Yum China Holdings, Inc.

百 勝 中 國 控 股 有 限 公 司

(Incorporated in the State of Delaware of the United States of America)

(Stock Code: 9987)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2022

Yum China Holdings, Inc. (the "Company" or "Yum China") (NYSE: YUMC and HKEX: 9987) hereby announces the audited consolidated results of the Company for the year ended December 31, 2022 (the "Reporting Period"), together with the comparative audited figures for the corresponding period in 2021, which have been prepared under generally accepted accounting principles in the United States (the "U.S. GAAP") and reviewed by the audit committee (the "Audit Committee") of the Board of Directors (the "Board" or "Directors") of the Company.

By order of the Board
Yum China Holdings, Inc.
Joey WAT
Director and Chief Executive Officer

Hong Kong, March 1, 2023

As of the date of this announcement, the Board comprises Dr. Fred HU as the chairman and an independent director, Ms. Joey WAT as a director, and Mr. Peter A. BASSI, Mr. Edouard ETTEDGUI, Mr. Cyril HAN, Mr. Louis T. HSIEH, Ms. Ruby LU, Mr. Zili SHAO, Mr. William WANG and Ms. Min (Jenny) ZHANG as independent directors.

Key Financial and Operational Highlights

- **Total revenues** decreased 3% year over year to $9.57 billion from $9.85 billion (a 1% increase excluding F/X).
- **Total system sales** decreased 5% year over year, with decreases of 4% at KFC and 3% at Pizza Hut, excluding F/X.
- **Same-store sales** decreased 7% year over year, with decreases of 7% at KFC and 6% at Pizza Hut, excluding F/X.
- **Total store count** reached 12,947 as of December 31, 2022, with 1,159 net new store openings during the year.
- **Restaurant margin** was 14.1%, compared with 13.7% in the prior year.
- **Operating Profit** decreased 55% year over year to $629 million from $1.39 billion (a 53% decrease excluding F/X), primarily due to the non-cash gain of $618 million from the re-measurement of our previously held equity interest in Hangzhou KFC in the fourth quarter of 2021.
- **Adjusted Operating Profit** decreased 17% year over year to $633 million from $766 million (a 14% decrease excluding F/X).
- Effective tax rate was 30.1%.
- **Net Income** decreased 55% to $442 million from $990 million in the prior year, primarily due to the decrease in Operating Profit, partially offset by loss from mark-to-market investments.
- **Adjusted Net Income** decreased 15% to $446 million from $525 million in the prior year (a 19% decrease excluding the net losses of $22 million and $52 million in 2022 and 2021, respectively, from mark-to-market equity investments; a 16% decrease if further excluding F/X).
- **Diluted EPS** decreased 54% to $1.04 from $2.28 in the prior year.
- **Adjusted Diluted EPS** decreased 13% to $1.05 from $1.21 in the prior year (a 17% decrease excluding the net losses in 2022 and 2021, respectively, from mark-to-market equity investments; a 14% decrease if further excluding F/X).

Independent auditor's report
to the stockholders of Yum China Holdings, Inc.
(incorporated in Delaware, United States of America)

Opinion

We have audited the consolidated financial statements of Yum China Holdings, Inc. ("Yum China") and its subsidiaries ("the Company") set out on pages 8 to 65, which comprise the consolidated balance sheet as at December 31, 2022, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at December 31, 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (continued)

<table>
<tr><th colspan="2">Assessment of impairment of long-lived assets of restaurants</th></tr>
<tr><td colspan="2">Refer to notes 8 and 12 to the consolidated financial statements on pages 34 to 36, pages 38 to 40, and the accounting policies on pages 18 to 19.</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Property, plant and equipment, net and operating lease right-of-use assets were US$2,118 million and US$2,219 million, respectively, as of December 31, 2022, which included the long-lived assets of the Company’s restaurants. For restaurant assets with indicators that the carrying value may not be recoverable, the Company evaluates recoverability of these assets by comparing the forecasted undiscounted cash flows of the restaurant’s operations to the carrying value of such assets. For restaurant assets that are not deemed to be recoverable, the Company writes down the restaurant assets to the estimated fair value. The Company determines the fair value of the restaurant assets based on the higher of the forecasted discounted cash flows of the restaurant’s operations and the price market participants would pay to sub-lease the operating lease right-of-use assets and acquire the remaining restaurant assets.

We identified the assessment of impairment of long-lived assets of restaurants as a key audit matter. A high degree of auditor judgment was required in assessing the sales growth rates used to estimate the forecasted undiscounted cash flows of the restaurants’ operations. In addition, specialized skills and knowledge were needed to assess the Company’s market rental assumptions to estimate the fair values of the operating lease right-of-use assets.</td><td>The following are the primary procedures we performed to address this key audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company’s long-lived assets of restaurants impairment assessment process. This included controls related to the determination of the sales growth rates and the market rentals. To evaluate the sales growth rates, we compared the sales growth rates of a sample of restaurants to the historical sales growth rates and the Company’s operation plans for the respective restaurants. We performed sensitivity analyses over the sales growth rates for a selection of restaurants to assess their impact on the restaurants’ forecasted undiscounted cash flows. We involved valuation professionals with specialized skills and knowledge, who assisted in:

• Comparing the market rentals of a sample of restaurants to respective market rental ranges that we independently developed using external data; and

• Developing independent estimates of the fair values of the operating lease right-of-use assets based on the price that market participants would pay to sub-lease the right-of-use assets for a sample of restaurants and comparing the results of our estimates to the Company’s estimates.</td></tr>
</table>

Key audit matters (continued)

<table>
<tr><td colspan="2">Evaluation of uncertain tax position</td></tr>
<tr><td colspan="2">Refer to note 17 to the consolidated financial statements on pages 48 to 51 and the accounting policies on pages 20 to 21.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Company recognizes the benefit of positions taken or expected to be taken in tax returns in the financial statements when it is more likely than not (more than a 50% likelihood) that the position would be sustained upon examination by tax authorities. Since 2016, the Company has been under a national audit on transfer pricing by the Chinese State Taxation Administration (“STA”) regarding the related party transactions for the period from 2006 to 2015.

We identified the evaluation of the Company’s uncertain tax position pertaining to the transfer pricing used in the related party transactions under audit by the STA as a key audit matter. A high degree of auditor judgment and specialized skills and knowledge were required in evaluating the Company's interpretation of the applicable tax laws and regulations and the estimate of the more likely than not assessment of tax position being sustained under examination by tax authorities.</td><td>The following are the primary procedures we performed to address this key audit matter. We evaluated the design and tested the operating effectiveness of the internal control related to the Company’s assessment process pertaining to the transfer pricing audit, including the control related to the interpretation of the applicable tax laws and regulations and the assessment of the uncertain tax position being sustained under examination by tax authorities. Since tax law is complex and often subject to interpretation, we involved tax professionals with specialized skills and knowledge, who assisted in:
Reading the correspondence received by the Company from the tax authorities in connection with the transfer pricing audit by the STA, as well as responses and information the Company submitted to the tax authorities;
Evaluating the Company’s identification and consideration of information that could significantly affect the recognition and measurement of the uncertain tax position; and
Evaluating the Company’s interpretation of applicable tax laws and regulations, technical analysis and the application of the accounting standards in assessing the recognition and measurement of the potential impact from the uncertain tax position.</td></tr>
</table>

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with U.S. generally accepted accounting principles and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Auditor’s responsibility for the audit of the consolidated financial statements (continued)

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditor's responsibility for the audit of the consolidated financial statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tse, Wong Pui.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

1 March 2023

Consolidated Statements of Income
Yum China Holdings, Inc.
Years ended December 31, 2022 and 2021
(in US$ millions, except per share data)

	2022	2021
Revenues		
Company sales	$ 9,110	$ 8,961
Franchise fees and income	81	153
Revenues from transactions with franchisees and unconsolidated affiliates	287	663
Other revenues	91	76
Total revenues	9,569	9,853
Costs and Expenses, Net		
Company restaurants		
Food and paper	2,836	2,812
Payroll and employee benefits	2,389	2,258
Occupancy and other operating expenses	2,604	2,664
Company restaurant expenses	7,829	7,734
General and administrative expenses	594	564
Franchise expenses	34	64
Expenses for transactions with franchisees and unconsolidated affiliates	279	649
Other operating costs and expenses	78	65
Closures and impairment expenses, net	32	34
Other expenses (income), net	94	(643)
Total costs and expenses, net	8,940	8,467
Operating Profit	629	1,386
Interest income, net	84	60
Investment loss	(26)	(54)
Income Before Income Taxes and Equity in Net Earnings (Losses) from Equity Method Investments	687	1,392
Income tax provision	(207)	(369)
Equity in net earnings (losses) from equity method investments	(2)	—
Net income – including noncontrolling interests	478	1,023
Net income – noncontrolling interests	36	33
Net Income – Yum China Holdings, Inc.	$ 442	$ 990
Weighted-average common shares outstanding (in millions):		
Basic	421	422
Diluted	425	434
Basic Earnings Per Common Share	$ 1.05	$ 2.34
Diluted Earnings Per Common Share	$ 1.04	$ 2.28

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income
Yum China Holdings, Inc.
Years ended December 31, 2022 and 2021
(in US$ millions)

	2022	2021
Net income – including noncontrolling interests	$ 478	$ 1,023
Other comprehensive (loss) income, net of tax of nil		
Foreign currency translation adjustments	(431)	108
Comprehensive income – including noncontrolling interests	47	1,131
Comprehensive (loss) income – noncontrolling interests	(24)	40
Comprehensive Income – Yum China Holdings, Inc.	$ 71	$ 1,091

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
Yum China Holdings, Inc.
Years ended December 31, 2022 and 2021
(in US$ millions)

	2022	2021
Cash Flows – Operating Activities		
Net income – including noncontrolling interests	$ 478	$ 1,023
Depreciation and amortization	602	516
Non-cash operating lease cost	435	424
Closures and impairment expenses	32	34
Gain from re-measurement of equity interest upon acquisition	—	(628)
Investment loss	26	53
Equity income from investments in unconsolidated affiliates	—	(44)
Distributions of income received from unconsolidated affiliates	7	32
Deferred income taxes	(20)	160
Share-based compensation expense	42	41
Changes in accounts receivable	(1)	(5)
Changes in inventories	(19)	(16)
Changes in prepaid expenses and other current assets and VAT assets (Note 8(a))	207	(72)
Changes in accounts payable and other current liabilities	16	118
Changes in income taxes payable	25	(26)
Changes in non-current operating lease liabilities	(396)	(461)
Other, net	(21)	(18)
Net Cash Provided by Operating Activities	**1,413**	**1,131**
Cash Flows – Investing Activities		
Capital spending	(679)	(689)
Purchases of short-term investments and long-term time deposits	(5,189)	(6,139)
Maturities of short-term investments and long-term time deposits	5,365	6,383
Acquisition of business, net of cash acquired	(23)	(115)
Acquisitions of equity investments	—	(300)
Other, net	4	5
Net Cash Used in Investing Activities	**(522)**	**(855)**
Cash Flows – Financing Activities		
Repurchase of shares of common stock	(466)	(75)
Cash dividends paid on common stock	(202)	(203)
Dividends paid to noncontrolling interests	(72)	(57)
Acquisitions of noncontrolling interests	(113)	—
Contributions from noncontrolling interests	18	37
Payment of acquisition related holdback	(7)	(8)
Other, net	(2)	(7)
Net Cash Used in Financing Activities	**(844)**	**(313)**
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	**(53)**	**15**
Net Decrease in Cash, Cash Equivalents and Restricted Cash	**(6)**	**(22)**
Cash, Cash Equivalents and Restricted Cash - Beginning of Year	**1,136**	**1,158**
Cash, Cash Equivalents and Restricted Cash - End of Year	**$ 1,130**	**$ 1,136**
Supplemental Cash Flow Data		
Cash paid for income tax	204	255
Non-cash Investing and Financing Activities		
Capital expenditures included in accounts payable and other current liabilities	181	269

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets
Yum China Holdings, Inc.
December 31, 2022 and 2021
(in US$ millions)

	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,130	$ 1,136
Short-term investments	2,022	2,860
Accounts receivable, net	64	67
Inventories, net	417	432
Prepaid expenses and other current assets	307	221
Total Current Assets	3,940	4,716
Property, plant and equipment, net	2,118	2,251
Operating lease right-of-use assets	2,219	2,612
Goodwill	1,988	2,142
Intangible assets, net	159	272
Long-term time deposits	680	90
Investments in unconsolidated affiliates	266	292
Deferred income tax assets	113	106
Other assets	343	742
Total Assets	**11,826**	**13,223**
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	2,098	2,332
Income taxes payable	68	51
Total Current Liabilities	2,166	2,383
Non-current operating lease liabilities	1,906	2,286
Non-current finance lease liabilities	42	40
Deferred income tax liabilities	390	425
Other liabilities	162	167
Total Liabilities	4,666	5,301
Redeemable Noncontrolling Interest	12	14
Equity		
Common stock, $0.01 par value; 1,000 million shares authorized; 419 million shares and 449 million shares issued at December 31, 2022 and 2021, respectively; 419 million shares and 428 million shares outstanding at December 31, 2022 and 2021, respectively	4	4
Treasury stock	—	(803)
Additional paid-in capital	4,390	4,695
Retained earnings	2,191	2,892
Accumulated other comprehensive (loss) income	(103)	268
Total Yum China Holdings, Inc. Stockholders' Equity	6,482	7,056
Noncontrolling interests	666	852
Total Equity	7,148	7,908
Total Liabilities, Redeemable Noncontrolling Interest and Equity	**$ 11,826**	**$ 13,223**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Equity

Yum China Holdings, Inc.

Years ended December 31, 2022 and 2021

(in US$ 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, 2020	**440**	**$ 4**	**$ 4,658**	**$ 2,105**	**$ 167**	**(20)**	**$ (728)**	**$ 253**	**$ 6,459**	**$ 12**
Net Income				990				32	1,022	1
Foreign currency translation adjustments					101			7	108	—
Comprehensive income									1,130	1
Dividends declared								(39)	(39)	
Cash dividends declared ($0.48 per common share)				(203)					(203)	
Acquisition of business								562	562	
Contributions from noncontrolling interests								37	37	
Repurchase of shares of common stock						(1)	(75)		(75)	
Exercise and vesting of share-based awards	2	—	(3)						(3)	
Exercise of the warrants	8	—	—						—	
Share-based compensation			41						41	
Revaluation of redeemable noncontrolling interest			(1)						(1)	1
Balance at December 31, 2021	**449**	**$ 4**	**$ 4,695**	**$ 2,892**	**$ 268**	**(21)**	**$ (803)**	**$ 852**	**$ 7,908**	**$ 14**
Net Income (Loss)				442				37	479	(1)
Foreign currency translation adjustments					(371)			(60)	(431)	—
Comprehensive income									48	(1)
Dividends declared								(81)	(81)	
Cash dividends declared ($0.48 per common share)				(202)					(202)	
Contributions from noncontrolling interests								18	18	
Repurchase and retirement of shares	(31)	—	(328)	(941)		21	803		(466)	
Exercise and vesting of share-based awards	1	—	(3)						(3)	
Share-based compensation			41						41	
Acquisition of noncontrolling interest			(15)					(100)	(115)	(1)
Balance at December 31, 2022	**419**	**$ 4**	**$ 4,390**	**$ 2,191**	**$ (103)**	**—**	**$ —**	**$ 666**	**$ 7,148**	**$ 12**

*: Shares may not add due to rounding.

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(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, Taco Bell, Lavazza, Little Sheep and Huang Ji Huang 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, for the exclusive right to use and sublicense the use of intellectual property owned by YUM and its subsidiaries for the development and operation of the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, 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 us being in "good standing" and unless we give notice of our 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 and Huang Ji Huang and pay no license fee related to these concepts.

In 1987, KFC was the first quick-service restaurant brand to enter China. As of December 31, 2022, there are over 9,000 KFC stores in China. We maintain a 58%, 70%, and 83% controlling interest in the entities that own and operate the KFCs in and around Shanghai, Beijing and Wuxi, respectively. During the third quarter of 2020, the Company completed the acquisition of an additional 25% equity interest in an unconsolidated affiliate that operates KFC stores in and around Suzhou, China ("Suzhou KFC"), for cash consideration of $149 million. Upon closing of the acquisition, the Company increased its equity interest to 72%, allowing the Company to consolidate Suzhou KFC. In December 2022, the Company acquired an additional 20% equity interest in Suzhou KFC for cash consideration of $115 million, bringing our total ownership to 92%. 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. These acquisitions were considered immaterial.

The first Pizza Hut in China opened in 1990. As of December 31, 2022, there are over 2,900 Pizza Hut restaurants in China.

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 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.

In 2017, the Company acquired a controlling interest in the holding company of DAOJIA.com.cn ("Daojia"), an online food delivery service provider in China. This business was extended to also include a team managing the delivery services for restaurants, including restaurants in our system, with their results reported under our delivery operating segment.

As part of our strategy to drive growth from off-premise occasions, we also developed our own retail brand operations, Shaofaner, which sells packaged foods through online and offline channels. The operating results of Shaofaner 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 Taco Bell, Lavazza, Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, our delivery operating segment 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 segment reporting are included in Note 18.

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. On October 24, 2022, the Company's voluntary conversion of its secondary listing status to a primary listing status on the HKEX became effective ("Primary Conversion") and the Company became a dual primary listed company on the NYSE and HKEX. On the same day, the Company's shares of common stock traded on the HKEX were included in the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. The Company's common stock listed on the NYSE and HKEX continue to be fully fungible.

Note 2 – Summary of Significant Accounting Policies

Our preparation of the accompanying 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.

Basis of Preparation and Principles of Consolidation. Intercompany accounts and transactions have been eliminated in consolidation. We consolidate entities in which we have a controlling financial interest, the usual condition of which is ownership of a majority voting interest. We also consider consolidating an entity in which we have certain interests where the controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity ("VIE"), is required to be consolidated by its primary beneficiary. The primary beneficiary is the entity that possesses the power to direct the activities of the VIE that most significantly impact its economic performance and has the obligation to absorb losses or the right to receive benefits from the VIE that are significant to it.

Our most significant variable interests are in entities that operate restaurants under franchise arrangements. We do not generally have an equity interest in our franchisee businesses. Additionally, we do not typically provide significant financial support such as loans or guarantees to our franchisees. We have variable interests in certain entities that operate restaurants under franchise agreements through real estate lease arrangements with them to which we are a party. At December 31, 2022, the Company had future lease payments due from franchisees, on a nominal basis, of approximately $29 million. As our franchise arrangements provide our franchisee entities the power to direct the activities that most significantly impact their economic performance, we do not consider ourselves the primary beneficiary of any such entity that might otherwise be considered a VIE.

Through the acquisition of Daojia, the Company also acquired a 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 Consolidated Financial Statements since the acquisition date.

We consolidate the entities that operate KFCs in and around Shanghai, Beijing, Wuxi, Suzhou and Hangzhou, as well as the Lavazza joint venture where we have controlling interests since the respective acquisition dates.

Comparative Information. Certain comparative items in the Consolidated Financial Statements have been reclassified to conform to the current year's presentation to facilitate comparison.

Fiscal Calendar. Our fiscal year ends on December 31, with each quarter comprised of three months.

Foreign Currency. Our functional currency for the operating entities in China is the Chinese Renminbi ("RMB"), the currency of the primary economic environment in which they operate. Income and expense accounts for our operations are then translated into U.S. dollars at the average exchange rates prevailing during the period. Assets and liabilities are then translated into U.S. dollars at exchange rates in effect at the balance sheet date. Foreign currency translation adjustments are recorded in the Accumulated other comprehensive income on the Consolidated Balance Sheets. Gains and losses arising from the impact of foreign currency exchange rate fluctuations on transactions in foreign currency, to the extent they arise, are included in Other income, net in our Consolidated Statements of Income.

Franchise Operations. We execute agreements which set out the terms of our arrangement with franchisees. Our franchise agreements typically require the franchisee to pay an initial, non-refundable fee and continuing fees based upon a percentage of sales. Subject to our approval and their payment of a renewal fee, a franchisee may generally renew the franchise agreement upon its expiration.

The 3% license fees we pay to YUM for the right to sublicense the KFC, Pizza Hut and Taco Bell intellectual property to franchisees and unconsolidated affiliates that operate our concepts are recorded in Franchise expenses. License fees due to YUM for our Company-owned stores are included in Occupancy and other operating expenses. Total license fees paid to YUM were $277 million and $298 million during the years ended December 31, 2022 and 2021, respectively.

Certain direct costs of our franchise operations are charged to Franchise expenses. These costs include provisions for estimated uncollectible fees, rent or depreciation expense associated with restaurants we sub-lease to franchisees, and certain other direct incremental franchise support costs.

We also have certain transactions with franchisees and unconsolidated affiliates that operate our concepts, which consist primarily of sales of food and paper products, advertising services, delivery services and other services provided to franchisees and unconsolidated affiliates that operate our concepts. Related expenses are included in Expenses for transactions with franchisees and unconsolidated affiliates.

Revenue Recognition. The Company's revenues primarily include Company sales, Franchise fees and income and Revenues from transactions with franchisees and unconsolidated affiliates that operate our concepts.

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, and we primarily use our dedicated riders to deliver orders. When orders are fulfilled 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.

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 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, generally five years for Little Sheep, and three to 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, delivery 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 Company also provides delivery services to franchisees and unconsolidated affiliates that operate our concepts. 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 such services 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 or services, generally upon delivery to the franchisees and unconsolidated affiliates that operate our concepts.

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 that operate our concepts. 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.

Other Revenues

Other revenues primarily include i) sales of products to customers through e-commerce channels and the sale of our seasoning products to distributors, and ii) revenues from logistics and warehousing services provided to third parties through our supply chain network. Our segment disclosures also include revenues relating to delivery services that were provided to our Company-owned restaurants and, therefore, were eliminated for consolidation purposes.

