



# Dear Stockholders,

I want to start by thanking our employees for their dedication, and our customers, business partners and shareholders for their trust placed in Yum China in this most unprecedented year.

Good times build confidence; bad times build character. While the COVID-19 pandemic challenged our people, systems and capabilities, Yum China showed its resilience, responding with compassion, world-class execution and innovation. After the pandemic hit in the first quarter, KFC and Pizza Hut recovered sales sequentially and delivered solid profit. Our financial strength allowed us to honor commitments to our employees for scheduled hours and extend much needed support to our employees and business partners. We captured market opportunities and accelerated new store openings, ending the year with 10,506 stores. We drove growth in coffee and Chinese dining with the joint venture with Lavazza and acquisition of Huang Ji Huang, respectively. Finally, we improved our access to shareholders in Asia by listing in Hong Kong in September, making us the first Delaware-incorporated company to list on both the New York Stock Exchange and Hong Kong Stock Exchange.

## Commitment to Employee Care

We could not have navigated the challenges we faced without the commitment and creativity of our employees. Yum China is committed to a “People First” philosophy, and the pandemic reinforced our determination to care for our employees. After the COVID-19 outbreak, we extended our family care coverage for critical illness and accidents to the restaurant management team and supervisors. By year end, more than 18,000 employees and 40,000 family members were covered under this program. In addition, we established a fund with contributions from our senior executives, board members and employees to help frontline employees and their families impacted by COVID-19.

As a testament to our commitment to employee care, for the third consecutive year, we were both certified as a Top Employer China by the Top Employers Institute and named to the Bloomberg Gender-Equality Index (GEI). Yum China is the only company operating in mainland China included in the latest Bloomberg GEI. Yum China has also endorsed the United Nations Women’s Empowerment Principles, demonstrating our commitment to promoting gender equality in our workplace, industry and communities.



**\$961**

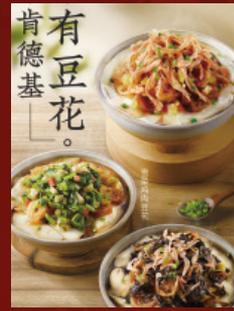
million  
Operating Profit

**\$732**

million  
Adjusted Operating Profit

**\$695**

million  
Free cash flow from  
operations (Net cash from  
operating activities minus  
capital expenditure)



## Serving the Community and Protecting the Environment

We strive to be a responsible corporate citizen, and support our communities during times of difficulty. Even at the peak of the outbreak, a majority of our restaurants remained open, so that millions of people could have access to safe and hearty meals. To protect the health and safety of our employees and customers, we quickly put in place robust health measures such as contactless delivery and takeaway. Yum China also supported our communities by providing donations, free meals, and volunteer services to medical workers on the frontline.

We have also made significant progress in sustainability and were named the Industry Leader for the Restaurant & Leisure Facilities Industry in the 2020 Dow Jones Sustainability Indices. In December 2020, we launched a series of plastic reduction initiatives, such as replacing plastic straws, cutleries and packaging with environmental friendly materials. In addition to complying with regulatory requirements, we are working towards a 30% reduction on non-degradable plastic packaging weight by 2025. We also refuse to purchase paper products from suppliers that knowingly cause deforestation.

## Innovation-Led Strategy

COVID-19 did not derail us from our vision to be the world's most innovative pioneer in the restaurant industry. One area of innovation of which I am most proud is our ability to launch disruptive products that resonate with consumers. In 2020, we launched approximately 500 new or upgraded products at great prices. For example, at KFC we launched the Wagyu beef burger, tea-infused hard-boiled egg and tofu pudding, while at Pizza Hut we introduced roasted sirloin steak with rice on an iron pan, baked crayfish with salted eggs and volcano tiramisu with Belgian chocolate. We also tested regional flavors in selected markets, such as Wuhan hot dry noodles and Sichuan spicy crayfish (a great late-night snack!).

Our innovation capabilities have made it possible for us to quickly adapt to evolving consumer demands. KFC, Pizza Hut and Taco Bell were among the first western restaurant brands to introduce plant-based meat products in China, providing consumers with more healthy choices. To address the home-consumption trend, Pizza Hut launched ready-to-cook steak for takeaway and delivery in early 2020. We also launched ready-to-heat chicken soup, fried rice, and a popular spicy noodle dish (Luosifen) in late 2020 under a new retail brand, which leverages our product innovation capabilities, supply chain and online/offline assets. We are encouraged by the excitement surrounding the launch and are working on other attractive additions to our offerings.





## Our Growth Initiatives

Despite the challenges in 2020, we remain confident in the growth opportunities in China and have been staying the course with our long-term strategy. We believe the Yum China of the future will have a much larger footprint across China, enabled by growth in our store network, growth in our portfolio of brands and growth in our digital and delivery capabilities.

