and sales to members. Overall, KFC and Pizza Hut's combined digital membership grew by a third to over 240 million at the end of 2019, and members contributed about half of our sales. We also made further strides in building out our digital ecosystem, with the rollout of YUMC Pay (in partnership with Union Pay) which offers a convenient payment option for users within our super APPs.

Fourth and finally, we are committed to creating more **convenience** in how customers access our menu. Delivery continued to ramp significantly during the year, especially via our own channels, as opposed to third-party aggregators. Furthermore, our convenient mobile ordering and kiosk ordering are becoming more popular. They also free up our store staff for other in-store functions, making our restaurants more efficient and customer-focused.

>240 million members — KFC and Pizza Hut combined



KFC Pocket Store won three Gold Cannes Lions in 2019



Investing for Success in 2020 and Beyond

We believe our success in 2019 reflects only a fraction of what we can achieve. We are confident in the long-term market opportunities in China and are focused on key elements of our growth strategy.

Most importantly, we expect to continue opening new stores rapidly yet prudently, focusing on high potential locations across city tiers, and entering new cities and trade zones. We are also exploring various new store formats to support further penetration and new designs to keep our stores fresh and modern.



In addition, we expect to support sales growth by growing underpenetrated dayparts and food categories, as well as further engaging our members while driving delivery. We will also step up investments in our emerging brands, refining the formulas and expanding store counts. We see immense potential in the coffee market and are excited to serve new customers in this space. We grew our COFFii & JOY brand to over 50 stores, and entered into a joint-venture partnership with Lavazza, a leading coffee brand in Italy, to establish its first flagship store in Asia. Additionally, our acquisition of a controlling interest in the Huang Ji Huang group is expected to close in the first half of 2020, further fueling our growth in the Chinese cuisine market.

In addition to customer-facing digital initiatives, we will step up investments in IT and our supply chain. We are using technology to enable our operations to be efficient, nimble and flexible. For instance, our integrated supply chain management system enables us to quickly and efficiently launch new products and promotions at the national, regional or even store level. We believe digital and data driven analytics will continue to improve our food safety and quality assurance processes, further cementing our leadership in this crucial area.

Our IT investments are also expected to enable greater efficiency in operations. We now utilize AI-based technology for store-level hourly sales forecasting, which supports better labor scheduling and inventory management. In addition to Pocket Manager, a mobile phone app rolled out last year for restaurant managers to monitor the performance of their restaurants, we started to roll out smart watches, enabling restaurant managers to closely monitor ordering and serving status.

Achieving Success Responsibly: We CARE

Our operating objectives extend beyond delivering great financial performance; we also aim to be a model for great corporate citizenship. We characterize our social responsibility efforts with the acronym **CARE: Creating A Responsible Ecosystem**. CARE is a sustainability strategy that drives the continuous improvement of our environmental, social and governance (ESG) performance.

We execute CARE in a variety of ways. For instance, we are committed to fostering a professional and inclusive workplace for all of our 450,000 employees. We are also committed to providing safe and nutritious food in a way that is economically, socially and environmentally sustainable. We want Yum China to positively impact all our stakeholders: employees, customers, stockholders, suppliers, communities and the environment.

Family care is one example of our commitment to our employees. We started offering our family care program to our restaurant general managers in 2018, designed to provide additional health protection for their family members. As of the end of 2019, over 5,700 of our restaurant general managers and their 18,000 family members had benefited from this program. In 2020, we are extending the family care coverage to over 31,000 of our restaurant management team members and their 86,000 family members. We are going above and beyond others in the market, by increasing the age cap to 75 for employees' parents and 22 for their children.



We are increasingly being recognized for our commitment to socially responsible management practices. For the second consecutive year, the *Top Employer Institute* certified us as a top employer in China. This global certification program recognizes leading employers in more than 115 countries that are dedicated to providing an exceptional working environment through progressive “People First” human resources practices. In addition, Yum China was included in the *Bloomberg Gender-Equality Index* for the second consecutive year. This index recognizes companies committed to transparency in gender reporting and to advancing women’s equality. We are one of only three companies from mainland China included in the index.

Our environmental priorities have been guided by the Reduce, Reuse, Recycle and Replace (4R) Principles. In 2019, we were very proud to become the first restaurant company in China to supply our ISCC Certified used cooking oil as a sustainable feedstock for biodiesel production. We are committed to reducing water consumption, energy consumption, greenhouse gas emissions and disposable packaging, and are actively promoting our sustainability concepts and practices with our suppliers to create a responsible ecosystem.



KFC and Pizza Hut restaurants providing free meals with contactless delivery service to medical workers in Wuhan and across the country



Joey Wat

Chief Executive Officer
Yum China Holdings, Inc.

Managing the Impact of COVID-19

As I write this, the COVID-19 situation is still evolving. Our foremost concern is the health and safety of our customers, employees and business partners. We implemented controls following guidance from the relevant authorities to minimize the risk of infection at our stores. We also pioneered contactless delivery and pick up, as well as corporate catering services as safe and desirable alternatives for customers to enjoy our meals.

As discussed at the 2019 fourth quarter earnings release call, we closed a significant portion of our stores during the Chinese New Year holiday period. Since that time, more companies have restarted work and travel and quarantine restrictions are gradually being lifted in China, and we have been gradually reopening stores on a partial or fully operational basis. Concurrently, we have seen our delivery and takeaway sales gain traction as consumer awareness increases. However, we remain cautious as the situation continues to evolve.

As you can anticipate, the COVID-19 situation has impacted our results. Fortunately, we are a fortified and resilient company that is well positioned to weather this storm. The rapid response of the Yum

China team has also been a source of tremendous pride for me, as I have witnessed first-hand the dedication, innovation and flexibility of each and every one of our employees, working tirelessly to ensure minimal supply chain and operational disruption. I am confident that our hard work will pay off as conditions return to normal.

Importantly, we are supporting the communities we serve even at this challenging moment. Our KFC and Pizza Hut teams have led the delivery of over 137,000 free meals to over 1,200 hospitals and community health centers in more than 28 provinces and cities across mainland China. We also donated RMB 3 million to the Red Cross to support their effort to fight the outbreak. We are managing the situation today, and are prepared for the recovery tomorrow.

I am honored to lead this great company and work alongside a dedicated management team and outstanding workforce. Together, we will build an even stronger, nimbler and more innovative company that delivers value to its employees, customers, stockholders, communities and the environment.



Joey Wat
Chief Executive Officer