Other revenues are recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services.

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 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.

Direct Marketing Costs. We charge direct marketing costs to expense ratably in relation to revenues over the year in which incurred and, in the case of advertising production costs, in the year the advertisement is first shown. Deferred direct marketing costs, which are classified as prepaid expenses, consist of media and related advertising production costs which will generally be used for the first time in the next fiscal year and have historically not been significant. Our direct marketing expenses incurred for Company-owned restaurants were $343 million and $368 million in 2022 and 2021, respectively, and were included in Occupancy and other operating expenses. In addition, the direct marketing costs incurred for franchisees and unconsolidated affiliates that operate our concepts were $23 million and $55 million in 2022 and 2021, respectively, and were recorded in Expenses for transactions with franchisees and unconsolidated affiliates.

Research and Development Expenses. Research and development expenses associated with our food innovation activities, which are expensed as incurred, are reported in general and administrative ("G&A") expenses. Research and development expenses were $6 million in both 2022 and 2021.

Share-Based Compensation. Prior to the separation, all employee equity awards were granted by YUM. Upon the separation, 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, to maintain the pre-separation intrinsic value of the awards. The modified equity awards have the same terms and conditions as the awards held immediately before the separation, except the number of shares and the price were adjusted. The incremental compensation cost, measured as the excess of the fair value of the award immediately after the modification over the fair value of the award immediately before the modification, based on Black-Scholes option-pricing model was immaterial, and YUM and the Company continue to recognize the unamortized fair value of the awards over the remaining requisite service period as their respective employees continue to provide services. All awards granted following the separation were granted under the Company's long term incentive plans adopted in 2016 and 2022.

We recognize all share-based payments to employees and directors, including grants of stock options, restricted stock units ("RSUs"), stock appreciation rights ("SARs") and performance share units ("PSUs"), in the Consolidated Financial Statements as compensation cost over the service period based on their fair value on the date of grant. This compensation cost is recognized over the service period on a straight-line basis, net of an assumed forfeiture rate, for awards that actually vest and when performance conditions are probable of being achieved, if applicable. Forfeiture rates are estimated at grant date based on historical experience and compensation cost is adjusted in subsequent periods for differences in actual forfeitures from the previous estimates. We present this compensation cost consistent with the other compensation costs for the employee recipient in either payroll and employee benefits or G&A expenses.

Impairment or Disposal of Long-Lived Assets. Long-lived assets, primarily Property, plant and equipment ("PP&E") and operating lease right-of-use ("ROU") assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The assets are not recoverable if their carrying value is higher than the undiscounted cash flows we expect to generate from such assets. If the assets are not deemed to be recoverable, impairment is measured based on the excess of their carrying value over their fair value.

For purposes of impairment testing for our restaurants, we have concluded that an individual restaurant is the lowest level of independent cash flows unless our intent is to refranchise restaurants as a group. We review our long-lived assets of such individual restaurants (primarily operating lease ROU assets and PP&E) semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. Our primary indicators of potential impairment for our semi-annual impairment testing of these restaurant assets include two consecutive years of operating losses after a restaurant has been open for three years. We evaluate the recoverability of these restaurant assets by comparing the forecasted undiscounted cash flows of the restaurant's operation, which are based on our entity-specific assumptions, to the carrying value of such assets. The forecasted undiscounted cash flows incorporate our best estimate of sales growth based upon our operation plans for the unit and actual results at comparable restaurants. For restaurant assets that are not deemed to be recoverable, we write down an impaired restaurant to its estimated fair value, which becomes its new cost basis. Fair value is an estimate of the price market participants would pay for the restaurant and its related assets. In determining the fair value of restaurant-level assets, we considered the highest and best use of the assets from market participants' perspective, which is represented by the higher of the forecasted discounted cash flows from operating restaurants and the price market participants would pay to sub-lease the operating lease ROU assets and acquire remaining restaurant assets, even if that use differs from the current use by the Company. The after-tax cash flows incorporate reasonable assumptions we believe a franchisee would make such as sales growth and include a deduction for royalties we would receive under a franchise agreement with terms substantially at market. The discount rate used in the fair value calculation is our estimate of the required rate-of-return that a franchisee would expect to receive when purchasing a similar restaurant and the related long-lived assets. The discount rate incorporates rates of returns for historical refranchising market transactions and is commensurate with the risks and uncertainty inherent in the forecasted cash flows. Estimates of the price market participants would pay to sub-lease the operating lease ROU assets are based on comparable market rental information that could be reasonably obtained for the property. In situations where the highest and best use of the restaurant-level assets from market participants' perspective is represented by sub-leasing the operating lease ROU assets and acquiring remaining restaurant assets, the Company continues to use these assets in operating its restaurant business, which is consistent with its long-term strategy of growing revenue through operating restaurant concepts.

When we believe it is more likely than not a restaurant or groups of restaurants will be refranchised for a price less than their carrying value, but do not believe the restaurant(s) have met the criteria to be classified as held for sale, we review the restaurants for impairment. We evaluate the recoverability of these restaurant assets by comparing estimated sales proceeds plus holding period cash flows, if any, to the carrying value of the restaurant or group of restaurants. For restaurant assets that are not deemed to be recoverable, we recognize impairment for any excess of carrying value over the fair value of the restaurants, which is based on the expected net sales proceeds. To the extent ongoing agreements to be entered into with the franchisee simultaneous with the refranchising are expected to contain terms, such as royalty rates, not at prevailing market rates, we consider the off-market terms in our impairment evaluation. We recognize any such impairment charges in Refranchising gain. Refranchising gain includes the gains or losses from the sales of our restaurants to new and existing franchisees, including any impairment charges discussed above. We recognize gains on restaurant refranchising when the sale transaction closes, the franchisee has a minimum amount of the purchase price in at-risk equity and we are satisfied that the franchisee can meet its financial obligations.

When we decide to close a restaurant, it is reviewed for impairment, and depreciable lives are adjusted based on the expected disposal date. Other costs incurred when closing a restaurant such as costs of disposing of the assets as well as other facility-related expenses are generally expensed as incurred. Additionally, at the time we decide to close a restaurant, we reassess whether it is reasonably certain that we will exercise the termination option, and remeasure lease liability to reflect changes in lease term and remaining lease payments based on the planned exit date, if applicable. The amount of the re-measurement of the lease liability is recorded as an adjustment to the operating lease ROU asset first, with any remaining amount recorded in Closures and impairment expenses if the carrying amount of the operating lease ROU asset is reduced to zero. Any costs recorded upon store closure as well as any subsequent adjustments to remaining operating lease ROU assets and lease liabilities as a result of lease termination are recorded in Closures and impairment expenses. In the event we are forced to close a store and receive compensation for such closure, that compensation is recorded in Closures and impairment expenses. To the extent we sell assets associated with a closed store, any gain or loss upon that sale is also recorded in Closures and impairment expenses.

Considerable management judgment is necessary to estimate future cash flows, including cash flows from continuing use, terminal value, lease term and refranchising proceeds. Accordingly, actual results could vary significantly from our estimates.

Government Subsidies. Government subsidies generally consist of financial subsidies received from provincial and local governments for operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. The eligibility to receive such benefits and amount of financial subsidy to be granted are determined at the discretion of the relevant government authorities. Government subsidies are recognized when it is probable that the Company will comply with the conditions attached to them, and the subsidies are received. If the subsidy is related to an expense item, it is recognized as a reduction to the related expense to match the subsidy to the costs that it is intended to compensate. If the subsidy is related to an asset, it is deferred and recorded in Other liabilities and then recognized ratably over the expected useful life of the related asset in the Consolidated Statements of Income. The balances of deferred government subsidies included in Other liabilities were immaterial as of both December 31, 2022 and 2021. There were no significant commitment or contingencies for the government subsidies received for the years ended December 31, 2022 and 2021.

Government subsidies in the form of cash were recognized as reduction in following expense line items in our Consolidated Statements of Income as follows:

Costs and Expenses, Net	**2022**	**2021**
Company restaurant		
Payroll and employee benefits[(a)]	$ 15	$ 14
Occupancy and other operating expenses	3	3
Company restaurant expenses	18	17
General and administrative expenses	26	28
Total	$ 44	$ 45

(a) This primarily represents government subsidies for employee benefits and providing trainings to employees, with higher amounts received during 2022 and 2021 impacted by the COVID-19 pandemic.

Based on the policy related to COVID-19 issued in 2020 on reducing enterprise social security contribution, the Company also recorded one-time relief of $33 million during 2022, which were recognized as a reduction to the Company restaurant expenses and G&A expenses.

Income Taxes. We record deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss, capital loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences or carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Additionally, in determining the need for recording a valuation allowance against the carrying amount of deferred tax assets, we consider the amount of taxable income and periods over which it must be earned, actual levels of past taxable income and known trends and events or transactions that are expected to affect future levels of taxable income. Where we determine that it is more likely than not that all or a portion of an asset will not be realized, we record a valuation allowance.

We are subject to reviews, examinations and audits by Chinese tax authorities, the IRS and other taxing authorities with respect to income and non-income based taxes. We recognize the benefit of positions taken or expected to be taken in our tax returns when it is more likely than not that the position would be sustained upon examination by these tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. We evaluate unrecognized tax benefits, including interest thereon, on a quarterly basis to ensure that they have been appropriately adjusted for events, including audit settlements, which may impact our ultimate payment for such exposures.

We have investments in our foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. Except for the planned but yet to be distributed earnings, we have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone the basis differences from reversing with a tax consequence. The Company's separation from YUM was intended to qualify as a tax-free reorganization for U.S. income tax purposes resulting in the excess of financial reporting basis over tax basis in our investment in the China business continuing to be indefinitely reinvested. The excess of financial reporting basis over tax basis as of December 31, 2017 was subject to the one-time transition tax under the Tax Cuts and Jobs Act ("Tax Act") as a deemed repatriation of accumulated undistributed earnings from the foreign subsidiaries. However, we continue to believe that the portion of the excess of financial reporting basis over tax basis (including earnings and profits subject to the one-time transition tax) is indefinitely reinvested in our foreign subsidiaries for foreign withholding tax purposes.

Pursuant to the China Enterprise Income Tax Law ("EIT Law"), a 10% PRC withholding tax is generally levied on dividends declared by companies in China to their non-resident enterprise investors unless otherwise reduced according to treaties or arrangements between the Chinese central government and the governments of other countries or regions where the non-China resident enterprises are incorporated. Hong Kong has a tax arrangement with mainland China that provides for a 5% withholding tax on dividends distributed to a Hong Kong resident enterprise, upon meeting certain conditions and requirements, including, among others, that the Hong Kong resident enterprise own at least 25% equity interest of the Chinese enterprise and is a "beneficial owner" of the dividends. We believe that our principal Hong Kong subsidiary, which is the equity holder of our Chinese subsidiaries operating substantially all of our KFC and Pizza Hut restaurants, met the relevant requirements pursuant to the tax arrangement between mainland China and Hong Kong in 2018 and is expected to meet the requirements in the subsequent years; thus, it is more likely than not that our dividends or earnings expected to be repatriated to our principal Hong Kong subsidiary since 2018 are subject to the reduced withholding tax of 5%.

See Note 17 for a further discussion of our income taxes.

Fair Value Measurements. Fair value is the price we would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. For those assets and liabilities we record or disclose at fair value, we determine fair value based upon the quoted market price, if available. If a quoted market price is not available for identical assets, we determine fair value based upon the quoted market price of similar assets or the present value of expected future cash flows considering the risks involved, including counterparty performance risk if appropriate, and using discount rates appropriate for the duration. The fair values are assigned a level within the fair value hierarchy, depending on the source of the inputs into the calculation.

Level 1 Inputs based upon quoted prices in active markets for identical assets.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 Inputs that are unobservable for the asset.

In addition, when we acquire additional equity interest in the unconsolidated affiliates to obtain control, it may result in gain or loss from re-measurement of our previously held equity interest at fair value using a discounted cash flow valuation approach and incorporating assumptions and estimates that are Level 3 inputs. Key assumptions used in estimating future cash flows included projected revenue growth and costs and expenses, which were based on internal projections, store expansion plans, historical performance of stores and the business environment, as well as the selection of an appropriate discount rate based on the weighted-average cost of capital which includes company-specific risk premium.

Cash and Cash Equivalents. Cash equivalents represent highly liquid investments with original maturities not exceeding three months and are primarily comprised of time deposits, fixed income debt securities and money market funds. Cash and overdraft balances that meet the criteria for right to offset are presented net on our Consolidated Balance Sheets. See Note 13 for detail discussion on our Cash equivalents.

Short-term Investments. Short-term investments purchased primarily represent i) time deposits, fixed income debt securities with original maturities of over three months but less than one year when purchased; ii) time deposits with original maturities over one year but are expected to be realized in cash during the next 12 months; iii) variable return investments offered by financial institutions measured at fair value; and iv) certain structured deposits that are principal-protected and provide returns in the form of both fixed and variable interests with original maturities of less than one year. Such variable interest rates indexed to gold prices or foreign exchange rates are considered embedded derivatives and bifurcated from host contracts, and measured at fair value on a recurring basis. The fair value change of the embedded derivatives is recorded in Investment gain or loss in the Consolidated Statements of Income. The remaining host contracts to receive guaranteed principal and fixed interest are measured at amortized cost, with accretion of interest recorded in Interest income in the Consolidated Statements of Income. As of December 31, 2022, the fair value of embedded derivatives included in Short-term investments was immaterial. See Note 13 for detail discussion on our Short-term investments.

Long-term Time Deposits. Long-term time deposits represent time deposits bearing fixed interest rate with remaining maturities exceeding one year for which the Company has the positive intent to hold for more than one year. In 2021, certain time deposits held by the Company had the remaining maturity over one year, but were classified as Short-term investments as management had the positive intent and ability to hold these investments within 12 months at the time. In December 2022, the Company changed its intent and planned to hold these deposits up to three years in order to enhance the investment return. Accordingly, the Company reclassified all outstanding time deposits with the remaining maturity over one year from Short-term investments to Long-term time deposits. See Note 13 for detail discussion on our Long-term time deposits.

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. 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 December 31, 2022 and 2021, the ending balances of provision for accounts receivable were $2 million and $1 million, respectively, and amounts of accounts receivable past due were immaterial.

Receivables from Payment Processors or Aggregators. Receivables from payment processors such as WeChat and Alipay or aggregators are cash due from them for clearing transactions and are included in Prepaid expenses and other current assets. The cash was paid by customers through these payment processors or aggregators for food provided by the Company. The Company considers and monitors the credit worthiness of the third-party payment processors and aggregators used. We adopted the same methodology of estimating expected credit losses based upon the CECL model as described above. Receivable balances are written off after all collection efforts have been exhausted. As of December 31, 2022 and 2021, no allowance for doubtful accounts was provided for such receivables.

Inventories. We value our inventories at the lower of cost (computed on the first-in, first-out method) or net realizable value.

Property, Plant and Equipment. We state PP&E at cost less accumulated depreciation and amortization. We calculate depreciation and amortization on a straight-line basis over the estimated useful lives of the assets as follows: generally 20 to 50 years for buildings, the lesser of estimated useful lives (generally 5 to 12 years) and remaining lease term for leasehold improvements, 3 to 10 years for restaurant machinery and equipment and 3 to 5 years for capitalized software costs. We suspend depreciation and amortization on assets related to restaurants that are held for sale. The useful life of PP&E is periodically reviewed.

We capitalize direct costs associated with the site acquisition and construction of a Company unit on that site, including direct internal payroll and payroll-related costs. Only those site-specific costs incurred subsequent to the time that the site acquisition is considered probable are capitalized. If we subsequently make a determination that it is probable a site for which internal development costs have been capitalized will not be acquired or developed, any previously capitalized internal development costs are expensed and included in G&A expenses.

We capitalize software costs incurred in connection with developing or obtaining computer software for internal use. We capitalize payroll and payroll-related costs for employees that are directly attributable to the development of our internal-use software. Internal costs incurred in the software application development stage are capitalized and amortized over the estimated useful lives of software. Costs associated with planning and post-implementation operation and software maintenance costs are expensed and included in G&A expenses.

Leases. ROU assets and lease liabilities are recognized upon lease commencement for operating leases based on the present value of lease payments over the lease term. As the rate implicit in the lease cannot be readily determined, we use our incremental borrowing rate at the lease commencement date in determining the imputed interest and present value of lease payments. The incremental borrowing rate was determined using a portfolio approach based on the rate of interest that we would have to borrow an amount equal to the lease payments on a collateralized basis over a similar term. The incremental borrowing rate is primarily influenced by the risk-free interest rate of China, the Company’s credit rating and lease term, and is updated on a quarterly basis for measurement of new lease liabilities.

For operating leases, the Company recognizes a single lease cost on a straight-line basis over the remaining lease term. For finance leases, the Company recognizes straight-line amortization of the ROU asset and interest on the lease liability. For rental payments either based on a percentage of the restaurant’s sales in excess of a fixed base amount or solely based on a percentage of the restaurant’s sales, they are recognized as variable lease expenses as incurred.

The Company has elected not to recognize ROU assets or lease liabilities for leases with an initial term of 12 months or less; we recognize lease expense for these leases on a straight-line basis over the lease term. In addition, the Company has elected not to separate non-lease components (e.g., common area maintenance fees) from the lease components.

From time to time, we purchase the rights to use government-owned land and the building occupying the land for a fixed period of time. Prior to the adoption of Accounting Standards Update No. 2016-02, *Leases (Topic 842)* ("ASC 842"), these land use rights and related buildings were recorded in Other Assets and Property, Plant and Equipment in our Consolidated Balance Sheets, and are amortized on a straight-line basis over the term of the land use rights. Upon the adoption of ASC 842 on January 1, 2019, land use rights acquired are assessed in accordance with ASC 842 and recognized in ROU assets if they meet the definition of lease.

See Note 12 for further discussions on our leases.

Goodwill and Intangible Assets. From time to time, the Company acquires restaurants from our existing franchisees or acquires another business, including restaurants business of unconsolidated affiliates that operate our concepts. Goodwill from these acquisitions represents the excess of the cost of a business acquired over the net of the amounts assigned to assets acquired, including identifiable intangible assets and liabilities assumed. Goodwill is not amortized and has been assigned to reporting units for purposes of impairment testing. Our reporting units are our individual operating segments.

We evaluate goodwill for impairment on an annual basis or more often if an event occurs or circumstances change that indicate impairment might exist. We have selected the beginning of our fourth quarter as the date on which to perform our ongoing annual impairment test for goodwill. We may elect to perform a qualitative assessment for our reporting units to determine whether it is more likely than not that the fair value of the reporting unit is greater than its carrying value. If a qualitative assessment is not performed, or if as a result of a qualitative assessment it is not more likely than not that the fair value of a reporting unit exceeds its carrying value, then the reporting unit's fair value is compared to its carrying value. Fair value is the price a willing buyer would pay for a reporting unit, and is generally estimated using discounted expected future after-tax cash flows from the business operation of the reporting unit. The discount rate is our estimate of the required rate-of-return that a third-party buyer would expect to receive when purchasing a business from us that constitutes a reporting unit. We believe the discount rate is commensurate with the risks and uncertainty inherent in the forecasted cash flows. If the carrying value of a reporting unit exceeds its fair value, we will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit.

If we record goodwill upon acquisition of a restaurant(s) from a franchisee and such restaurant(s) is then sold within two years of acquisition, the goodwill associated with the acquired restaurant(s) is written off in its entirety. If the restaurant is refranchised two years or more subsequent to its acquisition, we include goodwill in the carrying amount of the restaurants disposed of based on the relative fair values of the portion of the reporting unit disposed of in the refranchising and the portion of the reporting unit that will be retained.

We determine the useful life of intangible assets with consideration of factors including the expected use of the asset, the expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate, any legal, regulatory or contractual provisions that may limit the useful life, our historical experience in renewing or extending similar arrangements, the effects of obsolescence, demand, competition and other economic factors, and the level of maintenance expenditures required to obtain the expected future cash flows from the assets. We evaluate the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, we amortize the intangible asset prospectively over its estimated remaining useful life. The Company's indefinite-lived intangible asset represents Little Sheep and Huang Ji Huang trademarks as we consider their useful life to be indefinite since we intend to use Little Sheep and Huang Ji Huang trademarks indefinitely and there are no legal, regulatory or contractual provisions that may limit the useful life of the trademarks. Intangible assets that are deemed to have a finite life are generally amortized over their estimated useful lives on a straight-line basis to their residual value as follows:

Reacquired franchise rights	1 to 10 years
Huang Ji Huang franchise related assets	19 years
Daojia platform	8 years
Customer-related assets	2 to 15 years
Others	up to 20 years

The useful life of reacquired franchise rights was determined based on the contractual term whereas both the contractual term and historical pattern of renewing franchise agreements were considered in assessing the useful life of Huang Ji Huang franchise related assets. Customer-related assets primarily represent the customer relationship and user base acquired and the estimate of the useful life was based on the historical pattern of extending similar arrangements and attrition rate of users. Others primarily represent Little Sheep's secret recipe. The useful life of the Daojia platform and Little Sheep's secret recipe was assessed based on our estimate of periods generating cash flows from utilizing such assets.

We evaluate our indefinite-lived intangible assets for impairment on an annual basis or more often if an event occurs or circumstances change that indicate impairments might exist. We perform our annual test for impairment of our indefinite-lived intangible assets at the beginning of our fourth quarter. We may elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is greater than its carrying value. If a qualitative assessment is not performed, or if as a result of a qualitative assessment it is not more likely than not that the fair value of an indefinite-lived intangible asset exceeds its carrying value, then the asset's fair value is compared to its carrying value. Fair value is an estimate of the price a willing buyer would pay for the intangible asset and is generally estimated by discounting the expected future after-tax cash flows associated with the intangible asset.