### Store Network Expansion

In a year that was anything but normal, we opened 1,165 new stores. This marks the highest number of new openings in our history of operating in China. More importantly, we remain disciplined with our store expansion. The payback period for new stores continues to be healthy at approximately 2 years for KFC and 3 to 4 years for Pizza Hut. There is still ample white space in China to grow. We have been tracking several hundred cities that we currently do not have a presence yet for KFC and even more cities for Pizza Hut. Smaller store formats such as the “small town model” at KFC and “Hub and Spoke model” at Pizza Hut will enable us to penetrate lower-tier cities and increase density in existing cities. While it took us 33 years to reach 10,000 stores, we intend to accelerate our store expansion to reach the next 10,000 at a faster pace!

Our leadership position in China is underpinned by our world-class supply chain management and nationwide network. Consisting of 25 logistics centers, 7 consolidation centers, over 2,000 cold-chain trucks and real-time monitoring systems, our supply chain enables us to serve quality food to our customers and helps fuel store expansion in China. To efficiently and adequately support our store expansion, we will continue to invest in strengthening our logistics and other operational infrastructures.



Small Town model



Hub and Spoke model

1,165

New stores

10,506

Total stores  
(at year end 2020)  
across  
1,500+ cities

**>300**  
million members

..... ▶▶▶ .....  
KFC and Pizza Hut combined  
(at year end 2020)

**~80%**  
Digital orders

..... ▶▶▶ .....  
KFC and Pizza Hut's  
Company sales

**>50%**  
Off-premise sales

..... ▶▶▶ .....  
KFC and Pizza Hut's  
Company sales



### Growing Emerging Brands

While we remain dedicated to the growth of our core brands, there are considerable opportunities in scaling our emerging brands, including two segments with strong growth potential: coffee and Chinese dining.

We have three distinct coffee brands with clear segmentation and strategy. At KFC, K-Coffee offers good quality coffee at affordable prices. Over 140 million cups of K-Coffee were sold in 2020. Meanwhile, COFFii & JOY offers specialty coffee for coffee lovers utilizing an asset-light model. In addition, we opened Lavazza's first flagship store in Asia in early 2020 with premium coffee and high-quality food offerings. Since then, four additional beautiful Lavazza stores have been opened in Shanghai. Encouraged by the overwhelmingly positive consumer feedback of our initial stores, we expect to accelerate the store openings for Lavazza and test different store formats. We are excited about the growth potential across all our coffee brands and are committed to making coffee a meaningful part of Yum China.

The Chinese cuisine market is massive. In particular, hot pot is very popular in China. In 2020, we acquired Huang Ji Huang, an industry-leading simmer pot brand. In tandem with this acquisition, we established a Chinese dining business unit to consolidate and strengthen our capabilities in Chinese dining. We are pleased with the integration progress and will continue to drive synergies between Huang Ji Huang and Little Sheep in the areas of menu innovation, seasoning distribution, supply chain and franchise development.



K-coffee capsules



# Joey Wat

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Chief Executive Officer  
Yum China Holdings, Inc.



## *Driving Growth with Digital and Delivery*

We started to accelerate our digital capabilities over half a decade ago. Today, Yum China has developed a powerful digital ecosystem, which allows us to better engage with our customers throughout the customer journey. Digital ordering increased from approximately 55% of KFC and Pizza Hut Company sales in 2019 to 80% in 2020, reflecting the increased popularity of delivery and mobile ordering. Our membership base continued to grow, exceeding 300 million by year end, and accounting for approximately 60% of system sales of KFC and Pizza Hut in 2020. We are leveraging a variety of tools to further improve member stickiness and spending. For example, our privilege subscription program has been effective in increasing member spending during the subscription period.

Powered by our digital and delivery capabilities, we captured the shift in customer demand to delivery and takeaway. Off-premise dining accounted for over 50% of our KFC and Pizza Hut Company sales in 2020, compared to approximately 40% in 2019. With redesigned menu items, packaging suitable for takeaway and enhanced digital platforms, Pizza Hut nearly doubled its takeaway sales mix in 2020. We continued to improve our delivery rider management by upgrading our rider platform with better zoning and rider routing, and rolling out trade zone and cross-brand rider sharing.

The pandemic highlighted the importance of digital and delivery. We will continue to invest in this area, to achieve greater digitization, automation and intelligence across our operations. The capability to track, analyze and automate across our value chain, from farm to fork, will make us even stronger and nimbler.

Last but not least, Yum China is committed to providing steady shareholder returns. With our strong cash generation capabilities, we have returned approximately \$1.2 billion to our shareholders since we became an independent public company in 2016. After suspending our share repurchases and, for two quarters, cash dividends due to the unprecedented effects of the COVID-19 pandemic, we resumed cash dividends in the fourth quarter of 2020. I am confident that our strategic growth initiatives will position Yum China well to yield sustainable returns for our shareholders in the long-run.

I am humbled to lead this talented and dedicated team. We will remain focused on positioning Yum China for sustainable long-term growth, while working with our employees, customers, shareholders, and business partners to create positive impact on our communities and the environment.

Joey Wat  
Chief Executive Officer