Our finite-lived intangible assets that are not allocated to an individual restaurant are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. An intangible asset that is deemed not recoverable based on forecasted undiscounted future cash flow is written down to its estimated fair value, which is our estimate of the price a willing buyer would pay for the intangible asset based on discounted expected future after-tax cash flows. For purposes of our impairment analysis, we update the cash flows that were initially used to value the finite-lived intangible asset to reflect our current estimates and assumptions over the asset's future remaining life.

Equity Investments. The Company's equity investments include investments in unconsolidated affiliates and investments in equity securities with readily determinable fair value.

The Company applies the equity method to account for the investments in unconsolidated affiliates over which it has significant influence but does not control. Equity method investments are included as Investments in unconsolidated affiliates on our Consolidated Balance Sheets. Our share of earnings or losses and share of changes in other comprehensive income or losses of equity method investees is included in net income and other comprehensive income or losses, respectively. We record impairment charges related to an investment in an unconsolidated affiliate whenever events or circumstances indicate that a decrease in the fair value of an investment has occurred which is other than temporary.

For our investments in equity securities with readily determinable fair value, over which the Company has neither significant influence nor control, they are measured at fair value with subsequent changes recognized in net income.

See Note 3 for further discussions on our equity investments.

Financial Instruments. We account for derivative instruments as either assets or liabilities in the Consolidated Balance Sheets. The financial instruments are recorded at their respective fair value as determined on the day of issuance and subsequently adjusted to the fair value at each reporting date. Changes in the fair value of financial instruments are recognized periodically in the Consolidated Statements of Income. The estimated fair values of derivative instruments are determined at discrete points in time using standard valuation techniques.

Noncontrolling Interests. We report Net income attributable to noncontrolling interests separately on the face of our Consolidated Statements of Income. The portion of equity attributable to noncontrolling interests is reported within equity, separately from the Company's stockholders' equity on the Consolidated Balance Sheets.

When the noncontrolling interest is redeemable at the option of the noncontrolling shareholder, or contingently redeemable upon the occurrence of a conditional event that is not solely within the control of the Company, the noncontrolling interest is separately classified as mezzanine equity. In connection with the acquisition of Huang Ji Huang and Daojia, redeemable noncontrolling interests were initially recognized at fair value and classified outside of permanent equity on our Consolidated Balance Sheets due to redemption rights being held by noncontrolling shareholders. Subsequent changes in the redemption value of redeemable noncontrolling interests are immediately recognized as they occur and adjusted to the carrying amount of redeemable noncontrolling interests.

Guarantees. We account for guarantees in accordance with ASC Topic 460 ("ASC 460"), *Guarantees*. Accordingly, the Company evaluates its guarantees to determine whether (a) the guarantee is specifically excluded from the scope of ASC 460, (b) the guarantee is subject to ASC 460 disclosure requirements only, but not subject to the initial recognition and measurement provisions, or (c) the guarantee is required to be recorded in the financial statements at fair value. The Company provides: (i) indemnifications to certain investors and other parties for certain losses suffered or incurred by the indemnified party in connection with third-party claims; and (ii) indemnifications of officers and directors against third-party claims arising from the services they provide to the Company. To date, the Company has not incurred costs as a result of these obligations and does not expect to incur material costs in the future. Accordingly, the Company has not accrued any liabilities on the Consolidated Balance Sheets related to these indemnifications.

Asset Retirement Obligations. We recognize an asset and a liability for the fair value of a required asset retirement obligation ("ARO") when such an obligation is incurred. The Company's AROs are primarily associated with leasehold improvements which, at the end of the lease, the Company is contractually obligated to remove in order to comply with the lease agreement. As such, we amortize the asset on a straight-line basis over the lease term and accrete the liability to its nominal value using the effective interest method over the lease term.

Contingencies. The Company records accruals for certain of its outstanding legal proceedings or claims when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal proceedings or claims that could affect the amount of any accrual, as well as any developments that would make a loss contingency both probable and reasonably estimable. The Company discloses the amount of the accrual if it is material.

Retirement Plans. Certain of the Company's employees participate in noncontributory defined benefit plans and post-retirement medical plans sponsored by YUM prior to October 31, 2016. Subsequent to the separation, employees participating in YUM's plans were enrolled in the Yum China Holdings, Inc. Leadership Retirement Plan ("YCHLRP"), an unfunded, unsecured account-based retirement plan which allocates a percentage of pay to an account payable to the executive following the executive's separation of employment from the Company or attainment of age 55.

The Company also offers other defined contribution plans to employees. The total contribution for such employee benefits was expensed as incurred. The Company has no additional legal obligation or liabilities for the benefits beyond the paid and accrued amounts. See Note 14 for additional information.

PRC Value-Added Tax. The Company has been subject to VAT within the normal course of its restaurant business nationwide since May 1, 2016.

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 a VAT 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 Consolidated Balance Sheets. VAT assets are classified as Prepaid expenses and other current assets if they are expected to be used within one year. At each balance sheet date, the Company reviews the outstanding balance of VAT assets for recoverability assessment.

Earnings Per Share. Basic earnings per share represent net earnings to common stockholders divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares. See Note 5 for further information.

Common Stock Repurchases. We may repurchase shares of Yum China common stock under a program authorized by our board of directors from time to time in open market or, subject to applicable regulatory requirements, through privately negotiated transactions, block trades, accelerated share repurchase transactions and the use of Rule 10b5-1 trading plans. Shares repurchased are included in treasury stock in the financial statements until they are retired. When repurchased shares are retired, the Company's accounting policy is to allocate the excess of the repurchase price over the par value of shares acquired between Additional paid-in capital and Retained earnings. The amount allocated to Additional paid-in capital is based on the value of Additional paid-in capital per share outstanding at the time of retirement and the number of shares to be retired. Any remaining amount is allocated to Retained earnings. In connection with the Primary Conversion, all shares repurchased and included in the treasury stock were immediately retired. See Note 16 for further information.

In August 2022, the Inflation Reduction Act of 2022 (the "IRA") was signed into law in the U.S. The IRA contains certain tax measures, including an excise tax of 1% on net share repurchases that occur after December 31, 2022. Any excise tax incurred on share repurchases will generally be recognized as part of the cost of the shares repurchased.

Recently Adopted Accounting Pronouncements

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.

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 adopted ASU 2021-10 during 2022 using the retrospective approach. See Note 2 for related disclosure.

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 board seats in 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 the board, and thus obtained control over Hangzhou KFC and started to consolidate its results from the acquisition date.

As a result of the consolidation of the Hangzhou KFC, the Company also recognized a gain of $618 million in the fourth quarter of 2021 from the re-measurement of our previously held equity interest at fair value. The gain was recorded in Other income, net and not allocated to any segment for performance reporting purposes. Additionally, $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 equity method of accounting to the 28% equity interests 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. The Company's equity income (loss) from Hangzhou Catering, net of taxes, was immaterial for the years ended December 31, 2022 and 2021, and included in Equity in net earnings (losses) from equity method investments in our Consolidated Statement of Income. As of December 31, 2022, the carrying amount of the Company's equity method investment in Hangzhou Catering was $37 million, exceeding the Company's interest in Hangzhou Catering's underlying net assets by $26 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.

Consolidation of Suzhou KFC

In the third quarter of 2020, the Company completed the acquisition of an additional 25% equity interest in Suzhou KFC for cash consideration of $149 million, increasing our equity interest to 72%, and thus the Company obtained control over the joint venture and started to consolidate Suzhou KFC from the acquisition date.

As a result of the consolidation of Suzhou KFC, the Company also recognized a gain of $239 million in the third quarter of 2020, from the re-measurement of our previously held equity interest at fair value. The gain was recorded in Other income, net and not allocated to any segment for performance reporting purposes.

Additionally, $61 million of the purchase price was allocated to the reacquired franchise right in 2020, which is amortized over the remaining franchise contract period of 2.4 years.

In December 2022, the Company acquired an additional 20% equity interest in Suzhou KFC for cash consideration of $115 million, bringing our total ownership to 92%. As the Company has previously obtained control of Suzhou KFC, this transaction was accounted for as an equity transaction. Upon completion of the transaction, the excess of purchase consideration over the carrying amount of the non-controlling interests was $15 million, which was recorded in Additional paid-in capital.

Consolidation of Lavazza Joint Venture

In April 2020, the Company and Lavazza Group established the Lavazza joint venture to explore and develop the Lavazza coffee concept in China, with ownership of a 65% and 35% equity interest, respectively. The Company accounted for the Lavazza joint venture under the equity method of accounting because Lavazza Group held substantive participating rights on certain significant financial and operating decisions. In September 2021, the Company and Lavazza Group entered into agreements for the joint venture, whereby substantive participating rights previously held by Lavazza Group were removed, and thus the Company obtained control over the joint venture and started to consolidate its results from the acquisition date.

As a result of the consolidation of the Lavazza joint venture, the Company also recognized a gain of $10 million in the third quarter of 2021 from the re-measurement of our previously held equity interest at fair value. The gain was recorded in Other income, net and not allocated to any segment for performance reporting purposes.

Acquisition of Huang Ji Huang Group

On April 8, 2020, the Company completed the acquisition of a 93.3% interest in the Huang Ji Huang group ("Huang Ji Huang"), a leading Chinese-style casual dining franchise business, for cash consideration of $185 million. Huang Ji Huang became an operating segment of the Company. See Note 9 for the Company's goodwill and intangible assets acquired from our acquisition of Huang Ji Huang.

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 a 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 subsequent fair value changes recorded in our Consolidated Statements of Income. The unrealized loss of $22 million were included in Investment gain or loss in our Consolidated Statements of Income for the year ended December 31, 2021, representing changes in fair value before the equity method of accounting was applied.

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 the board, along with the Company being one of Sunner's significant shareholders, 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 2022 and 2021, the Company's equity income (loss) from Sunner, net of taxes, was immaterial, and included in Equity in net earnings (losses) from equity method investments in our Consolidated Statement of Income.

Since Sunner became the Company's unconsolidated affiliate in May 2021, the Company purchased inventories of $318 million from Sunner for the year ended December 31, 2021. The Company purchased inventories of $433 million for year ended December 31, 2022. The Company's accounts payable and other current liabilities due to Sunner were $53 million and $56 million as of December 31, 2022 and 2021, respectively.

As of December 31, 2022, the Company's investment in Sunner was stated at the carrying amount of $227 million, which was $157 million higher than the Company's interest in Sunner's underlying net assets. Of this basis difference, $18 million was related to finite-lived intangible assets 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 December 31, 2022, the market value of the Company's investment in Sunner was $214 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 a 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 for proceeds of approximately $54 million, and realized a $17 million pre-tax gain which was recognized during the holding period.

The Company accounted for the equity securities at fair value with subsequent fair value changes recorded in our 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.

In 2022 and 2021, a pre-tax loss of $27 million and $38 million on investment in equity securities of Meituan was included in Investment gain or loss in our Consolidated Statements of Income.

Note 4 – Revenue

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

	2022						
Revenues	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Company sales	$ 7,120	$ 1,939	$ 51	$ —	$ 9,110	$ —	$ 9,110
Franchise fees and income	56	7	18	—	81	—	81
Revenues from transactions with franchisees and unconsolidated affiliates	33	4	39	211	287	—	287
Other revenues	10	10	563	42	625	(534)	91
Total revenues	$ 7,219	$ 1,960	$ 671	$ 253	$ 10,103	$ (534)	$ 9,569

	2021						
Revenues	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Combined	Elimination	Consolidated
Company sales	$ 6,816	$ 2,092	$ 53	$ —	$ 8,961	$ —	$ 8,961
Franchise fees and income	120	8	25	—	153	—	153
Revenues from transactions with franchisees and unconsolidated affiliates	59	6	98	500	663	—	663
Other revenues	8	3	297	20	328	(252)	76
Total revenues	$ 7,003	$ 2,109	$ 473	$ 520	$ 10,105	$ (252)	$ 9,853

Franchise Fees and Income

	2022	2021
Initial fees, including renewal fees	$ 6	$ 8
Continuing fees and rental income	75	145
Franchise fees and income	$ 81	$ 153

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 in the 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 December 31, 2022 and 2021, respectively.

Contract Liabilities

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

	2022	2021
Contract liabilities		
- Deferred revenue related to prepaid stored-value products	$ 139	$ 134
- Deferred revenue related to upfront franchise fees	32	30
- Deferred revenue related to customer loyalty programs	23	25
- Deferred revenue related to privilege membership programs	16	18
- Others	—	1
Total	$ 210	$ 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 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 Consolidated Balance Sheets. Revenue recognized that was included in the contract liability balance at the beginning of the year amounted to $110 million and $127 million in 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 years 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 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 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 earnings per share (in millions, except for per share data):

	2022	2021
Net Income – Yum China Holdings, Inc.	$ 442	$ 990
Weighted-average common shares outstanding (for basic calculation)[(a)]	421	422
Effect of dilutive share-based awards[(a)]	4	6
Effect of dilutive warrants[(b)]	—	6
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)	425	434
Basic Earnings Per Share	$ 1.05	$ 2.34
Diluted Earnings Per Share	$ 1.04	$ 2.28
Share-based awards excluded from the diluted EPS computation[(c)]	4	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 were 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. See Note 15 for a further discussion of share-based compensation. 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 (Note 11), 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 year exceeds the applicable exercise price of the warrants. During 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 SARs, RSUs and PSUs were excluded from the computation of diluted EPS because to do so would have been antidilutive for the years presented, or because certain PSUs are contingently issuable based on the achievement of performance and market conditions, which have not been met as of December 31, 2022 and 2021.

Note 6 – 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. Since then, fluid COVID-19 conditions have caused significant volatility in our operations. During the first half of 2022, severe COVID-19 outbreaks in China significantly affected the Company's business and operating profit. Operating profit increased in the third quarter of 2022 when COVID-19 conditions were relatively calmer. However, in October and November 2022, sporadic occurrences of COVID infections quickly evolved into major regional outbreaks and massive waves of infections to nearly all provinces in China following COVID-19 policy change in the fourth quarter of 2022. Operating profit for the years ended December 31, 2022, and 2021 was $629 million and $1,386 million, respectively. Excluding the impacts of $628 million in gains from the re-measurement of our previously held equity interests in former unconsolidated affiliates recognized upon acquisition in 2021, as described in Note 3, the Operating profit for the years ended December 31, 2022 and 2021, was $629 million and $758 million, respectively.

Consolidation of Former Unconsolidated Affiliates

In the fourth and third quarters of 2021, as a result of the consolidation of Hangzhou KFC and the Lavazza joint venture, the Company recognized a gain of $618 million and $10 million, respectively, from the re-measurement of our previously held equity interest at fair value in Other income. See Note 3 for additional information.

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 as Investment gain (loss) in our consolidated statements of income. We recorded related pre-tax loss of $27 million and $38 million in 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 their 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 $22 million in 2021, representing changes in fair value before the equity method of accounting was applied.

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

Note 7 – Other Expenses (Income), net

	2022	2021
Amortization of reacquired franchise rights[(a)]	$ 97	$ 43
Gain from re-measurement of equity interest upon acquisition[(b)]	—	(628)
Equity income from investments in unconsolidated affiliates[(c)]	—	(43)
Foreign exchanges and other	(3)	(15)
Other expenses (income), net	$ 94	$ (643)

(a) As a result of the acquisition of Hangzhou KFC, Suzhou KFC and Wuxi KFC, $66 million, $61 million and $61 million of the purchase price were allocated to intangible assets related to reacquired franchise rights, respectively, which are being amortized over the remaining franchise contract period of 1 year, 2.4 years and 5 years. (See Note 3 for additional information).

(b) In the fourth and third quarters of 2021, as a result of the consolidation of Hangzhou KFC and the Lavazza joint venture, the Company recognized a gain of $618 million and $10 million, respectively, from the re-measurement of our previously held equity interest at fair value. The re-measurement gains were not allocated to any segment for performance reporting purposes. (See Note 3 for additional information).

(c) 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 acquisitions. (See Note 3 for additional information).

Note 8 – Supplemental Balance Sheet Information

Accounts Receivable, net	**2022**	**2021**
Accounts receivable, gross	$ 66	$ 68
Allowance for doubtful accounts	(2)	(1)
Accounts receivable, net	$ 64	$ 67

The Company generally allows a credit period within 30 days of the period in which the corresponding sales occur to its customers. An aging analysis of accounts receivable as of December 31, 2022 and 2021, based on the date of delivering goods and services, is as follows:

	2022	**2021**
Within 30 days	$ 56	$ 63
31-90 days	7	3
Over 91 days	3	2
Total	$ 66	$ 68

Prepaid Expenses and Other Current Assets	**2022**	**2021**
VAT assets[(a)]	$ 88	$ —
Receivables from payment processors and aggregators	53	45
Dividends receivable from unconsolidated affiliates	6	—
Other prepaid expenses and current assets	160	176
Prepaid expenses and other current assets	$ 307	$ 221

Property, Plant and Equipment	**2022**	**2021**
Buildings and improvements, and construction in progress	$ 2,912	$ 2,984
Finance leases, primarily buildings	62	52
Machinery and equipment	1,612	1,589
Property, plant and equipment, gross	4,586	4,625
Accumulated depreciation	(2,468)	(2,374)
Property, plant and equipment, net	$ 2,118	$ 2,251

Depreciation and amortization expense related to property, plant and equipment was $497 million and $465 million in 2022 and 2021, respectively.

Other Assets	2022	2021
Land use right[b]	$ 123	$ 138
Investment in equity securities	95	122
Long-term deposits	90	101
Costs to obtain contracts	6	7
VAT assets[a]	5	322
Others	24	52
Other Assets	$ 343	$ 742

(a) On June 7, 2022, the Chinese Ministry of Finance and the Chinese State Tax Administration jointly issued Circular [2022] No. 21, to extend full VAT credit refunds to more sectors and increase the frequency for accepting taxpayers' applications with an aim to support business recovery. Beginning on July 1, 2022, entities engaged in providing catering services in China are allowed to apply for a lump sum refund of VAT assets accumulated prior to March 31, 2019. In addition, VAT assets accumulated after March 31, 2019 can be refunded on a monthly basis. As the benefits of certain VAT assets are expected to be realized within one year pursuant to Circular [2022] No. 21, $303 million of VAT assets as of June 30, 2022 were reclassified from Other assets to Prepaid expenses and other current assets. As of December 31, 2022, VAT assets of $88 million were included in Prepaid expenses and other current asset.

(b) Amortization expense related to land use right was $5 million in both 2022 and 2021.

Accounts Payable and Other Current Liabilities	2022	2021
Accounts payable	$ 727	$ 830
Operating leases liabilities	448	508
Accrued compensation and benefits	285	283
Contract liabilities	182	182
Accrued capital expenditures	181	269
Accrued marketing expenses	72	71
Other current liabilities	203	189
Accounts payable and other current liabilities	$ 2,098	$ 2,332

Other Liabilities	2022	2021
Accrued income tax payable	$ 52	$ 56
Contract liabilities	28	26
Other noncurrent liabilities	82	85
Other liabilities	$ 162	$ 167

An aging analysis of the accounts payable as of December 31, 2022 and 2021 is as follows:

	2022	2021
Within 60 days	$ 722	$ 828
Over 60 days	5	2
Total	$ 727	$ 830

The accounts payable consist of invoiced and certain accrued balances, and are generally repaid within one to two months depending on payment term and the invoice date. Accrued accounts payable reflect payable of goods and services that have not yet been invoiced to the Company, and will be reclassified to invoiced accounts payable when invoices are received. Aging analysis of invoiced accounts payable has been presented based on invoice date and the amounts of accrued accounts payable were categorized as within 60 days.

Accounts payable and Other current liabilities also include remuneration payable to auditors. Total auditors' remuneration for the years ended December 31, 2022 and 2021 was both $3 million.

Note 9 – 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 adjustments	(170)	(162)	(2)	(6)
Balance as of December 31, 2022				
Goodwill, gross	2,379	1,893	19	467
Accumulated impairment losses(a)	(391)	—	—	(391)
Goodwill, net	$ 1,988	$ 1,893	$ 19	$ 76

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

(b) Goodwill acquired resulted from the acquisitions of Hangzhou KFC and the Lavazza joint venture during 2021(Note 3), as well as the acquisition of restaurants from our existing franchisees during 2022, which was immaterial.

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

	2022				2021			
	Gross Carrying Amount(a)	Accumulated Amortization(a)	Accumulated Impairment Losses(b)	Net Carrying Amount	Gross Carrying Amount(a)	Accumulated Amortization(a)	Accumulated Impairment Losses(b)	Net Carrying Amount
Finite-lived intangible assets								
Reacquired franchise rights	$ 276	$ (271)	$ —	$ 5	$ 295	$ (191)	$ —	$ 104
Huang Ji Huang franchise related assets	22	(3)	—	19	23	(2)	—	21
Daojia platform	16	(4)	(12)	—	16	(4)	(12)	—
Customer-related assets	12	(9)	(2)	1	12	(9)	(2)	1
Other	9	(5)	—	4	10	(5)	—	5
	$ 335	$ (292)	$ (14)	$ 29	$ 356	$ (211)	$ (14)	$ 131
Indefinite-lived intangible assets								
Little Sheep trademark	$ 52	$ —	$ —	$ 52	$ 57	$ —	$ —	$ 57
Huang Ji Huang trademark	78	—	—	78	84	—	—	84
	$ 130	$ —	$ —	$ 130	$ 141	$ —	$ —	$ 141
Total intangible assets	$ 465	$ (292)	$ (14)	$ 159	$ 497	$ (211)	$ (14)	$ 272

(a) Changes in gross carrying amount and accumulated amortization include effect of currency translation adjustment.

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

Amortization expense for finite-lived intangible assets was $99 million in 2022 and $45 million in 2021. Amortization expense for finite-lived intangible assets is expected to approximate $4 million in 2023 and $2 million in each of 2024, 2025, 2026 and 2027. 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 10 – Credit Facilities

As of December 31, 2022, the Company had credit facilities of RMB4,518 million (approximately $655 million), comprised of onshore credit facilities of RMB3,000 million (approximately $435 million) in the aggregate and offshore credit facilities of $220 million in the aggregate.

The credit facilities had remaining terms ranging from less than one year to two years as of December 31, 2022. Each credit facility bears interest based on the prevailing rate stipulated by the People's Bank of China, Loan Prime Rate ("LPR") published by the National Interbank Funding Centre of the PRC, London Interbank Offered Rate ("LIBOR") administered by the ICE Benchmark Administration, or Secured Overnight Financing Rate ("SOFR") published by the Federal Reserve Bank of New York. 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. Interest on any outstanding borrowings is due at least monthly. Some of the onshore credit facilities contain sub-limits for overdrafts, non-financial bonding, standby letters of credit and guarantees. As of December 31, 2022, we had outstanding bank guarantees of RMB209 million (approximately $30 million) mainly to secure our lease payments to landlords for certain Company-owned restaurants. The credit facilities were therefore reduced by the same amount. There was a $2-million bank borrowing outstanding as of December 31, 2022, which was secured by a $1-million short-term investment. The bank borrowing was due within one year and included in Accounts payable and other current liabilities.

Note 11 – Investment Agreements with Strategic Investors

On September 1, 2016, YUM and the Company entered into investment agreements (the "Investment Agreements") with each of Pollos Investment L.P., an affiliate of Primavera Capital Group ("Primavera"), and API (Hong Kong) Investment Limited, an affiliate of Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. ("Ant Financial" and, together with Primavera, the "Investors"). Pursuant to the Investment Agreements, on November 1, 2016 ("Closing Date"), Primavera and Ant Financial invested $410 million and $50 million, respectively, for a collective $460 million investment (the "Investment") in the Company in exchange for: (i) over 18 million shares of Yum China common stock and (ii) two tranches of warrants (the "Warrants"). Upon exercise, the first tranche of Warrants initially provided Primavera and Ant Financial with the right to purchase 7,309,057 and 891,348 shares of Yum China common stock, respectively, at an initial exercise price of $31.40 per share. The second tranche of Warrants initially provided Primavera and Ant Financial with the right to purchase the same number of shares of Yum China common stock under the first tranche of Warrants, at an initial exercise price of $39.25 per share. The Warrants were exercisable at any time through October 31, 2021 and contain customary anti-dilution protections, which were equity-classified and recorded in Additional paid in capital in the Consolidated balance sheet presented since December 2016, when the number of Warrants to be issued became fixed.

As of December 31, 2020, Primavera and Ant Financial had separately entered into pre-paid forward sale transactions with respect to all of their Warrants with several financial institutions, pursuant to which Primavera and Ant Financial would deliver their respective Warrants on the applicable settlement date.

In 2021, 7,534,316 shares of Yum China common stock were issued as a result of the cashless exercise of all Warrants, representing approximately 1.8% of Yum China common stock issued and outstanding as of December 31, 2021.

Note 12 – Leases

As of December 31, 2022, we leased over 10,000 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 revenue, respectively, within our Consolidated Statements of Income. The impact of ASC 842 on our accounting as a lessor was not significant.

Supplemental Balance Sheet	**2022/12/31**	**2021/12/31**	**Account Classification**
Assets			
Operating lease right-of-use assets	$ 2,219	$ 2,612	Operating lease right-of-use assets
Finance lease right-of-use assets	38	33	Property, plant and equipment, net
Total leased assets	$ 2,257	$ 2,645	
Liabilities			
Current			
Operating lease liabilities	$ 448	$ 508	Accounts payable and other current liabilities
Finance lease liabilities	5	3	Accounts payable and other current liabilities
Non-current			
Operating lease liabilities	1,906	2,286	Non-current operating lease liabilities
Finance lease liabilities	42	40	Non-current finance lease liabilities
Total lease liabilities	$ 2,401	$ 2,837	

Summary of Lease Cost	**2022**	**2021**	**Account Classification**
Operating lease cost	$ 564	$ 564	Occupancy and other operating expenses, G&A or Franchise expenses
Finance lease cost			
Amortization of leased assets	4	3	Occupancy and other operating expenses
Interest on lease liabilities	2	2	Interest expense, net
Variable lease cost[(a)]	303	346	Occupancy and other operating expenses or Franchise expenses
Short-term lease cost	12	9	Occupancy and other operating expenses or G&A
Sublease income	(23)	(26)	Franchise fees and income or Other revenues
Total lease cost	$ 862	$ 898	

(a) The Company was granted $39 million and $12 million in lease concessions from landlords related to the effects of the COVID-19 pandemic for the years ended December 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 question-and-answer 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

	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 549	$ 573
Operating cash flows from finance leases	2	2
Financing cash flows from finance leases	4	2
Right-of-use assets obtained in exchange for new lease liabilities[(b)]:		
Operating leases	$ 191	$ 541
Finance leases	10	11

(b) This supplemental non-cash disclosure for ROU obtained in exchange for new lease liabilities includes an increase in lease liabilities associated with obtaining new ROU assets of $344 million and $557 million for the years ended December 31, 2022 and 2021, respectively, as well as adjustments to lease liabilities or ROU assets due to modification or other reassessment events, which resulted in a decrease of $143 million and $5 million in lease liabilities for the years ended December 31, 2022 and 2021, respectively.

Lease Term and Discount Rate	2022	2021
Weighted-average remaining lease term (years)		
Operating leases	7.1	7.2
Finance leases	11.2	11.3
Weighted-average discount rate		
Operating leases	5.1%	5.5%
Finance leases	5.1%	5.5%

Summary of Future Lease Payments and Lease Liabilities

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

	Amount of Operating Leases	Amount of Finance Leases	Total
2023	$ 552	$ 7	$ 559
2024	450	6	456
2025	387	6	393
2026	338	6	344
2027	279	5	284
Thereafter	808	32	840
Total undiscounted lease payment	2,814	62	2,876
Less: imputed interest[(c)]	460	15	475
Present value of lease liabilities	$ 2,354	$ 47	$ 2,401

(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 December 31, 2022, we have additional lease agreements that have been signed but not yet commenced, with total undiscounted minimum lease payments of $107 million. These leases will commence between 2023 and 2026 with lease terms of 1 year to 20 years.

Note 13 – 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 the equity securities of Meituan at fair value, 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 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 in 2022 and 2021.

		Fair Value Measurement or Disclosure at December 31, 2022		
	Balance at December 31, 2022	**Level 1**	**Level 2**	**Level 3**
Cash equivalents:				
Time deposits	$ 355		$ 355	
Fixed income debt securities[(a)]	129	29	100	
Money market funds	59	59		
Total cash equivalents	543	88	455	—
Short-term investments:				
Time deposits	1,434		1,434	
Fixed income debt securities[(a)]	500		500	
Structured deposits	88		88	
Total short-term investments	2,022	—	2,022	—
Long-term time deposits[(b)]	680		680	
Other assets:				
Investment in equity securities	95	95		
Total	$ 3,340	$ 183	$ 3,157	$ —

	Balance at December 31, 2021	Fair Value Measurement or Disclosure at December 31, 2021		
		Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	$ 321		$ 321	
Fixed income debt securities[a]	163	63	100	
Money market funds	45	45		
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	—
Long-term time deposits[b]	90		90	
Other assets:				
Investment in equity securities	122	122		
Total	$ 3,601	$ 309	$ 3,292	$ —

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

(b) As of December 31, 2022 and 2021, long-term time deposits balance included $81 million and $90 million deposits, respectively, which is restricted for use in order to secure the balance of prepaid stored-value cards issued by the Company pursuant to regulatory requirements.

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. As of December 31, 2022, the fair value of restaurant-level assets, if determined to be impaired, are primarily represented by the price market participant would pay to sub-lease the operating lease ROU assets and acquire remaining restaurants assets, which reflects the highest and best use of the assets. Significant unobservable inputs used in the fair value measurement include market rental prices, which were determined with the assistance of an independent valuation specialist. The direct comparison approach is used as the valuation technique by assuming sub-lease of each of these properties in its existing state with vacant possession. By making reference to lease transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the difference in factors such as location and property size.

The following table presents amounts recognized from all non-recurring fair value measurements based on unobservable inputs (Level 3) during the years ended December 31, 2022 and 2021. These amounts exclude fair value measurements made for restaurants that were subsequently closed or refranchised prior to those respective year-end dates.

	2022	2021
Restaurant-level impairment[a]	24	32

(a) Restaurant-level impairment charges are recorded in Closures and impairment expenses, net and resulted primarily from our semi-annual impairment evaluation of long-lived assets of individual restaurants that were being operated at the time of impairment and had not been offered for refranchising. After considering the impairment charges recorded during the corresponding years, the fair value of assets as of the relevant measurement date was $97 million and $112 million during the years ended December 31, 2022 and 2021, respectively.

Note 14 – Retirement Plans

For executives who were hired or re-hired after September 30, 2001, YUM has implemented the YUM LRP. This is an unfunded, unsecured account-based retirement plan which allocates a percentage of pay to an account payable to the executive following the executive's separation of employment from YUM or attainment of age 55. The Company adopted the YCHLRP upon separation while the assets and liabilities associated with these employees under YUM LRP were transferred to YCHLRP. YCHLRP will continue to be in effect until terminated by the Company's board of directors. The terms of the YCHLRP are substantially similar to the terms of the YUM LRP. Under the YCHLRP, certain executives who are at least age 21, who are classified as salary level 12, who are not eligible to participate in a tax-qualified defined benefit plan, and who satisfy certain additional requirements as to work location and assignment, are eligible to participate in the YCHLRP if selected for participation by the Company. The YCHLRP is an unfunded, unsecured account-based retirement plan that allocates a percentage of pay to an account payable to an executive following the later to occur of the executive's separation of employment from the Company or attainment of age 55. Under the YCHLRP, participants aged 55 or older are entitled to a lump sum distribution of their account balance on the last day of the calendar quarter that occurs on or follows their separation of employment. The liabilities attributable to our employees under the YCHLRP were insignificant as of December 31, 2022 and 2021.

YUM offers certain of the Company's executives working in China retirement benefits under the Bai Sheng Restaurants China Holdings Limited Retirement Scheme (previously known as the Bai Sheng Restaurants (Hong Kong) Ltd. Retirement Scheme). Under this defined contribution plan, YUM provides a Company-funded contribution ranging from 5% to 10% of an executive's base salary. Upon termination, participants will receive a lump sum equal to a percentage of the Company's contributions inclusive of investment return. This percentage is based on a vesting schedule that provides participants with a vested 30% interest upon completion of a minimum of 3 years of service, and an additional 10% vested interest for each additional completed year, up to a maximum of 100%. The Company adopted the same plan after the separation and the contribution amount to the plan for the years ended December 31, 2022 and 2021 was immaterial. During 2022 and 2021, forfeited contribution utilized under the plan to reduce the existing level of contribution was immaterial, and there were no forfeited contributions available as of December 31, 2022 to be utilized for such use.

As stipulated by Chinese state regulations, the Company participates in a government-sponsored defined contribution retirement plan. Substantially all employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of the geographical area of their last employment at their retirement date. We are required to make contributions to the local social security bureau between 13% and 20% of the previous year's average basic salary amount of the geographical area where the employees are under our employment. Contributions are recorded in the Consolidated Statements of Income as they become payable. We have no obligation for the payment of pension benefits beyond the annual contributions as set out above. The Company contributed $183 million to the government-sponsored plan for both the year ended December 31, 2022 and 2021.

Note 15 – Share-Based Compensation

Overview

Upon the separation, 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, to maintain the pre-separation intrinsic value of the awards. Depending on the tax laws of the country of employment, awards were modified using either the shareholder method or the employer method. Share issuances for Yum China awards held by YUM's employees will be satisfied by Yum China. Share issuances for YUM awards held by the Company's employees will be satisfied by YUM. The shareholder method was based on the premise that employees holding YUM awards prior to the separation should receive an equal number of awards of both YUM and Yum China. Under the employer method, employees holding YUM awards prior to the separation had their awards converted into awards of the Company that they worked for subsequent to the separation. As a result, Yum China may issue shares of common stock to YUM's employees upon exercise or vesting of various types of awards, including stock options, SARs, RSUs, and awards from the executive income deferral plan.

The modified equity awards have the same terms and conditions as the awards held immediately before the separation, except that the number of shares and the price were adjusted. In accordance with ASC 718, the Company compared the fair value of the awards immediately prior to the separation to the fair value immediately after the separation to measure the incremental compensation cost, using the Black-Scholes option-pricing model (the "BS model"). The incremental compensation cost was insignificant, and YUM and the Company continue to recognize the unamortized original grant-date fair value of the modified awards over the remaining requisite service period as their respective employees continue to provide services. Share-based compensation for the Company's employees is based on both YUM awards and Yum China awards held by those employees.

Effective October 31, 2016, the Company adopted the Yum China Holdings, Inc. Long Term Incentive Plan (the "2016 Plan"). The Company has reserved for issuance under the 2016 Plan of 45,000,000 shares of our common stock. Under this plan, the exercise price of stock options and SARs granted must be equal to or greater than the fair market value of the Company's stock on the date of grant.

In connection with the Primary Conversion, the Company's stockholders approved the Yum China Holdings, Inc. 2022 Long Term Incentive Plan (the "2022 Plan"), with 31,000,000 shares of Company common stock authorized for grants. The 2022 Plan replaced the 2016 Plan and became effective on October 24, 2022. The 2016 Plan continued to govern awards granted prior to the effectiveness of the 2022 Plan. Under the 2022 Plan, the exercise price of stock options and SARs granted must be the higher of 1) the fair market value of the Company's stock on the date of grant and (ii) the average fair market value for the five trading days immediately preceding the date of grant. The 2022 Plan is largely based on the 2016 Plan, but with updates to conform to the requirements of the HKEX, to delete provisions relating to our spin-off that are no longer applicable and to make certain other administrative changes.

Similar to the 2016 Plan, potential awards to employees and non-employee directors under the 2022 Plan include stock options, incentive options, SARs, restricted stock, stock units, RSUs, performance shares, performance units, and cash incentive awards. While awards under the 2016 and 2022 Plan can have varying vesting provisions and exercise periods, outstanding awards vest in periods ranging from three to five years. Stock options and SARs expire 10 years after grant.

The Company recognizes all share-based payments to employees and non-employee directors in the Consolidated Financial Statements as compensation cost on a straight-line basis over the service period based on their fair value on the date of grant, for awards that actually vest and when performance conditions are probable of being achieved, if applicable. If no substantive service condition exists, the grant-date fair value is fully recognized as expense upon grant.

Award Valuation

Stock Options and SARs

The Company estimated the fair value of each stock option and SAR award granted to the Company's employees as of the date of grant, using the BS model with the following assumptions:

	2022	2021
Risk-free interest rate	1.6%	0.4%
Expected term (years)	6.25	6.25
Expected volatility	32.4%	33.9%
Expected dividend yield	1.0%	0.8%

Share option and SAR awards granted to employees typically have a graded vesting schedule of 25% per year over four years and expire 10 years after grant. The Company uses a single weighted-average term for awards that have a graded vesting schedule and determined average terms of exercise based on analysis of the historical exercise and post-vesting termination behavior. Forfeitures were estimated based on historical experience. Historical data used to estimate the expected term and forfeiture rate include data associated with the Company's employees who were granted share-based awards by YUM prior to the separation.

For those awards granted by the Company after the separation, the Company considered the volatility of common shares of comparable companies in the same business as the Company, as well as the historical volatility of the Company stock. The dividend yield was estimated based on the Company's dividend policy at the time of the grant.

RSUs

RSU awards generally vest over three to four years, with either cliff vesting at 100% on the third grant anniversary or graded vesting on anniversary dates. The fair values of RSU awards are based on the closing price of the Company's stock on the date of grant.

PSUs

In February 2020, the Company's board of directors approved new grants of a special award of PSUs ("Partner PSU Awards") to select employees who were deemed critical to the Company's execution of its strategic operating plan under the 2016 Plan. These Partner PSU Awards are subject to market and performance conditions, and will cliff vest only 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.

In addition, the Company also granted annual PSU awards since 2020. These annual PSU awards are based on the Company's achievement of one or more performance goals, including relative total shareholder return against the MSCI China Index, and will cliff vest only if threshold performance goals are achieved over a three-year performance period.

The fair value of PSU awards was determined based on the closing price of the Company's stock on the date of the grant and the outcome of the MCS model with the following assumptions:

	2022	2021
Risk-free interest rate	1.8%	0.2%
Expected volatility	30.8%	35.7%
Expected dividend yield	Not applicable	Not applicable

Compensation costs associated with annual and Partner PSU Awards are recognized on a straight-line basis over the performance period when performance conditions are probable of being achieved, adjusted for estimated forfeiture rate.

Others

Commencing from November 11, 2016, Yum China also granted annual awards of common stock to non-employee directors for their service on Yum China's board of directors. The fair value of these awards is based on the closing price of the Company's common stock on the date of grant. The shares were issued outright to the directors on the date of grant, with no conditions attached. Therefore, the fair value of the awards was fully recognized as expenses upon grant. For the years ended December 31, 2022 and 2021, a total of 47,820 and 31,182 shares of Yum China common stock, respectively, were granted to non-employee directors and the grant-date fair value of $2.1 million and $2.1 million, respectively, was immediately recognized in full in the Consolidated Statements of Income.

Award Activity

Stock Options and SARs

	Shares (in thousands)	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (years)**	**Aggregate Intrinsic Value (in millions)**
Outstanding at the beginning of 2022	10,823	31.65		
Granted	964	50.16		
Exercised	(1,932)	23.32		
Forfeited or expired	(250)	49.66		
Outstanding at the end of 2022	9,605 [(a)]	34.71	4.95	194
Exercisable at the end of 2022	7,124	29.44	3.87	180

(a) Outstanding awards include 180,256 stock options and 9,424,555 SARs with weighted-average exercise prices of $20.31 and $34.99, respectively. Outstanding awards represent Yum China awards held by employees of both the Company and YUM.

The weighted-average grant-date fair value of SARs granted in 2022 and 2021 was $15.55 and $17.44, respectively. The total intrinsic value of stock options and SARs exercised by the Company's employees during the years ended December 31, 2022 and 2021 was $22 million and $22 million, respectively.

As of December 31, 2022, $25 million of unrecognized compensation cost related to unvested SARs, which will be reduced by any forfeitures that occur, is expected to be recognized over a remaining weighted-average vesting period of approximately 1.63 years. The total fair value at grant date or modification date of awards held by the Company's employees that vested during 2022 and 2021 was $16 million and $15 million, respectively.

RSUs

	Shares (in thousands)	**Weighted-Average Grant Date Fair Value**
Unvested at the beginning of 2022	684	53.77
Granted	409	50.11
Vested	(170)	42.81
Forfeited or expired	(48)	54.83
Unvested at the end of 2022	875	54.13

The weighted-average grant-date fair value of RSUs granted in 2022 and 2021 was $50.11 and $58.77, respectively. As of December 31, 2022, $27 million of unrecognized compensation cost related to 874,914 unvested RSUs, which will be reduced by any forfeiture that occurs, is expected to be recognized over a remaining weighted-average vesting period of approximately 1.72 years. The total fair value at grant date of awards that vested during 2022 and 2021 was $7 million and $11 million, respectively.

PSUs

	Shares (in thousands)	**Weighted-Average Grant Date Fair Value**
Unvested at the beginning of 2022	1,233	42.86
Granted	102	61.33
Vested	(125)	43.08
Forfeited or expired	(134)	47.23
Unvested at the end of 2022	1,076	44.04

The weighted-average grant-date fair value of PSUs granted in 2022 and 2021 was $61.33 and $68.04, respectively. As of December 31, 2022, $12 million of unrecognized compensation cost related to 1,075,646 unvested PSUs, which will be reduced by any forfeiture that occurs and adjusted based on the Company's achievement of performance goals, is expected to be recognized over a remaining weighted-average vesting period of approximately 1.33 years. The total fair value at grant date of awards that vested during 2022 and 2021 was $5 million and $3 million, respectively.

On December 30, 2022, in recognition of the extended impact of the COVID-19 pandemic and the Company's performance over the three-year performance period of the 2020 annual PSU awards, the Compensation Committee of the board of directors determined to adjust the weighting of the performance goals applicable to the 2020 annual PSU awards. This modification pertained to all recipients of this award, and resulted in incremental compensation expense of $6 million recognized during the year ended December 31, 2022.

Impact on Net Income

Share-based compensation expense was $42 million and $41 million for 2022 and 2021, respectively. Deferred tax benefits of $1 million was recognized in both 2022 and 2021.

Note 16 – Equity

Immediately after the separation on October 31, 2016, Yum China authorized capital stock consisted of 1,000 million shares of common stock, par value $0.01 per share, and 364 million shares of Yum China common stock were issued and outstanding. As of December 31, 2022, 419 million shares of Yum China common stock were issued and outstanding.

Share Repurchase and Retirement

The Company repurchased 10.5 million and 1.3 million shares of common stock at a total cost of $466 million and $75 million for the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022, $1.2 billion remained available for repurchase under the current authorization.

As of December 31, 2022, all shares repurchased were retired and resumed the status of authorized and unissued shares of common stock.

Cash Dividend

On October 4, 2017, the board of directors approved a regular quarterly cash dividend program, and we have paid a quarterly cash dividend on Yum China's common stock since the fourth quarter of 2017, except for the second and third quarters of 2020 due to the unprecedented effects of the COVID-19 pandemic. Cash dividends totaling $202 million and $203 million were paid to stockholders in 2022 and 2021, respectively.

Accumulated Other Comprehensive Income ("AOCI")

The Company's other comprehensive income (loss) for the years ended December 31, 2022 and 2021 and AOCI balances as of December 31, 2022 and 2021 were comprised solely of foreign currency translation adjustments. Other comprehensive loss was $431 million for the year ended December 31, 2022, and other comprehensive income was $108 million for the years ended December 31, 2021. The accumulated balances reported in AOCI in the Consolidated Balance Sheets for currency translation adjustments were a net loss of $103 million as of December 31, 2022 and a net gain of $268 million as of December 31, 2021. There was no tax effect related to the components of other comprehensive income for all years presented.

Restricted net assets

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Company's PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the Consolidated Financial Statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's subsidiaries.

In accordance with the PRC Regulations on Enterprises with Foreign Investment and the articles of association of the Company's PRC subsidiaries, a foreign-invested enterprise established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A foreign-invested enterprise is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve has reached 50% of its respective registered capital based on the enterprise's PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign-invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends.

As a result of these PRC laws and regulations subject to the limit discussed above that require annual appropriations of 10% of after-tax income to be set aside, prior to payment of dividends as general reserve fund, the Company's PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to the Company in the form of dividend payments, loans or advances. The restricted net assets of the PRC subsidiaries were approximately $1 billion as of December 31, 2022.

Furthermore, cash transfers from the Company's PRC subsidiaries to its subsidiaries outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of the PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency-denominated obligations.

Note 17 – Income Taxes

In December 2017, the U.S. enacted 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.

In August 2022, the IRA was signed into law in the U.S. The IRA contains certain tax measures, including a Corporate Alternative Minimum Tax ("CAMT") of 15% on certain large corporations. On December 27, 2022, the U.S. Treasury Department and the Internal Revenue Services (the "IRS") released Notice 2023-7, announcing their intention to issue proposed regulations addressing the application of the new CAMT. Notice 2023-7 also provides interim guidance regarding certain CAMT issues and states that, the U.S. Treasury Department and the IRS plan to issue additional interim guidance addressing other issues before publishing proposed regulations. The Company will monitor the regulatory developments and continue to evaluate the impact on our financial statements, if any.

In December 2022, a refined Foreign Sourced Income Exemption ("FSIE") regime was published in Hong Kong and will take effect from January 1, 2023. Under the new FSIE regime, certain foreign soured income would be deemed as being sourced from Hong Kong and chargeable to Hong Kong Profits Tax, if the recipient entity fails to meet the prescribed exception requirements. Certain dividends, interests and disposal gains, if any, received by us and our Hong Kong subsidiaries may be subject to the new tax regime. We are in the process of evaluating the impact on our financial statements, if any.

U.S. and foreign income (loss) before taxes are set forth below:

	2022	2021
U.S.	$ 7	$ (1)
Mainland China	686	1,424
Other Foreign	(6)	(31)
	$ 687	$ 1,392

The details of our income tax provision are set forth below:

		2022	2021
Current:	Federal	$ 5	$ —
	Foreign	222	209
		$ 227	$ 209
Deferred:	Federal	$ (6)	$ (8)
	Foreign	(14)	168
		$ (20)	$ 160
		$ 207	$ 369

The reconciliation of income taxes calculated at the U.S. federal statutory rate to our effective tax rate is set forth below:

	2022		2021	
U.S. federal statutory rate	$ 144	21.0%	$ 292	21.0%
Statutory rate differential attributable to foreign operations	54	7.9	73	5.2
Adjustments to reserves and prior years	(3)	(0.6)	(4)	(0.3)
Change in valuation allowances	9	1.3	9	0.7
Other, net	3	0.5	(1)	(0.1)
Effective income tax rate	$ 207	30.1%	$ 369	26.5%

Statutory rate differential attributable to foreign operations. This item includes local taxes, withholding taxes, and shareholder-level taxes, net of foreign tax credits. A majority of our income is earned in China, which is generally subject to a 25% tax rate. The negative impact in 2022 and 2021 is primarily due to the U.S. federal statutory rate of 21%, which is lower than China's statutory income tax rate.

Adjustments to reserves and prior years. This item includes: (1) changes in tax reserves, including interest thereon, established for potential exposure we may incur if a taxing authority takes a position on a matter contrary to our position; and (2) the effects of reconciling income tax amounts recorded in our Consolidated Statements of Income to amounts reflected on our tax returns, including any adjustments to the Consolidated Balance Sheets. The impact of certain effects or changes may affect items reflected in '*Statutory rate differential attributable to foreign operations*'.

Change in valuation allowances. This item relates to changes for deferred tax assets generated or utilized during the current year and changes in our judgment regarding the likelihood of using deferred tax assets that existed at the beginning of the year. The impact of certain changes may affect items reflected in '*Statutory rate differential attributable to foreign operations*'.

Others. This item primarily includes the impact of permanent differences related to current year earnings, gain or loss on investment in equity securities, as well as U.S. tax credits and deductions.

The details of 2022 and 2021 deferred tax assets (liabilities) are set forth below:

	2022	2021
Operating losses and tax credit carryforwards	$ 47	$ 43
Tax benefit from Little Sheep restructuring	15	17
Employee benefits	6	3
Share-based compensation	6	5
Lease	49	64
Other liabilities	11	15
Deferred income and other	94	89
Gross deferred tax assets	228	236
Deferred tax asset valuation allowances	(57)	(53)
Net deferred tax assets	$ 171	$ 183
Intangible assets	(40)	(69)
Property, plant and equipment	(136)	(138)
Gain from re-measurement of equity interest upon acquisition	(226)	(245)
Unrealized gains from equity securities	(12)	(18)
Withholding tax on distributable earnings	(34)	(32)
Gross deferred tax (liabilities)	$ (448)	$ (502)
Net deferred tax (liabilities)	$ (277)	$ (319)
Reported in Consolidated Balance Sheets as:		
Deferred income tax assets	113	106
Deferred income tax liabilities	(390)	(425)
	$ (277)	$ (319)

We have investments in our foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. Except for the planned but yet to be distributed earnings, we have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone the basis differences from reversing with a tax consequence. The Company's separation from YUM was intended to qualify as a tax-free reorganization for U.S. income tax purposes resulting in the excess of financial reporting basis over tax basis in our investment in the China business continuing to be indefinitely reinvested. The excess of financial reporting basis over tax basis as of December 31, 2017 was subject to the one-time transition tax under the Tax Act as a deemed repatriation of accumulated undistributed earnings from the foreign subsidiaries. However, we continue to believe that the portion of the excess of financial reporting basis over tax basis (including earnings and profits subject to the one-time transition tax) is indefinitely reinvested in our foreign subsidiaries for foreign withholding tax purposes. We estimate that our total temporary difference for which we have not provided foreign withholding taxes is approximately $3 billion at December 31, 2022. The foreign withholding tax rate on this amount is 5% or 10% depending on the manner of repatriation and the applicable tax treaties or tax arrangements.

At December 31, 2022, the Company had operating loss carryforwards of $200 million, primarily related to our Little Sheep and Daojia as well as certain underperforming entities, most of which will expire by 2027. These losses are being carried forward in jurisdictions where we are permitted to use tax losses from prior periods to reduce future taxable income.

Cash payments for tax liabilities on income tax returns filed were $204 million and $255 million in 2022 and 2021, respectively.

We recognize the benefit of positions taken or expected to be taken in tax returns in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2022	2021
Beginning of Year	$ 20	$ 21
Additions on tax positions	6	5
Reductions due to statute expiration	(5)	(6)
End of Year	$ 21	$ 20

In 2022 and 2021, our unrecognized tax benefits were increased by $6 million and $5 million, respectively. The unrecognized tax benefits balance of $21 million as of December 31, 2022 related to the uncertainty with regard to the deductibility of certain business expenses incurred, all of which, if recognized upon audit settlement or statute expiration, would affect the effective tax rate. The Company believes it is reasonably possible its unrecognized tax benefits of $21 million as of December 31, 2022, which is included in Other liabilities on the Consolidated Balance Sheet, may decrease by approximately $5 million in the next 12 months, which if recognized, would affect the 2023 effective tax rate. The accrued interest and penalties related to income taxes at December 31, 2022 and 2021 are set forth below:

	2022	2021
Accrued interest and penalties	$ 4	$ 5

During 2022 and 2021, a net benefit of $1 million and nil for interest and penalties was recognized in our Consolidated Statements of Income as components of our income tax provision, respectively.

The Company's results are subject to examination in the U.S. federal jurisdiction as well as various U.S. state jurisdictions as part of YUM's and our own income tax filings, and separately in foreign jurisdictions. Any liability arising from these examinations related to periods prior to the separation is expected to be settled among the Company, YCCL and YUM in accordance with the tax matters agreement we entered into in connection with the separation.

We are subject to reviews, examinations and audits by Chinese tax authorities, the IRS 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 focuses 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 18 – Segment Reporting

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

	2022						
	KFC	**Pizza Hut**	**All Other Segments**	**Corporate and Unallocated[(a)]**	**Combined**	**Elimination**	**Consolidated**
Revenues							
Revenue from external customers	$ 7,219	$ 1,960	$ 155	$ 235	$ 9,569	$ —	$ 9,569
Inter-segment revenue	—	—	516	18	534	(534)	—
Total	$ 7,219	$ 1,960	$ 671	$ 253	$ 10,103	$ (534)	$ 9,569

	2021						
	KFC	**Pizza Hut**	**All Other Segments**	**Corporate and Unallocated[(a)]**	**Combined**	**Elimination**	**Consolidated**
Revenues							
Revenue from external customers	$ 7,003	$ 2,109	$ 227	$ 514	$ 9,853	$ —	$ 9,853
Inter-segment revenue	—	—	246	6	252	(252)	—
Total	$ 7,003	$ 2,109	$ 473	$ 520	$ 10,105	$ (252)	$ 9,853

Operating Profit (Loss)	2022	2021
KFC[b]	$ 787	$ 827
Pizza Hut	70	111
All Other Segments	(50)	(29)
Unallocated revenues from transactions with franchisees and unconsolidated affiliates[c]	211	500
Unallocated Other revenues	42	20
Unallocated expenses for transactions with franchisees and unconsolidated affiliates[c]	(211)	(497)
Unallocated Other operating costs and expenses	(39)	(17)
Unallocated and corporate G&A expenses	(184)	(171)
Unallocated Other income[d]	3	642
Operating Profit	$ 629	$ 1,386
Interest income, net[a]	84	60
Investment loss[a]	(26)	(54)
Income Before Income Taxes and Equity in Net Earnings (Losses) from Equity Method Investments	$ 687	$ 1,392

	Depreciation and Amortization	
	2022	2021
KFC	$ 460	$ 378
Pizza Hut	108	111
All Other Segments	10	9
Corporate and Unallocated	24	18
	$ 602	$ 516

	Impairment Charges	
	2022	2021
KFC[e]	$ 31	$ 30
Pizza Hut[e]	9	13
All Other Segments[e]	11	5
	$ 51	$ 48

	Capital Spending	
	2022	2021
KFC	$ 327	$ 398
Pizza Hut	116	98
All Other Segments	16	16
Corporate and Unallocated	220	177
	$ 679	$ 689

	Total Assets	
	2022	2021
KFC	$ 5,296	$ 6,072
Pizza Hut	880	972
All Other Segments	381	454
Corporate and Unallocated[f]	5,269	5,725
	$ 11,826	$ 13,223

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

(b) Includes equity income from investments in unconsolidated affiliates that operate our concepts of nil and $50 million 2022 and 2021, respectively.

(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 then sells and delivers 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) In 2021, unallocated other income primarily includes gain from re-measurement of previously held equity interest in connection with the acquisition of Hangzhou KFC and the Lavazza joint venture. See Note 3.

(e) Primarily includes store closure impairment charges, restaurant-level impairment charges resulting from our semi-annual impairment evaluation. See Note 13.

(f) Primarily includes cash and cash equivalents, short-term investments, investment in equity securities of Meituan, equity method investments, long-term time deposits, inventories that are centrally managed and PP&E.

As substantially all of the Company's revenue is derived from the PRC and substantially all of the Company's long-lived assets are located in the PRC, no geographical information is presented. In addition, revenue derived from and long-lived assets located in the U.S., the Company's country of domicile, are immaterial.

Note 19 – 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 ("Chinese interests"), 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 distribution. However, given how recently Bulletin 7 was promulgated, 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 December 31, 2022, no guarantees were outstanding for franchisees.

Indemnification of Officers and Directors

The Company's amended and restated certificate of incorporation and amended and restated bylaws include provisions that require the Company to indemnify directors or officers for monetary damages for actions taken as a director or officer of the Company or while serving at the Company's request as a director or officer or another position at another corporation or enterprise, as the case may be. The Company purchases standard directors and officers insurance to cover claims or a portion of the claims made against its directors and officers. Since a maximum obligation is not explicitly stated in the Company's bylaws or in the indemnification agreements and will depend on the facts and circumstances that arise out of any future claims, the overall maximum amount of the obligations cannot be reasonably estimated. The Company has not been required to make payments related to these obligations, and the fair value for these obligations is zero as of December 31, 2022.

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 Consolidated Financial Statements, is not likely to have a material adverse effect on the Company's annual 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 20 – Subsequent Events

Cash Dividend

On February 7, 2023, the Company announced that the board of directors declared a cash dividend of $0.13 per share on Yum China's common stock, payable as of the close of business on March 28, 2023, to stockholders of record as of the close of business on March 7, 2023. Total estimated cash dividend payable is approximately $54 million.

Note 21 – Particulars of Principal Subsidiaries of the Company

The following list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Company.

Name of Major Subsidiaries	Place of Incorporation and Operation	Issued and Fully Paid Share Capital	Equity Interest Held	Principal Activities
Major subsidiaries engaging in investment holding and/or the operation of our restaurants				
Bai Sheng Restaurants China Holdings Limited	Hong Kong	HKD 993,255,340	100.0%	Investment holding and operating a Little Sheep restaurant in Hong Kong
Yum! Restaurants (China) Investment Company Limited	PRC	USD 128,127,095	100.0%	Investment holding
Yum! Restaurants (Shenyang) Co., Ltd.		USD 12,200,000	100.0%	Operating our KFC, Pizza Hut and Taco Bell restaurants in respective areas
Yum! Restaurants (Guangdong) Co., Ltd.		USD 45,406,000	100.0%	
Yum! Restaurants (Chengdu) Co., Ltd.		USD 4,200,000	100.0%	
Yum! Restaurants (Wuhan) Co., Ltd.		USD 10,100,000	100.0%	
Yum! Restaurants (Shenzhen) Co. Ltd.		USD 5,100,000	100.0%	
Beijing KFC Co., Ltd.		RMB 58,675,169	70.0%	
Shanghai KFC Co., Ltd.		USD 27,010,000	58.0%	
Wuxi KFC Co. Ltd.		USD 6,200,000	83.0%	
Hangzhou KFC Co., Ltd.		USD 21,500,000	59.6%	
Suzhou KFC Co., Ltd.		USD 10,000,000	92.0%	
Nanjing KFC Co., Ltd.		USD 19,060,000	100.0%	
Qingdao KFC Co., Ltd.		USD 8,600,000	100.0%	
Tianjin KFC Co., Ltd.		USD 7,100,000	100.0%	
Changsha KFC Co., Ltd.		USD 2,100,000	100.0%	
Nanning KFC Co., Ltd.		USD 2,700,000	100.0%	
Shanghai Pizza Hut Co., Ltd.		USD 13,173,000	100.0%	
Beijing Pizza Hut Co., Ltd.		RMB 23,508,800	100.0%	
Inner Mongolia Little Sheep Catering Chain Co., Ltd.		USD 76,180,000	100.0%	Operating our Little Sheep business
Beijing Huang Ji Huang Catering Management Co., Ltd.		RMB 1,000,000	93.3%	Operating our Huang Ji Huang business
Yi Bai Coffee (Shanghai) Co., Ltd.		USD 114,500,000	65.0%	Operating Lavazza business in China
Major subsidiaries engaging in the provision of support and services to other entities in our system				
Yum! Restaurants Consulting (Shanghai) Company Limited	PRC	USD 5,000,000	100.0%	Sub-licensing the brands licensed from YUM; performing headquarters functions and providing support and services to other entities in our system
HuanSheng Advertising (Shanghai) Company Limited		RMB 500,000	100.0%	Marketing and advertising services to other entities in our system
Huansheng E-Commerce (Shanghai) Co., Ltd.		RMB 5,000,200	100.0%	Operating our e-commerce business
Yum! (Shanghai) Food Co., Ltd.		USD 17,000,000	100.0%	Purchase of food, paper products and equipment for other entities in our system
Shanghai You Song Jia Information and Technology Co., Ltd.		RMB 500,000	100.0%	Managing delivery services for our restaurants

All our subsidiaries established in the PRC are limited liability companies.

Note 22 – Statement of Financial Position of the Company (Parent Company Only)

	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents	$ 178	$ 280
Short-term investments	790	1,151
Prepaid expenses and other current assets	14	7
Total Current Assets	982	1,438
Loan due from subsidiaries	505	703
Long-term investment in subsidiaries	5,046	4,965
Total Assets	**6,533**	**7,106**
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	13	3
Total Current Liabilities	13	3
Deferred income tax liabilities	11	17
Other liabilities	27	30
Total Liabilities	51	50
Equity		
Common stock, $0.01 par value; 1,000 million shares authorized; 419 million shares and 449 million shares issued at December 31, 2022 and 2021, respectively; 419 million shares and 428 million shares outstanding at December 31, 2022 and 2021, respectively	4	4
Treasury stock	—	(803)
Additional paid-in capital	4,390	4,695
Retained earnings	2,191	2,892
Accumulated other comprehensive (loss) income	(103)	268
Total Yum China Holdings, Inc. Stockholders' Equity	6,482	7,056
Total Liabilities and Equity	**$ 6,533**	**$ 7,106**

A summary of the Company’s statement of changes in equity is as follows:

	Yum China Holdings, Inc.							
	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Treasury Stock		Total
	Shares	**Amount**	**Capital**	**Earnings**	**Income (Loss)**	**Shares**	**Amount**	**Equity**
Balance at December 31, 2021	**449**	**$ 4**	**$ 4,695**	**$ 2,892**	**$ 268**	**(21)**	**$ (803)**	**$ 7,056**
Net Income				442				442
Foreign currency translation adjustments					(371)			(371)
Comprehensive income								71
Cash dividends declared ($0.48 per common share)				(202)				(202)
Repurchase and retirement of shares	(31)	—	(328)	(941)		21	803	(466)
Exercise and vesting of share-based awards	1	—	(3)					(3)
Share-based compensation			41					41
Acquisition of noncontrolling interest			(15)					(15)
Balance at December 31, 2022	**419**	**$ 4**	**$ 4,390**	**$ 2,191**	**$ (103)**	**—**	**$ —**	**$ 6,482**

The above statement of financial position of the Company has been prepared in accordance with U.S. GAAP, and in conformity with the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Companies Ordinance (Cap.622 of the Laws of Hong Kong). The Company’s accounting policies are the same as set out in the consolidated financial statement and the equity method of accounting has been adopted for investment in subsidiaries based on ASC 323, Investments – Equity Method and Joint Ventures. The above financial information of the Company should be read in conjunction with the Company’s consolidated financial statement.

Note 23 – Directors’ Remuneration

The remuneration of each director including the chief executive is set out below:

For the year ended December 31, 2022:

Name	Fees earned or paid in cash	Salaries, allowances and benefits in kind	Performance related bonuses	Share-based compensation expense[a]	Pension scheme contributions[b]	Others	Total remuneration*
				(in US$ thousands)			
Employee director and chief executive							
Joey Wat[c]	—	1,678	4,788	8,100	142	—	14,708
Independent non-executive directors							
Peter A. Bassi	138	—		168			305
Edouard Ettedgui	—	—		275			275
Cyril Han	—	—		275			275
Louis T. Hsieh	138	—		138			275
Fred Hu	225	—		290			515
Ruby Lu	—	—		295			295
Zili Shao	—	—		290			290
William Wang	—	—		275			275
Min (Jenny) Zhang	138	—		138			275
	638	—	—	2,143	—	—	2,780
	638	**1,678**	**4,788**	**10,243**	**142**	**—**	**17,488**

For the year ended December 31, 2021:

Name	Fees earned or paid in cash	Salaries, allowances and benefits in kind	Performance related bonuses	Share-based compensation expense[a]	Pension scheme contributions[b]	Others	Total remuneration*
				(in US$ thousands)			
Employee director and chief executive							
Joey Wat[c]	—	4,110	3,607	8,199	134	—	16,050
Independent non-executive directors							
Peter A. Bassi	138			168			305
Edouard Ettedgui	—			275			275
Cyril Han	—			275			275
Louis T. Hsieh	138			138			275
Fred Hu	225			290			515
Ruby Lu	—			295			295
Zili Shao	—			290			290
William Wang	—			275			275
Min (Jenny) Zhang	138			138			275
Christian L. Campbell[d]	—			—		128	128
	638	—	—	2,143	—	128	2,908
	638	**4,110**	**3,607**	**10,341**	**134**	**128**	**18,958**

*: Total remuneration may not add due to rounding.

(a) Represent share-based compensation expenses, relating to the awards granted to the directors, recognized by the Company based on their fair value on the date of grant, and if applicable, when performance conditions are probable of being achieved. (See Note 2 and Note 15 for additional information).

(b) The pension scheme contribution received by the employee director represents retirement benefits under Bai Sheng Restaurants China Holdings Limited Retirement Scheme, further details are set out in Note 14.

(c) The Company's employee director does not receive additional compensation for serving on the Board of Directors.

(d) Mr. Campbell did not stand for re-election at the Annual Meeting of Stockholders in May 2021. While Mr. Campbell served as a director before May during 2021, he did not receive any compensation in 2021 with respect to such service, as his 2020 equity grant fully recognized in 2020 upon grant, represented compensation for his service until May 2021. On July 15, 2021, Mr. Campbell entered into a senior advisor service contract with the Company, pursuant to which Mr. Campbell provided governance and other advisory services to the Board from July 1, 2021, with a monthly retainer of $21,000. Pursuant to the senior advisor service contract, hours in excess of 42 hours per quarter were paid at $1,500 per hour.

Except for mentioned above, there was no other remuneration payable to directors during the years ended December 31, 2022 and 2021.

Note 24 – Five Highest Paid Individuals

The five individuals whose emoluments are the highest in the Company included one chief executive whose emoluments are reflected in the analysis shown in Note 23. Details of the total remuneration for the remaining four highest paid employees, who are not directors of the Company, are as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Salaries, allowances and benefits in kind	$ 4	$ 4
Performance related bonuses	4	3
Share-based compensation expense	6	6
Pension scheme contributions	—	—
	$ 14	$ 13

The number of highest paid non-director employees whose total remuneration fell within the following bands, is as follows:

	2022	2021
HK 18,500,001 to HK 19,000,000	1	—
HK 20,000,001 to HK 20,500,000	—	1
HK 21,000,001 to HK 21,500,000	—	1
HK 23,000,001 to HK 23,500,000	1	—
HK 27,000,001 to HK 27,500,000	—	1
HK 27,500,001 to HK 28,000,000	1	—
HK 29,500,001 to HK 30,000,000	—	1
HK 37,000,001 to HK 37,500,000	1	—
	4	4

Note 25 – Reconciliation between U.S. GAAP and International Financial Reporting Standards

The Company's consolidated financial statements are prepared in accordance with U.S. GAAP, which differ in certain respects from International Financial Reporting Standards ("IFRS"). The effects of material differences between U.S. GAAP and IFRS are as follows:

(i) Reconciliation of consolidated statements of income:

		For the year ended December 31, 2022 IFRS adjustments				
	Amounts as reported under U.S. GAAP	Lease[(a)]	Share-based compensation[(b)]	Deferred taxes on share-based compensation[(c)]	Long-lived assets impairment[(d)]	Amounts under IFRS
Revenues						
Franchise fees and income	$ 81	$ (5)				$ 76
Other revenues	91	(1)				90
Total revenues	9,569	(6)	—	—	—	9,563
Costs and Expenses, Net						
Company restaurants						
Occupancy and other operating expenses	2,604	(74)			(5)	2,525
Company restaurant expenses	7,829	(74)	—	—	(5)	7,750
General and administrative expenses	594	(4)	2			592
Franchise expenses	34	(5)				29
Closures and impairment expenses, net	32	2			(1)	33
Total costs and expenses, net	8,940	(81)	2	—	(6)	8,855
Operating Profit	**629**	**75**	**(2)**	—	**6**	**708**
Interest income (expense), net	84	(130)				(46)
Income Before Income Taxes and Equity in Net Earnings (Losses) from Equity Method Investments	**687**	**(55)**	**(2)**	**—**	**6**	**636**
Income tax provision	(207)	13		(2)	(2)	(198)
Net income – including noncontrolling interests	478	(42)	(2)	(2)	4	436
Net income – noncontrolling interests	36	(5)				31
Net Income – Yum China Holdings, Inc.	**$ 442**	**$ (37)**	**$ (2)**	**$ (2)**	**$ 4**	**$ 405**

		For the year ended December 31, 2021 IFRS adjustments				
	Amounts as reported under U.S. GAAP	Lease[(a)]	Share-based compensation[(b)]	Deferred taxes on share-based compensation[(c)]	Long-lived assets impairment[(d)]	Amounts under IFRS
Revenues						
Franchise fees and income	$ 153	$ (5)				$ 148
Other revenues	76	(1)				75
Total revenues	9,853	(6)	—	—	—	9,847
Costs and Expenses, Net						
Company restaurants						
Occupancy and other operating expenses	2,664	(62)			(9)	2,593
Company restaurant expenses	7,734	(62)	—	—	(9)	7,663
General and administrative expenses	564	(3)	1			562
Franchise expenses	64	(5)				59
Closures and impairment expenses, net	34	7			(5)	36
Other expenses (income), net	(643)	(3)				(646)
Total costs and expenses, net	8,467	(66)	1	—	(14)	8,388
Operating Profit	**1,386**	**60**	**(1)**	**—**	**14**	**1,459**
Interest income (expense), net	60	(137)				(77)
Income Before Income Taxes and Equity in Net Earnings (Losses) from Equity Method Investments	**1,392**	**(77)**	**(1)**	**—**	**14**	**1,328**
Income tax provision	(369)	18		(5)	(3)	(359)
Net income – including noncontrolling interests	1,023	(59)	(1)	(5)	11	969
Net income – noncontrolling interests	33	(4)			1	30
Net Income – Yum China Holdings, Inc.	**$ 990**	**$ (55)**	**$ (1)**	**$ (5)**	**$ 10**	**$ 939**

(ii) Reconciliation of consolidated balance sheets

		As of December 31, 2022 IFRS adjustments					
	Amounts as reported under U.S. GAAP	**Lease[(a)]**	**Share-based compensation[(b)]**	**Deferred taxes on share-based compensation[(c)]**	**Long-lived assets impairment[(d)]**	**Redeemable noncontrolling interest[(e)]**	**Amounts under IFRS**
Current Assets							
Accounts receivable, net	$ 64	$ 5					$ 69
Total Current Assets	3,940	5	—	—	—	—	3,945
Property, plant and equipment, net	2,118	(9)			(12)		2,097
Operating lease right-of-use assets	2,219	(54)					2,165
Deferred income taxes	113			6	3		122
Other assets	343	9					352
Total Assets	**11,826**	**(49)**	**—**	**6**	**(9)**	**—**	**11,774**
Current Liabilities							
Accounts payable and other current liabilities	2,098	1					2,099
Total Current Liabilities	2,166	1	—	—	—	—	2,167
Non-current operating and finance lease liabilities	1,948	2					1,950
Deferred income tax liabilities	390	(11)					379
Other liabilities	162					12	174
Total Liabilities	4,666	(8)	—	—	—	12	4,670
Redeemable Noncontrolling Interest	12					(12)	—
Equity							
Additional paid-in capital	4,390		3	11	—		4,404
Retained earnings	2,191	(27)	(3)	(5)	(9)		2,147
Accumulated other comprehensive income	(103)	(5)			1		(107)
Total Yum China Holdings, Inc. Stockholders' Equity	6,482	(32)	—	6	(8)	—	6,448
Noncontrolling interests	666	(9)			(1)		656
Total Equity	7,148	(41)	—	6	(9)	—	7,104
Total Liabilities, Redeemable Noncontrolling Interest and Equity	**$ 11,826**	**$ (49)**	**$ —**	**$ 6**	**$ (9)**	**$ —**	**$ 11,774**

		As of December 31, 2021					
		IFRS adjustments					
	Amounts as reported under U.S. GAAP	Lease[a]	Share-based compensation[b]	Deferred taxes on share-based compensation[c]	Long-lived assets impairment[d]	Redeemable noncontrolling interest[e]	Amounts under IFRS
Current Assets							
Accounts receivable, net	$ 67	$ 6					$ 73
Total Current Assets	4,716	6	—	—	—	—	4,722
Property, plant and equipment, net	2,251	(9)			(19)		2,223
Operating lease right-of-use assets	2,612	(2)					2,610
Deferred income taxes	106			7	5		118
Other assets	742	12					754
Total Assets	**13,223**	**7**	**—**	**7**	**(14)**	**—**	**13,223**
Current Liabilities							
Accounts payable and other current liabilities	2,332	2					2,334
Total Current Liabilities	2,383	2	—	—	—	—	2,385
Non-current operating and finance lease liabilities	2,326	4					2,330
Deferred income tax liabilities	425	2					427
Other liabilities	167					14	181
Total Liabilities	5,301	8	—	—	—	14	5,323
Redeemable Noncontrolling Interest	14					(14)	—
Equity							
Additional paid-in capital	4,695		1	11			4,707
Retained earnings	2,892	10	(1)	(4)	(13)		2,884
Accumulated other comprehensive income	268	(7)			—		261
Total Yum China Holdings, Inc. Stockholders' Equity	7,056	3	—	7	(13)	—	7,053
Noncontrolling interests	852	(4)			(1)		847
Total Equity	7,908	(1)	—	7	(14)	—	7,900
Total Liabilities, Redeemable Noncontrolling Interest and Equity	**$ 13,223**	**$ 7**	**$ —**	**$ 7**	**$ (14)**	**$ —**	**$ 13,223**

Notes:

(a) Lease

Lease Amortization

Under U.S. GAAP, there is a dual-classification lease accounting model for lessees: finance leases and operating leases. For operating leases, unless the right-of-use asset has been impaired, the amortization of right-of-use assets and the interest expense of lease liabilities are recorded together as a single lease cost on a straight-line basis over the remaining lease term.

Under IFRS, all leases are classified as finance leases, where right-of-use assets are amortized on a straight-line basis and recorded in Costs and Expenses, Net above Operating profit, while interest expense of lease liabilities are recorded in Interest income (expense), net under the effective interest method, which results in higher expenses at the beginning of the lease term and lower expenses near the end of the lease term.

Sublease classification

Under U.S. GAAP, an intermediate lessor classifies a sub-lease as a finance lease or as an operating lease by reference to the underlying asset. Under IFRS sub-lease classification is determined by reference to the right-of-use asset arising from the head lease, which may more frequently result in finance lease classification under IFRS.

An intermediate lessor in an operating lease continues to amortize the underlying right-of-use asset, and records lease income on a straight-line basis over the lease term. An intermediate lessor in a finance lease derecognizes the leased asset and records a net investment in the lease at lease commencement, in addition to any selling profit or loss. The lessor records lease income on its net investment in lease under the effective interest method.

(b) Share-based compensation

Share-based compensation with graded vesting feature

Under U.S. GAAP, the Company has elected to recognize compensation expense over the service period on a straight-line basis for all employee equity awards with a graded vesting schedule. Under IFRS, share-based compensation with graded vesting feature is recognized based on each tranche, which results in an accelerated expense recognition.

Share-based compensation with IPO condition

The Company's Lavazza joint venture granted equity awards to key employees vested and exercisable upon the consummation of a qualified successful IPO. Under U.S. GAAP, a performance condition that may be met after the requisite service period is a vesting condition and compensation cost is recognized only if IPO becomes probable of being achieved. Under IFRS, performance condition that may be met after the requisite service period is a non-vesting condition and reflected in the measurement of the grant date fair value of an award, which may result in earlier expense recognition.

(c) Deferred taxes on share-based compensation

Under U.S. GAAP, deferred taxes are calculated based on the cumulative share-based compensation expense recognized in the financial statements, and it required all excess tax benefits and tax deficiencies to be recorded in the consolidated statement of income in the period in which tax deduction arises.

Under IFRS, deferred tax asset is recorded based on estimate of the future tax deduction in accordance with the stock price at the end of each reporting period. If the estimated future tax deduction exceeds cumulative compensation cost for an individual award, deferred tax based on the excess is credited to shareholders' equity. If the estimated future tax deduction is less than or equal to cumulative compensation cost for an individual award, deferred taxes are recorded in consolidated statement of income.

(d) Long-lived assets impairment

Under U.S. GAAP, two-step approach is used in the measurement and recognition of impairment loss of long-lived assets of our restaurants (primarily PP&E and ROU). During step one recoverability test, the carrying amount is first compared with the undiscounted cash flows, using entity specific assumptions. During step two measurement test, if the carrying amount is higher than the undiscounted cash flows, an impairment loss is measured as the difference between the carrying value and fair value. Under IFRS, only one-step approach is used in impairment testing. The carrying amount is compared with the recoverable amount, which is the higher of fair value less costs of disposal or the asset's value in use based on the net present value of future cash flows. Therefore, the difference in impairment assessment results in difference in impairment loss under IFRS. In addition, the lease accounting difference leads to difference in ROU carrying amounts and thus results in difference in impairment loss, which is included in Note (a) together with all other lease related GAAP differences.

(e) Redeemable non-controlling interest

Under U.S. GAAP, when the noncontrolling interest is redeemable at the option of the noncontrolling shareholder, or contingently redeemable upon the occurrence of a conditional event that is not solely within the control of the Company, the noncontrolling interest is separately classified as mezzanine equity which is neither liability nor equity. The redeemable non-controlling interest is initially recorded at fair value and subsequently measured at the higher of initial fair value, increased or decreased for the non-controlling interest's share of net income or loss, or the redemption value of the non-controlling interest.

Under IFRS, redeemable noncontrolling interest is presented as liability, as the Company does not have the unconditional right to avoid delivering cash or another financial asset. Redeemable non-controlling interest is measured at fair value subsequently.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Yum China Holdings, Inc. is the largest restaurant company in China in terms of system sales, with $9.6 billion of revenues in 2022 and nearly 13,000 restaurants as of year-end 2022. Our growing restaurant network consists of our flagship KFC and Pizza Hut brands, as well as emerging brands such as Taco Bell, Lavazza, Little Sheep and Huang Ji Huang. 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 and Huang Ji Huang concepts outright. We also established a joint venture with Lavazza Group, the world-renowned family-owned Italian coffee company, to explore and develop the Lavazza coffee concept in China. KFC was the first major global restaurant brand to enter China in 1987. With more than 35 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 2022 system sales, with nearly 13,000 restaurants covering over 1,800 cities primarily in China as of December 31, 2022. 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 December 31, 2022, KFC operated over 9,000 restaurants in more than 1,800 cities across China. KFC primarily competes with western QSR brands in China, such as McDonald's, Dicos and Burger King, among which we believe KFC had an approximate two-to-one lead over its nearest competitor in terms of store count as of the end of 2022. In the third quarter of 2020, the Company completed the acquisition of an additional 25% interest in an unconsolidated affiliate that operates KFC stores in and around Suzhou, China ("Suzhou KFC"), increasing our equity interest to 72% and allowing the Company to consolidate the entity. In December 2022, the Company acquired an additional 20% equity interest in Suzhou KFC, bringing our total ownership to 92%. In 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 December 31, 2022, Pizza Hut operated over 2,900 restaurants in over 650 cities. Measured by number of restaurants, we believe Pizza Hut had an approximate five-to-one lead over its nearest western CDR competitor in China as of the end of 2022.

We have two reportable segments: KFC and Pizza Hut. Our remaining non-reportable operating segments, including the operations of Taco Bell, Lavazza, Little Sheep, Huang Ji Huang, COFFii & JOY, East Dawning, our delivery operating segment and our e-commerce business, are combined and referred to as All Other Segments, as these operating segments are insignificant both individually and in the aggregate. The Company decided to wind down the operations of the East Dawning brand in 2021, and closed all stores by March 2022. In addition, the Company decided to wind down the operations of COFFii & JOY and closed all stores in 2022. The Company will leverage its experience in COFFii & JOY to better capture growing coffee market opportunities in China. Additional details on our reportable operating segments are included in Note 18 to the Consolidated Financial Statements.

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 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. Prior years have been adjusted accordingly.

- 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, including cost of food and paper, restaurant-level payroll and employee benefits, rent, depreciation and amortization of restaurant-level assets, advertising expenses, and other operating expenses. 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.

Results of Operations

Summary

All comparisons within this summary are versus the same period a year ago.

Starting in the first quarter of 2020, the COVID-19 pandemic significantly impacted the Company's operations. Since then, fluid COVID-19 conditions have caused significant volatility in our operations. During the first half of 2022, severe COVID-19 outbreaks in China continued to significantly affect the Company's business and operating profit. Operating profit increased in the third quarter of 2022 when COVID-19 conditions were relatively calmer. However, in October and November 2022, sporadic occurrences of COVID infections quickly evolved into major regional outbreaks, leading to tightened COVID-related health measures and lockdowns. The number of our stores that were either temporarily closed or offered only takeaway and delivery services reached a peak of over 4,300 in late November 2022. In December 2022, the government issued a series of new COVID response guidelines that significantly changed its COVID policies, including removing mass testing and central quarantine requirements as well as lifting travel restrictions. A massive wave of infections quickly surged in the country. Due to widespread infections, we experienced a shortage of restaurant staff which led to over 1,300 stores on average being either temporarily closed or offering limited services in December 2022. As a significant portion of the population was either infected or chose to stay home to avoid infection, dine-in traffic declined substantially. As a result, the Company's operation and financial results were adversely affected in the fourth quarter of 2022.

In 2022, the Company's total revenues decreased 3%, or increased 1% excluding the impact of F/X, mainly attributable to 1,159 net new stores and the acquisition of Hangzhou KFC, partially offset by same-store sales decline of 7% and 6% at KFC and Pizza Hut, respectively, and temporary store closures due to the impact of the COVID-19 pandemic. Operating profit decreased 55%, or 53% excluding the impact of F/X, primarily driven by lapping the re-measurement gain of our previously held equity interest in Hangzhou KFC and Lavazza at fair value upon acquisition in 2021, inflation in commodities and wages, increased rider cost associated with rising delivery volumes and an increase in G&A expenses primarily due to higher compensation cost, partially offset by the increase in Company sales, higher labor productivity, operational efficiency and temporary relief provided by landlords and government agencies. Net income for 2022 decreased 55%, or 54% excluding the impact of F/X, mainly due to the decrease in operating profit, partially offset by lower income tax expenses in line with the decrease in pre-tax income.

2022 financial highlights are below:

	% Change				
	System Sales[(a)]	Same-Store Sales[(a)]	Net New Units	Operating Profit (Reported)	Operating Profit (Ex F/X)
KFC	(4)	(7)	+11	(5)	(1)
Pizza Hut	(3)	(6)	+12	(36)	(36)
All Other Segments[(b)]	(28)	(22)	(8)	(75)	(82)
Total	(5)	(7)	+10	(55)	(53)

(a) System Sales and Same-Store Sales percentages as shown in 2022 financial highlights 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.

The Consolidated Results of Operations for the years ended December 31, 2022 and 2021 and other data are presented below:

	2022	2021	% B/(W)[a] Reported	% B/(W)[a] Ex F/X
Company sales	$ 9,110	$ 8,961	2	6
Franchise fees and income	81	153	(47)	(45)
Revenues from transactions with franchisees and unconsolidated affiliates	287	663	(57)	(55)
Other revenues	91	76	20	26
Total revenues	$ 9,569	$ 9,853	(3)	1
Company restaurant expenses	$ 7,829	$ 7,734	(1)	(5)
Operating Profit	$ 629	$ 1,386	(55)	(53)
Interest income, net	84	60	40	43
Investment loss	(26)	(54)	51	51
Income tax provision	(207)	(369)	44	42
Equity in net earnings (losses) from equity method investments	(2)	—	NM	NM
Net income – including noncontrolling interests	478	1,023	(53)	(51)
Net income – noncontrolling interests	36	33	(9)	(15)
Net Income – Yum China Holdings, Inc.	$ 442	$ 990	(55)	(54)
Diluted Earnings Per Common Share	$ 1.04	$ 2.28	(54)	(53)
Effective tax rate	30.1%	26.5%		
Supplementary information – Non-GAAP Measures[b]				
Restaurant profit	$ 1,281	$ 1,227	4	8
Restaurant margin %	14.1%	13.7%	0.4 ppts.	0.4 ppts.
Adjusted Operating Profit	$ 633	$ 766		
Adjusted Net Income	$ 446	$ 525		
Adjusted Diluted Earnings Per Common Share	$ 1.05	$ 1.21		
Adjusted Effective Tax Rate	29.9%	27.8%		
Adjusted EBITDA	$ 1,286	$ 1,330		

NM refers to not meaningful.

(a) Represents year-over-year 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

	2022 % Change
System Sales Decline	(8)%
System Sales Decline, excluding F/X	(5)%
Same-Store Sales Decline	(7)%

Unit Count	2022	2021	% Increase
Company-owned	11,161	10,051	11
Franchisees	1,786	1,737	3
	12,947	11,788	10

2023 Outlook

The Company currently expects:

- To open approximately 1,100 to 1,300 net new stores.
- To make capital expenditures in the range of approximately $700 million to $900 million.

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. We also use Restaurant profit and restaurant margin (as defined in the Overview section within MD&A above) for the purpose of internally evaluating the performance of our Company-owned restaurants and we believe Company restaurant profit and restaurant margin provide useful information to investors as to the profitability of our Company-owned restaurants.

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

Non-GAAP Reconciliations

Reconciliation of GAAP Operating Profit to Restaurant Profit

	Year Ended 12/31/2022					
	KFC	**Pizza Hut**	**All Other Segments**	**Corporate and Unallocated**	**Elimination**	**Total**
GAAP Operating Profit (Loss)	$ 787	$ 70	$ (50)	$ (178)	$ —	$ 629
Less:						
Franchise fees and income	56	7	18	—	—	81
Revenues from transactions with franchisees and unconsolidated affiliates	33	4	39	211	—	287
Other revenues	10	10	563	42	(534)	91
Add:						
General and administrative expenses	254	110	46	184	—	594
Franchise expenses	29	4	1	—	—	34
Expenses for transactions with franchisees and unconsolidated affiliates	30	3	35	211	—	279
Other operating costs and expenses	7	8	557	39	(533)	78
Closures and impairment expenses, net	16	4	12	—	—	32
Other expenses (income), net	97	—	—	(3)	—	94
Restaurant profit (loss)	$ 1,121	$ 178	$ (19)	$ —	$ 1	$ 1,281
Company sales	7,120	1,939	51	—	—	9,110
Restaurant margin %	15.7%	9.2%	(37.6)%	N/A	N/A	14.1%

	Year Ended 12/31/2021					
	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Elimination	Total
GAAP Operating Profit (Loss)	$ 827	$ 111	$ (29)	$ 477	$ —	$ 1,386
Less:						
Franchise fees and income	120	8	25	—	—	153
Revenues from transactions with franchisees and unconsolidated affiliates	59	6	98	500	—	663
Other revenues	8	3	297	20	(252)	76
Add:						
General and administrative expenses	240	111	42	171	—	564
Franchise expenses	59	4	1	—	—	64
Expenses for transactions with franchisees and unconsolidated affiliates	58	6	88	497	—	649
Other operating costs and expenses	4	2	294	17	(252)	65
Closures and impairment expenses, net	20	7	7	—	—	34
Other (income) expenses, net	(8)	—	7	(642)	—	(643)
Restaurant profit (loss)	$ 1,013	$ 224	$ (10)	$ —	$ —	$ 1,227
Company sales	6,816	2,092	53	—	—	8,961
Restaurant margin %	14.9%	10.7%	(20.8)%	N/A	N/A	13.7%

Reconciliation of Reported GAAP Results to Non-GAAP Adjusted Measures

	2022	2021
Reconciliation of Operating Profit to Adjusted Operating Profit		
Operating Profit	$ 629	$ 1,386
Special Items, Operating Profit	(4)	620
Adjusted Operating Profit	$ 633	$ 766
Reconciliation of Net Income to Adjusted Net Income		
Net Income – Yum China Holdings, Inc.	$ 442	$ 990
Special Items, Net Income - Yum China Holdings, Inc.	(4)	465
Adjusted Net Income – Yum China Holdings, Inc.	$ 446	$ 525
Reconciliation of EPS to Adjusted EPS		
Basic Earnings Per Common Share	$ 1.05	$ 2.34
Special Items, Basic Earnings Per Common Share	(0.01)	1.10
Adjusted Basic Earnings Per Common Share	$ 1.06	$ 1.24
Diluted Earnings Per Common Share	$ 1.04	$ 2.28
Special Items, Diluted Earnings Per Common Share	(0.01)	1.07
Adjusted Diluted Earnings Per Common Share	$ 1.05	$ 1.21
Reconciliation of Effective Tax Rate to Adjusted Effective Tax Rate		
Effective tax rate (See Note 17)	30.1%	26.5%
Impact on effective tax rate as a result of Special Items	0.2%	(1.3)%
Adjusted effective tax rate	29.9%	27.8%

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

	2022	2021
Reconciliation of Net Income to Adjusted EBITDA		
Net Income – Yum China Holdings, Inc.	$ 442	$ 990
Net income – noncontrolling interests	36	33
Equity in net (earnings) losses from equity method investments	2	—
Income tax provision	207	369
Interest income, net	(84)	(60)
Investment loss	26	54
Operating Profit	629	1,386
Special Items, Operating Profit	4	(620)
Adjusted Operating Profit	633	766
Depreciation and amortization	602	516
Store impairment charges	51	48
Adjusted EBITDA	$ 1,286	$ 1,330

Details of Special Items are presented below:

Details of Special Items	2022	2021
Share-based compensation expense for Partner PSU Awards[(a)]	$ (4)	$ (8)
Gain from re-measurement of equity interest upon acquisition[(b)]	—	628
Special Items, Operating Profit	(4)	620
Tax effect on Special Items[(c)]	—	(155)
Special Items, net income – including noncontrolling interests	(4)	465
Special Items, net income – noncontrolling interests	—	—
Special Items, Net Income – Yum China Holdings, Inc.	$ (4)	$ 465
Weighted-Average Diluted Shares Outstanding (in millions)	425	434
Special Items, Diluted Earnings Per Common Share	$ (0.01)	$ 1.07

(a) 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.

(b) In the fourth and third quarters of 2021, as a result of the consolidation of Hangzhou KFC and the Lavazza joint venture, the Company recognized a gain of $618 million and $10 million, respectively, from the re-measurement of our previously held equity interest at fair value. The re-measurement gains were not allocated to any segment for performance reporting purposes. (See Note 3 for additional information.)

(c) Tax effect 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 equity in net earnings (losses) from equity method investments, 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

KFC delivered a resilient performance in 2022 by accelerating store expansion with attractive returns and maintaining solid profitability. KFC continued to focus on innovative products, creating abundant value for our customers, as well as on upgrading ingredients to meet Chinese consumers' needs. KFC also continued its digital and delivery initiatives to enhance the customer experience. KFC's loyalty program members exceeded 380 million at year-end 2022 and contributed approximately 62% of system sales at KFC in 2022. Delivery sales accounted for approximately 38% of Company sales at KFC in 2022 with store and city coverage of 89% and 98%, respectively, at the end of 2022.

			% B/(W)	
	2022	2021	Reported	Ex F/X
Company sales	$ 7,120	$ 6,816	4	9
Franchise fees and income	56	120	(53)	(51)
Revenues from transactions with franchisees and unconsolidated affiliates	33	59	(45)	(43)
Other revenues	10	8	26	33
Total revenues	$ 7,219	$ 7,003	3	7
Company restaurant expenses	$ 5,999	$ 5,803	(3)	(8)
G&A expenses	$ 254	$ 240	(6)	(10)
Franchise expenses	$ 29	$ 59	50	48
Expenses for transactions with franchisees and unconsolidated affiliates	$ 30	$ 58	49	46
Other operating costs and expenses	$ 7	$ 4	(60)	(68)
Closure and impairment expenses, net	$ 16	$ 20	19	13
Other expenses (income), net	$ 97	$ (8)	NM	NM
Operating Profit	$ 787	$ 827	(5)	(1)
Restaurant profit	$ 1,121	$ 1,013	11	15
Restaurant margin %	15.7%	14.9%	0.8 ppts.	0.8 ppts.

	2022 % Change
System Sales Decline	(8)%
System Sales Decline, excluding F/X	(4)%
Same-Store Sales Decline	(7)%

Unit Count	2022	2021	% Increase
Company-owned	8,214	7,437	10
Franchisees	880	731	20
	9,094	8,168	11

	2021	New Builds	Acquired	Closures	Refranchised	2022
Company-owned	7,437	1,060	5	(283)	(5)	8,214
Franchisees	731	169	(5)	(20)	5	880
Total	8,168	1,229	—	(303)	—	9,094

Company Sales and Restaurant Profit

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

Income (Expense)	2021	Store Portfolio Actions	Other	F/X	2022
Company sales	$ 6,816	$ 1,052	$ (456)	$ (292)	$ 7,120
Cost of sales	(2,158)	(317)	176	91	(2,208)
Cost of labor	(1,642)	(284)	53	76	(1,797)
Occupancy and other operating expenses	(2,003)	(276)	204	81	(1,994)
Restaurant profit	$ 1,013	$ 175	$ (23)	$ (44)	$ 1,121

In 2022, the increase in Company sales, excluding the impact of F/X, was primarily driven by net unit growth and 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 increase in Restaurant profit, excluding the impact of F/X, was primarily driven by the increase in Company sales, higher labor productivity, operational efficiency and temporary relief, partially offset by inflation in commodities and wages in the low single digits, as well as increased rider cost associated with a rise of approximately seven percentage points in delivery sales mix from the prior year partially due to more severe outbreaks.

Franchise Fees and Income

In 2022, the decrease in Franchise fees and income, excluding the impact of F/X, was primarily driven by the acquisition of Hangzhou KFC in December 2021.

G&A Expenses

In 2022, the increase in G&A expenses, excluding the impact of F/X, was primarily driven by the acquisition of Hangzhou KFC in December 2021 and merit increases.

Operating Profit

In 2022, the decrease in Operating profit, 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 restaurant margin improvement, net unit growth and an increase in Operating profit contributed by the Hangzhou KFC acquisition.

Pizza Hut

During 2022, we continued to focus on strengthening Pizza Hut's fundamentals, including investments in products, strengthening our digital capabilities, developing delivery and other channels and enhancing our asset portfolio to drive growth. Pizza Hut's loyalty program members exceeded 130 million at year-end 2022 and contributed approximately 62% of system sales at Pizza Hut in 2022. Delivery sales accounted for approximately 43% of Company sales at Pizza Hut in 2022 with store and city coverage of 96% and 98%, respectively, at the end of 2022.

			% B/(W)	
	2022	2021	Reported	Ex F/X
Company sales	$ 1,939	$ 2,092	(7)	(4)
Franchise fees and income	7	8	(6)	(3)
Revenues from transactions with franchisees and unconsolidated affiliates	4	6	(30)	(27)
Other revenue	10	3	256	280
Total revenues	$ 1,960	$ 2,109	(7)	(3)
Company restaurant expenses	$ 1,761	$ 1,868	6	2
G&A expenses	$ 110	$ 111	—	(4)
Franchise expenses	$ 4	$ 4	9	5
Expenses for transactions with franchisees and unconsolidated affiliates	$ 3	$ 6	28	25
Other operating costs and expenses	$ 8	$ 2	(301)	(328)
Closure and impairment expenses, net	$ 4	$ 7	58	54
Operating Profit	$ 70	$ 111	(36)	(36)
Restaurant profit	$ 178	$ 224	(20)	(18)
Restaurant margin %	9.2%	10.7%	(1.5) ppts.	(1.5) ppts.

	2022
	% Change
System Sales Decline	(7)%
System Sales Decline, excluding F/X	(3)%
Same-Store Sales Decline	(6)%

Unit Count	2022	2021	% Increase
Company-owned	2,760	2,452	13
Franchisees	143	138	4
	2,903	2,590	12

	2021	New Builds	Closures	Acquired	2022
Company-owned	2,452	401	(98)	5	2,760
Franchisees	138	16	(6)	(5)	143
Total	2,590	417	(104)	—	2,903

Company Sales and Restaurant Profit

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

Income (Expense)	2021	Store Portfolio Actions	Other	F/X	2022
Company sales	$ 2,092	$ 39	$ (113)	$ (79)	$ 1,939
Cost of sales	(637)	(14)	14	25	(612)
Cost of labor	(598)	(24)	25	25	(572)
Occupancy and other operating expenses	(633)	(19)	51	24	(577)
Restaurant profit	$ 224	$ (18)	$ (23)	$ (5)	$ 178

In 2022, the decrease in Company sales, 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, excluding the impact of F/X, was primarily driven by the decrease in Company sales, inflation in commodities and wages in the low single digits, as well as increased rider cost associated with a rise of approximately seven percentage points in delivery sales mix from the prior year partially due to more severe outbreaks, partially offset by higher labor productivity, operational efficiency and temporary relief.

G&A Expenses

In 2022, the increase in G&A expenses, excluding the impact of F/X, was primarily driven by merit increases.

Operating Profit

In 2022, the decrease in Operating profit, excluding the impact of F/X, was primarily driven by the decrease in Restaurant profit and higher G&A expenses.

All Other Segments

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

					% B/(W)	
		2022		2021	Reported	Ex F/X
Company sales	$	51	$	53	(3)	1
Franchise fees and income		18		25	(29)	(27)
Revenues from transactions with franchisees and unconsolidated affiliates		39		98	(60)	(58)
Other revenues		563		297	90	99
Total revenues	$	671	$	473	42	49
Company restaurant expenses	$	70	$	63	(10)	(15)
G&A expenses	$	46	$	42	(7)	(11)
Franchise expenses	$	1	$	1	(158)	(170)
Expenses for transactions with franchisees and unconsolidated affiliates	$	35	$	88	60	59
Other operating costs and expenses	$	557	$	294	(90)	(99)
Closure and impairment expenses, net	$	12	$	7	(100)	(112)
Other loss, net	$	—	$	7	NM	NM
Operating Loss	$	(50)	$	(29)	(75)	(82)
Restaurant loss	$	(19)	$	(10)	(75)	(83)
Restaurant margin %		(37.6)%		(20.8)%	(16.8)ppts.	(16.8)ppts.

Total Revenues

In 2022, the increase in Total revenues, 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 mainly as a result of rising delivery sales and the contribution of sales from the Lavazza joint venture, partially offset by the decrease in Revenues from transactions with franchisees and unconsolidated affiliates primarily driven by the acquisition of Hangzhou KFC, same-store sales declines and temporary store closures due to the impact of the COVID-19 pandemic.

Operating Loss

In 2022, the increase in Operating loss, excluding the impact of F/X, was primarily driven by the loss incurred by the Lavazza joint venture, as well as an increase of Operating loss from certain emerging brands due to the impact of the COVID-19 pandemic.

Corporate & Unallocated

	2022	2021	% B/(W) Reported	% B/(W) Ex F/X
Revenues from transactions with franchisees and unconsolidated affiliates[(a)]	$ 211	$ 500	(58)	(56)
Other revenues	$ 42	$ 20	102	111
Expenses for transactions with franchisees and unconsolidated affiliates[(a)]	$ 211	$ 497	58	56
Other operating costs and expenses	$ 39	$ 17	(119)	(130)
Corporate G&A expenses	$ 184	$ 171	(8)	(11)
Other unallocated income	$ 3	$ 642	(100)	(100)
Interest income, net	$ 84	$ 60	40	43
Investment loss	$ (26)	$ (54)	51	51
Income tax provision (See Note 17)	$ (207)	$ (369)	44	42
Equity in net earnings (losses) from equity method investments	$ (2)	$ —	NM	NM
Effective tax rate (See Note 17)	30.1%	26.5%	(3.6) ppts	(3.6) ppts

(a) Primarily includes revenues and associated expenses of transactions with franchisees and unconsolidated affiliates 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. Amounts have not been allocated to any segment for purposes of making operating decisions or assessing financial performance as the transactions are corporate revenues and expenses in nature.

Revenues from Transactions with Franchisees and Unconsolidated Affiliates

In 2022, the decrease in Revenues from transactions with franchisees and unconsolidated affiliates, excluding the impact of F/X, was mainly due to the acquisition of Hangzhou KFC in December 2021.

Other Revenues/Operating Costs and Expenses

In 2022, the increase in Other revenues/operating costs and expenses was mainly driven by logistics and warehousing services provided to third parties.

Corporate G&A Expenses

In 2022, the increase in Corporate G&A expenses, excluding the impact of F/X, was primarily driven by higher compensation costs.

Other Unallocated Income

Other unallocated income primarily includes a gain of $618 million and $10 million in 2021 recognized from the re-measurement of our previously held equity interest in connection with the consolidation of Hangzhou KFC and the Lavazza joint venture, respectively. See Note 3 for additional information.

Interest Income, Net

The increase in interest income, net for 2022 was primarily driven by higher interest rates.

Investment Loss

The decrease in investment loss primarily relates to a lower decrease in the fair value of our investment in Meituan Dianping ("Meituan") in 2022, as well as lapping our unrealized investment loss in Fujian Sunner Development Co., Ltd. ("Sunner") before the equity method of accounting was applied in 2021. See Note 3 for additional information.

Income Tax Provision

Our income tax provision primarily includes tax on our earnings at the Chinese statutory tax rate of 25%, withholding tax on planned or actual repatriation of earnings outside of China, Hong Kong profits tax, and U.S. corporate income tax, if any. Our effective tax rate was 30.1% and 26.5% in 2022 and 2021, respectively. The higher effective tax rate in 2022 compared with that in 2021 was due to lapping prior year tax benefits from equity income from investments in unconsolidated affiliates and impact of lower pre-tax income.

Discussion of Changes of Certain Key Balance Sheet Items

Cash and Cash Equivalents

As of December 31, 2022 and 2021, the Company's cash and cash equivalents were denominated in the following currencies:

	2022	2021
RMB	$ 571	$ 714
USD	555	418
Hong Kong dollar ("HK$")	4	4
Total	$ 1,130	$ 1,136

For discussion of changes in Cash and Cash Equivalent, see Consolidated Cash Flows section below.

Short-term Investments and Long-term Time Deposits

As of December 31, 2022, the decrease of short-term investments and increase of long-term time deposits was primarily due to reclassification of time deposits with remaining maturity over one year. In 2021, certain time deposits held by the Company had the remaining maturity over one year, but were classified as Short-term investments as management had the positive intent and ability to hold these investments within 12 months at the time. The Company changed its intent and planned to hold these deposits up to the maturity term of three years in order to enhance the investment return in December 2022, resulting in the reclassification (Note 2).

Prepaid Expenses and Other Current Assets

As of December 31, 2022, the increase of Prepaid expense and other current assets was primarily due to reclassification of VAT assets from Other assets to Prepaid expense and other current assets, as the benefits of certain VAT assets are expected to be realized within one year pursuant to Circular [2022] No. 21. See Note 8 for detail.

Operating Lease ROU assets and Liabilities

As of December 31, 2022, the decrease of ROU assets was primarily due to amortization, lower rental per unit as we are opening more stores of smaller format, more variable rent components for our new leases and the impact of F/X. The decrease of lease liabilities was in line with the decrease of ROU assets.

Intangible Assets, net

As of December 31, 2022, the decrease of our intangible assets was primarily due to amortization of reacquired franchise rights resulting from the acquisition of Hangzhou KFC (Note 3).

Other Assets

As of December 31, 2022, the decrease of Other assets was primarily due to reclassification of VAT assets from Other assets to Prepaid expense and other current assets (Note 8), and the decrease in investment in equity securities of Meituan due to fair value change (Note 3).

Treasury Stock and Additional Paid-in Capital

As of December 31, 2022, the nil balance of treasury stock and decrease of additional paid-in capital were due to the retirement and repurchase of shares in 2022 in connection with the Primary Conversion (Note 16).

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

Impact of COVID-19 Pandemic

Starting in late January 2020 and throughout 2021 and 2022, the COVID-19 pandemic significantly impacted the Company's operations and financial results. In December 2022, the government issued a series of new COVID-19 response guidelines that significantly changed its COVID-19 policies, including removing mass testing and central quarantine requirements as well as lifting travel restrictions. A massive wave of infections quickly surged in the country, spreading to nearly all provinces in China. Sales in January improved sequentially, driven by the resumption of normal services at our restaurants and an earlier Chinese New Year holiday season, which coincided with the pivot in COVID policies. Many people traveled during the holiday for the first time since COVID-19 began. According to government statistics, the number of domestic travelers and related tourism spending during the 7-day Chinese New Year holiday increased year over year, but still remained below the 2019 level. Our same-store sales for the comparable Chinese New Year holiday also increased mid-single digits year over year, but remained below the 2019 level.

As the country enters the new phase of COVID response, we are cautiously optimistic. The overall business environment and consumer sentiment have improved but near-term uncertainties remain. Consumers tend to be more careful with spending after holidays. Experiences in other countries also suggest that further outbreaks following relaxation of COVID restrictions and emergence of different COVID variants may happen. A portion of the population may remain cautious about going out in public, while macroeconomic factors such as an inflationary environment and softening global economic conditions may weigh on consumer spending. As such, we are staying alert in this fluid situation and planning for multiple scenarios to capture growth opportunities and mitigate risks when needed.

Tax Examination on Transfer Pricing

We are subject to reviews, examinations and audits by Chinese tax authorities, the IRS 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

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. Our new retail business is generally subject to VAT rates at 9% or 13%. 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 a VAT 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 Consolidated Balance Sheets. At each balance sheet date, the Company reviews the outstanding balance of any VAT asset for recoverability, giving consideration to the indefinite life of VAT assets as well as its forecasted operating results and capital spending, which inherently includes significant assumptions that are subject to change. As of December 31, 2022 and 2021, the Company has not made an allowance for the recoverability of VAT assets, as the balance is expected to be utilized to offset against VAT payables or be refunded in the future.

On June 7, 2022, the Chinese Ministry of Finance and the STA jointly issued Circular [2022] No. 21, to extend full VAT credit refunds to more sectors and increase the frequency for accepting taxpayers' applications with an aim to support business recovery. Beginning on July 1, 2022, entities engaged in providing catering services in China are allowed to apply for a lump sum refund of VAT assets accumulated prior to March 31, 2019. In addition, VAT assets accumulated after March 31, 2019 can be refunded on a monthly basis.

As the benefits of certain VAT assets are expected to be realized within one year pursuant to Circular [2022] No. 21, $303 million of VAT assets as of June 30, 2022 were reclassified from Other assets to Prepaid expenses and other current assets. As of December 31, 2022, VAT assets of $88 million, VAT assets of $5 million and a net VAT payable of $7 million were recorded in Prepaid expenses and other current assets, Other assets and Accounts payable and other current liabilities, respectively, on the Consolidated Balance Sheets.

The Company will continue to review the classification of VAT assets at each balance sheet date, giving consideration to the different local implementation practice of refunding the VAT assets and results of the potential administrative review.

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, China is in the process of enacting the prevailing VAT regulations into VAT law. However, the timetable for enacting the VAT law 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$. Most of the revenues, costs, assets and liabilities of the Company are denominated in RMB. Any significant change in the exchange rate between US$ 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 "Quantitative and Qualitative Disclosures About Market Risk" for a further discussion.

Consolidated Cash Flows

Net cash provided by operating activities was $1,413 million in 2022 as compared to $1,131 million in 2021. The increase was primarily driven by refunds of VAT assets. See Note 8.

Net cash used in investing activities was $522 million in 2022 as compared to $855 million in 2021. The decrease was mainly due to lapping the impact of cash consideration paid for the acquisition of Hangzhou KFC and equity investment in Sunner in 2021.

Net cash used in financing activities was $844 million in 2022 as compared to $313 million in 2021. The increase was primarily due to the resumption of share repurchases starting in the third quarter of 2021 and the cash consideration paid for the acquisition of an additional 20% equity interest in Suzhou KFC.

Liquidity and Capital Resources

Historically we have funded our operations through cash generated from the operation of our Company-owned stores and from 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, step up investments in digitalization, automation and logistics infrastructure, provide returns to our stockholders, as well as 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 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. We currently expect our fiscal year 2023 capital expenditures will be in the range of approximately $700 million to $900 million.

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 our access to the U.S. 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.

Dividends and Share Repurchases

On March 17, 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 the open market or, subject to applicable regulatory requirements, through privately negotiated transactions, 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 years ended December 31, 2022 and 2021, the Company repurchased $466 million or 10.5 million shares and $75 million or 1.3 million shares of common stock, respectively, under the repurchase program.

The Company paid a cash dividend of $0.12 per share for each quarter of 2021 and 2022. Total cash dividends of $202 million and $203 million were paid to stockholders in 2022 and 2021, respectively.

On February 7, 2023, the board of directors declared an increase in cash dividend to $0.13 per share, payable on March 28, 2023, to stockholders of record as of the close of business on March 7, 2023.

Our ability to declare and pay any dividends on our stock may be restricted by 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 December 31, 2022, the Company had credit facilities of RMB4,518 million (approximately $655 million), comprised of onshore credit facilities of RMB3,000 million (approximately $435 million) in the aggregate and offshore credit facilities of $220 million in the aggregate.

The credit facilities had remaining terms ranging from less than one year to two years as of December 31, 2022. Each credit facility bears interest based on the prevailing rate stipulated by the People's Bank of China, Loan Prime Rate ("LPR") published by the National Interbank Funding Centre of the PRC, London Interbank Offered Rate ("LIBOR") administered by the ICE Benchmark Administration, or Secured Overnight Financing Rate ("SOFR") published by the Federal Reserve Bank of New York. 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. Interest on any outstanding borrowings is due at least monthly. Some of the onshore credit facilities contain sub-limits for overdrafts, non-financial bonding, standby letters of credit and guarantees. As of December 31, 2022, we had outstanding bank guarantees of RMB209 million (approximately $30 million) mainly to secure our lease payments to landlords for certain Company-owned restaurants. The credit facilities were therefore reduced by the same amount. There was a RMB12-million (approximately $2 million) bank borrowing bearing fixed interest rate outstanding as of December 31, 2022, which was secured by a $1-million short-term investment. The bank borrowing was due within one year and included in Accounts payable and other current liabilities.

Material Cash Requirements

Our material short-term and long-term cash requirements as of December 31, 2022 included:

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Finance Leases[(a)]	$ 62	$ 7	$ 12	$ 11	$ 32
Operating Leases[(a)]	2,814	552	837	617	808
Purchase Obligations[(b)]	478	148	108	181	41
Transition Tax[(c)]	34	7	27	—	—
Total	$ 3,388	$ 714	$ 984	$ 809	$ 881

(a) These obligations, which are shown on a nominal basis, relate primarily to approximately 11,000 Company-owned restaurants. See Note 12 for additional information.

(b) Purchase obligations relate primarily to capital expenditure commitment for infrastructure, as well as supply and service agreements. We have excluded agreements that are cancelable without penalty or have a remaining term not in excess of one year. Such commitments are generally near term in nature, will be funded from operating cash flows, and are not significant to the Company's overall financial position.

(c) This amount represents transition tax payable on the deemed repatriation of accumulated undistributed foreign earnings after utilizing existing qualified foreign tax credits, which is to be paid over a maximum of eight years beginning in 2018.

We have not included in the table above approximately $25 million of liabilities for unrecognized tax benefits related to the uncertainty with regard to the deductibility of certain business expenses incurred as well as related accrued interest and penalties. These liabilities may increase or decrease over time as a result of tax examinations, and given the status of the examinations, we cannot reliably estimate the period of any cash settlement with the respective taxing authorities. These liabilities exclude amounts that are temporary in nature and for which we anticipate that over time there will be no net cash outflow.

In addition to the material cash requirements listed above, the Company and Lavazza Group have committed to contributing $100 million to the Lavazza joint venture, in proportion to their respective equity interest of 65% and 35%, respectively, by the end of the first quarter of 2023. The cash will be used to further develop the Lavazza coffee concept in China.

Contingent Liabilities

We had no material contingent obligations as of December 31, 2022. Please see Note 19 to the Consolidated Financial Statements for further discussion.

Gearing Ratio

The gearing ratio of the Company, which was calculated by dividing total interest-bearing loans by total equity as of the end of the year, was nil as of December 31, 2022 and 2021, respectively, as we only had a $2 million outstanding bank borrowing as of December 31, 2022.

Pledge of Assets

As of December 31, 2022 and 2021, we had $81 million and $90 million invested in long-term time deposits, respectively, which were restricted for use in order to secure the balance of prepaid stored-value cards issued by the Company pursuant to regulatory requirements. Please see Note 13 to the Consolidated Financial Statements for further discussion. As of December 31, 2022, we also had $1 million short-term investment pledged to secure the $2 million outstanding bank borrowing.

Significant Investments Held

None of our investments held constituted significant investments required to be disclosed pursuant to Appendix 16 of the Listing Rules. Refer to Note 3 to the Consolidated Financial Statements for our business acquisitions and equity investments.

Future Plans for Material Investments and Capital Assets

We currently expect our fiscal year 2023 capital expenditures will be in the range of approximately $700 million to $900 million. Please see Liquidity and Capital Resources section for further discussion.

Material Acquisitions and Disposal of Subsidiaries and Joint Venture

During the year ended December 31, 2022 and 2021, except as disclosed in Note 3 to the Consolidated Financial Statements, we did not have any material acquisitions and disposals of subsidiaries and joint venture.

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. We will adopt this standard in the first quarter of 2023, 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. We will adopt this standard in the first quarter of 2023, 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 2022-02 *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. We will adopt this standard in the first quarter of 2023, and do not expect the adoption of this standard will have a material impact on our financial statements.

In June 2022, the FASB issued ASU 2022-03 *Fair Value Measurement—Fair Value Measurement of Equity Securities Subject to Contractual Sale Restriction* ("ASU 2022-03"), clarifying that a contractual restriction on the sales of an equity security is not considered part of the unit of account of the equity security, and therefore, is not considered when measuring fair value. The guidance also clarifies that a contractual sales restriction should not be recognized as a separate unit of account. We will adopt this standard in the first quarter of 2023, and do not expect the adoption of this standard will have a material impact on our financial statements.

In September 2022, the FASB issued ASU 2022-04 *Liabilities—Disclosure of Supplier Finance Program Obligations* ("ASU 2022-04"), requiring entities that use supplier finance programs in connection with the purchase of goods and services to disclose the key terms of the programs and information about their obligations outstanding at the end of the reporting period. We will adopt this standard in the first quarter of 2023, and do not expect the adoption of this standard will have a material impact on our financial statements.

Critical Accounting Policies and Estimates

Our reported results are impacted by the application of certain accounting policies that require us to make subjective or complex judgments. These judgments involve estimations of the effect of matters that are inherently uncertain and may significantly impact our quarterly or annual results of operations or financial condition. Changes in the estimates and judgments could significantly affect our results of operations, financial condition and cash flows in future years. A description of what we consider to be our most significant critical accounting policies and estimates follows.

<u>Loyalty Programs</u>

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 in the 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.

<u>Breakage Revenue</u>

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.

Impairment or Disposal of Long-Lived Assets

We review long-lived assets of restaurants (primarily operating lease right-of-use assets and property, plant and equipment ("PP&E")) semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. We evaluate recoverability based on the restaurant's forecasted undiscounted cash flows, which are based on our entity-specific assumptions, to the carrying value of such assets. The forecasted undiscounted cash flows incorporate our best estimate of sales growth based upon our operation plans for the unit and actual results at comparable restaurants. For restaurant assets that are deemed not to be recoverable, we write down the impaired restaurant to its estimated fair value. In determining the fair value of restaurant-level assets, we consider the highest and best use of the assets from market participants' perspective, which is represented by the higher of the forecasted discounted cash flows of operating restaurants and the price market participants would pay to sub-lease the operating lease right-of-use assets and acquire remaining restaurant assets, even if that use differs from the current use by the Company. Key assumptions in the determination of fair value include reasonable sales growth assumption in generating after-tax cashflows that would be used by a franchisee in the determination of a purchase price for the restaurant, and market rental assumption for estimating the price market participants would pay to sub-lease the operating lease right-of-use assets. Estimates of forecasted cash flows of operating restaurants are highly subjective judgments and can be significantly impacted by changes in the business or economic conditions. Estimates of the price market participants would pay to sub-lease the operating lease right-of-use assets are based on comparable market rental information that could be reasonably obtained for the property. In situations where the highest and best use of the restaurant-level assets from market participants' perspective is represented by sub-leasing the operating lease right-of-use assets and acquiring the remaining restaurant assets, the Company continues to use these assets in operating its restaurant business, which is consistent with its long-term strategy of growing revenue through operating restaurant concepts.

When we believe it is more likely than not a restaurant or groups of restaurants will be refranchised for a price less than their carrying value, but do not believe the restaurant(s) have met the criteria to be classified as held for sale, we review the restaurants for impairment. Expected net sales proceeds are generally based on actual bids from the buyer.

The discount rate used in the fair value calculations is our estimate of the required rate-of-return that a franchisee would expect to receive when purchasing a similar restaurant or groups of restaurants and the related long-lived assets. The discount rate incorporates rates of returns for historical refranchising market transactions and is commensurate with the risks and uncertainty inherent in the forecasted cash flows.

We evaluate indefinite-lived intangible assets for impairment on an annual basis or more often if an event occurs or circumstances change that indicates impairment might exist. We perform our annual test for impairment of our indefinite-lived intangible assets at the beginning of our fourth quarter. When we evaluate these assets for impairment, we have the option to first perform a qualitative assessment to determine whether an intangible asset group is impaired. If we believe, as a result of the qualitative assessment, that it is more likely than not that the fair value of the intangible asset group is less than its carrying amount, we will then perform a quantitative assessment. Fair value is an estimate of the price a willing buyer would pay for the intangible asset and is generally estimated by discounting the expected future after-tax cash flows associated with the intangible asset. The discount rate is our estimate of the required rate-of-return that a third-party buyer would expect to receive. These estimates are highly subjective, and our ability to achieve the forecasted cash is affected by factors such as changes in our operating performance and business strategies and changes in economic conditions. Our indefinite-lived intangible assets had a book value of $130 million and $141 million as of December 31, 2022 and 2021, respectively, representing two material indefinite-lived intangible assets, which are our Little Sheep and Huang Ji Huang trademarks.

In the year ended December 31, 2022, considering the continuing adverse effects of the COVID-19 pandemic, we performed quantitative impairment assessments for the Little Sheep and Huang Ji Huang trademarks and the fair value estimate exceeded their carrying amount. Fair value of the Little Sheep and Huang Ji Huang trademarks was determined using a relief-from-royalty valuation approach that was based on unobservable inputs, including estimated future revenues as well as the selection of an appropriate discount rate based on weighted-average cost of capital which includes company-specific risk premium, which are considered Level 3 inputs. No impairment charges on trademarks related to Little Sheep and Huang Ji Huang were recorded in 2022 and 2021.

Our finite-lived intangible assets that are not allocated to an individual restaurant are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. An intangible asset that is deemed not recoverable on a undiscounted basis is written down to its estimated fair value, which is our estimate of the price a willing buyer would pay for the intangible asset based on discounted expected future after-tax cash flows. For purposes of our impairment analysis, we update the cash flows that were initially used to value the finite-lived intangible asset to reflect our current estimates and assumptions over the asset's future remaining life.

Impairment of Goodwill

We evaluate goodwill for impairment on an annual basis as of the beginning of our fourth quarter or more often if an event occurs or circumstances change that indicates impairment might exist. When we evaluate goodwill for impairment, we have the option to first perform a qualitative assessment to determine whether it is more likely than not the fair value of a reporting unit is less than its carrying amount. If we believe, as a result of the qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, we will then perform a quantitative assessment. Our reporting units are our individual operating segments. Fair value is the price a willing buyer would pay for the reporting unit, and is generally estimated using discounted expected future after-tax cash flows from the business operation of the reporting unit.

Future cash flow estimates and the discount rate are the key assumptions when estimating the fair value of a reporting unit. Future cash flows are based on growth expectations relative to recent historical performance and incorporate sales growth and margin improvement assumptions that we believe a third-party buyer would assume when determining a purchase price for the reporting unit. The sales growth and margin improvement assumptions that factor into the discounted cash flows are highly correlated as cash flow growth can be achieved through various interrelated strategies such as product pricing and restaurant productivity initiatives. The discount rate is our estimate of the required rate-of-return that a third-party buyer would expect to receive when purchasing a business from us that constitutes a reporting unit. We believe the discount rate is commensurate with the risks and uncertainty inherent in the forecasted cash flows. These estimates are highly subjective, and our ability to achieve the forecasted cash is affected by factors such as changes in our operating performance and business strategies and changes in economic conditions.

Our goodwill of $1,988 million as of December 31, 2022 was related to the KFC, Pizza Hut, Huang Ji Huang and Lavazza reporting units. In the year ended December 31, 2022, considering the continuing adverse effects of the COVID-19 pandemic, we performed quantitative impairment assessments for goodwill related to Huang Ji Huang and the fair value estimate exceeded its carrying amount. The fair value of Huang Ji Huang reporting unit was based on the estimated price a willing buyer would pay, and was determined using an income approach with future cash flow estimates supported by estimated future sales, margin, as well as the selection of an appropriate discount rate based on weighted-average cost of capital which includes company-specific risk premium. We elected to perform a qualitative impairment assessment for each of our individual reporting units of KFC, Pizza Hut and Lavazza in 2022. Based on our qualitative assessment, the Company concluded that no changes in events or circumstances have occurred that indicated impairment may exist and it was more likely than not that the fair value of the reporting units exceeds their carrying amount and therefore no quantitative assessment was required. No impairment charge on goodwill was recorded in 2022 and 2021.

If we record goodwill upon acquisition of a restaurant(s) from a franchisee and such restaurant(s) is then sold within two years of acquisition, the goodwill associated with the acquired restaurant(s) is written off in its entirety. If the restaurant is refranchised two years or more subsequent to its acquisition, we include goodwill in the carrying amount of the restaurants disposed of based on the relative fair values of the portion of the reporting unit disposed of in the refranchising and the portion of the reporting unit that will be retained.

Share-Based Compensation

We account for share awards issued to employees in accordance with Accounting Standards Codification Topic 718 ("ASC 718"), *Compensation-Stock Compensation*. Share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense, net of estimated forfeitures, over the requisite service period, which is generally the vesting period. We recognize share-based compensation expense for awards granted to employees and non-employee directors using the straight-line method.

We estimated the fair value of stock options and SARs at the grant date using the Black-Scholes option-pricing model ("the BS model"). It should be noted that the option-pricing model requires the input of highly subjective assumptions. Changes in the subjective input assumptions can materially affect the fair value estimate and, as a result, our operating profit and net income. PSUs have market conditions that are based on the closing price of Yum China's stock or relative total shareholder return against the MSCI China Index measured over the performance period. The fair values of PSUs have been determined based on the outcome of a Monte-Carlo Simulation model (the "MCS model").

Under the BS and MCS models, we made a number of assumptions regarding the fair value of the share-based awards, including:

- the expected future volatility of the price of shares of Yum China common stock;
- the risk-free interest rate;
- the expected dividend yield; and
- the expected term.

We estimated the expected future volatility of the price of shares of Yum China common stock based on the historical price volatility of the publicly traded shares of common stock of comparable companies in the same business as Yum China as well as the historical volatility of the Company's common stock. The risk-free interest rate was based on the U.S. Treasury zero-coupon yield in effect with maturity terms equal to the expected term or performance measurement period of the awards. The dividend yield was estimated based on the Company's dividend policy. We use historical turnover data to estimate the expected forfeiture rate.

Income Taxes

Uncertain Tax Positions

We are subject to reviews, examinations and audits by Chinese tax authorities, the IRS and other tax authorities with respect to income and non-income based taxes. We recognize the benefit of positions taken or expected to be taken in our tax returns when it is more likely than not that the position would be sustained upon examination by these tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. At December 31, 2022 and 2021, we had $21 million and $20 million, respectively, of unrecognized tax benefits related to the uncertainty with regard to the deductibility of certain business expenses incurred. We evaluate unrecognized tax benefits, including interest thereon, on a quarterly basis to ensure that they have been appropriately adjusted for events, including audit settlements, which may impact our ultimate payment for such exposures.

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.

Unremitted Earnings of Foreign Subsidiaries

We have investments in our foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. Except for the planned but yet to be distributed earnings, we have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone the basis differences from reversing with a tax consequence. The Company’s separation from YUM was intended to qualify as a tax-free reorganization for U.S. income tax purposes resulting in the excess of financial reporting basis over tax basis in our investment in the China business continuing to be indefinitely reinvested. The excess of financial reporting basis over tax basis as of December 31, 2017 was subject to the one-time transition tax under the Tax Act as a deemed repatriation of accumulated undistributed earnings from the foreign subsidiaries. However, we continue to believe that the portion of the excess of financial reporting basis over tax basis (including earnings and profits subject to the one-time transition tax) is indefinitely reinvested in our foreign subsidiaries for foreign withholding tax purposes. We estimate that our total temporary difference for which we have not provided foreign withholding taxes is approximately $3 billion at December 31, 2022. The foreign withholding tax rate on this amount is 5% or 10% depending on the manner of repatriation and the applicable tax treaties or tax arrangements.

See Note 17 of the Consolidated Financial Statements for a further discussion of our income taxes.

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 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 long-lived assets are located in China, the Company is exposed to movements in the RMB foreign currency exchange rate. For the year ended December 31, 2022, the Company’s operating profit would have decreased approximately $62 million if RMB weakened 10% relative to the U.S. dollar. 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 risk 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. The equity investment is recorded at fair value, which is measured on a recurring basis and is subject to market price volatility. See Note 3 of the Consolidated Financial Statements for a further discussion on our investment in Meituan.

Other Information

Compliance with the Corporate Governance Code

The Board believes that good corporate governance is a critical factor in achieving business success and in fulfilling the Board's responsibilities to stockholders. The Board has adopted corporate governance principles which are intended to embody the governance principles and procedures by which the Board functions. These principles are available on the Company's website. Our corporate governance principles and practices are in line with the principles in the Corporate Governance Code (the "Corporate Governance Code") as set out in Part 2 of Appendix 14 to the Listing Rules.

After the Primary Conversion, we have complied with all the code provisions of the Corporate Governance Code, save for the following.

Code Provisions A.2.1, B.3.1, D.3.3, D.3.7 and E.1.2 of the Corporate Governance Code require the charters of the Audit Committee, the Compensation committee and the Nominating and Governance Committee (collectively, the "Board Committees") to include at least the terms as set out in such paragraphs. Currently, the charters of the Board Committees do not include certain of such terms. The Company has adopted the charters of the Board Committees in accordance with the NYSE listing rules and the rules of the U.S. Securities and Exchange Commission (to the extent applicable), which in material ways are similar to the terms of reference as required under the Corporate Governance Code despite different languages being used. The relevant Board Committees have in practice carried out the relevant responsibilities as required under the Corporate Governance Code.

Code Provisions E.1.2(a), (c) and (d) of the Corporate Governance Code require the remuneration committee to be responsible for Directors' remuneration. Currently, the Nominating and Governance Committee is responsible for reviewing and making recommendations to the Board with respect to the compensation and benefits of the Directors. Given (i) it is customary for U.S. public companies to delegate this responsibility to either the Nominating and Governance Committee or the Compensation Committee, it is also common for the U.S. listed companies to have the Nominating and Governance committee to carry out such responsibility; (ii) the Nominating and Governance Committee has been carrying out such responsibility since the Company's listings on the NYSE and the HKEX; and (iii) the composition of the Nominating and Governance Committee also complies with the composition requirement of the remuneration committee as required under Rule 3.25 of the Listing Rules; the Board believes the current arrangement has achieved good corporate governance with respect to Directors' remuneration.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended December 31, 2022, the Company repurchased 10.5 million shares of common stock on the NYSE for an aggregate consideration of $466 million. All shares repurchased under the current and previous authorizations were retired and resumed the status of authorized and unissued shares of common stock. The repurchase was effected by the Board for the enhancement of shareholder value in the long term. Details of the Shares repurchased are as follows:

Month of Repurchase	No. of Shares Repurchased* (thousands)	Price paid per share Highest US$	Price paid per share Lowest US$	Aggregate Consideration* (US$ millions)
January	1,692	50.39	43.91	80
February	1,291	53.92	44.66	64
March	1,999	54.37	33.55	88
April	1,912	44.60	39.16	80
May	2,061	48.63	36.05	84
June	88	47.46	44.56	4
September	271	50.00	46.13	13
October	964	50.00	38.76	42
November	223	50.00	42.48	10
Total	10,500			466

***:** Shares and aggregate consideration may not add due to rounding

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2022.

Audit Committee Review of Financial Statements

The Audit Committee of the Company has reviewed the consolidated financial statements and annual results of the Company for the year ended December 31, 2022. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with members of senior management and the external auditor of the Company, KPMG.

Scope of Work of the Company's auditor

The consolidated financial statements of the Company and its subsidiary companies for the year ended December 31, 2022 prepared in accordance with U.S. GAAP have been audited by the Company's auditor, KPMG. The unqualified auditor's report is set out on pages 2 to 7 of this Announcement. The consolidated financial statements of the Company and its subsidiary companies for the year ended December 31, 2022 have also been reviewed by the Audit Committee of the Company.

Important Events after the Reporting Period

Save as disclosed in Note 20 to the Consolidated Financial Statements, no important events affecting the Company occurred since December 31, 2022 and up to the date of this announcement.

Publication of Annual Results and Annual Report

This annual results announcement is published on the website of the HKEX (www.hkexnews.hk) and the website of the Company (http://ir.yumchina.com). The annual report of the Company for the year ended December 31, 2022 will be published on the aforesaid websites and dispatched to the Company's shareholders in due course.

Language

If there is any inconsistency between the English version and Chinese version of this announcement, the English version shall prevail, provided that if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this announcement and their English translations, the Chinese names shall prevail.