Risk Factors Comparison 2024-02-29 to 2023-03-01 Form: 10-K

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You should carefully consider each of the following risks, as well as the information included elsewhere in this report, before deciding to invest in our common stock or otherwise in connection with evaluating our business. Based on the information currently known to us, we believe that the following information identifies the most material risk factors affecting us in each of these categories of risk. However, additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business, financial condition or results of operations. In addition, past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods. If any of the following risks and uncertainties develops into actual events, these events could have a material adverse effect on our business, financial condition or results of operations. In such case, the trading price of our common stock could decline. Summary of Risk Factors We are exposed to a variety of risks, which have been separated into five general groups: • Risks related to our business and industry, including (a) food safety and foodborne illness concerns, (b) significant failure to maintain effective quality assurance systems for our restaurants, (c) significant liability claims, food contamination complaints from our customers or reports of incidents of food tampering, (d) health concerns arising from outbreaks of viruses or other illnesses, ~~including the COVID- 19 pandemic,~~ (e) the fact that the operation of our restaurants is subject to the terms of the master license agreement with YUM, (f) the fact that substantially all of our revenue is derived from our operations in China, (g) the fact that our success is tied to the success of YUM' s brand strength, marketing campaigns and product innovation, (h) shortages or interruptions in the availability and delivery of food products and other supplies, (i) fluctuation of raw materials prices, (j) our inability to attain our target development goals, the potential cannibalization of existing sales by aggressive development and the possibility that new restaurants will not be profitable, (k) risks associated with leasing real estate, (l) inability to obtain desirable restaurant locations on commercially reasonable terms, (m) labor shortages or increases in labor costs, (n) the fact that our success depends substantially on our corporate reputation and on the value and perception of our brands, (o) the occurrence of security breaches and cyber- attacks, (p) failure to protect the integrity and security of our customer or employee personal, financial or other data or our proprietary or confidential information that is stored in our information systems or by third parties on our behalf, (q) failures or interruptions of service or security breaches in our information technology systems, (r) the fact that our business depends on the performance of, and our long- term relationships with, third- party mobile payment processors, internet infrastructure operators, internet service providers ~~and~~ **,** delivery aggregators **and third- party e- commerce platforms** , (s) failure to provide timely and reliable delivery services by our restaurants, (t) our growth strategy with respect to Lavazza may not be successful, (u) the anticipated benefits of our acquisitions may not be realized in a timely manner or at all, (v) challenges and risks related to our new retail and e- commerce businesses, (w) **use of GenAI technologies, (x)** our inability or failure to recognize, respond to and effectively manage the impact of social media, (~~x~~ **y**) failure to comply with anti- bribery or anti- corruption laws, (~~y~~ **z**) U. S. federal income taxes, changes in tax rates, disagreements with tax authorities and imposition of new taxes, (~~z~~ **aa**) changes in consumer discretionary spending and general economic conditions, (~~aa~~ **bb**) the fact that the restaurant industry in which we operate is highly competitive, (~~bb~~ **cc**) loss of or failure to obtain or renew any or all of the approvals, licenses and permits to operate our business, (~~cc~~ **dd**) our inability to adequately protect the intellectual property we own or have the right to use, (~~dd~~ **ee**) our licensor' s failure to protect its intellectual property, (~~ee~~ **ff**) seasonality and certain major events in China, (~~ff~~ **gg**) our failure to detect, deter and prevent all instances of fraud or other misconduct committed by our employees, customers or other third parties, (~~gg~~ **hh**) the fact that our success depends on the continuing efforts of our key management and experienced and capable personnel as well as our ability to recruit new talent, (~~hh~~ **ii**) our strategic investments or acquisitions may be unsuccessful; (~~ii~~ **jj**) our investment in technology and innovation may not generate the expected level of returns, (~~jj~~ **kk**) fair value changes for our investment in equity securities ~~and~~ **,** lower yields of our short- term investments **or lower returns of our future long- term bank deposits and notes** may adversely affect our financial condition and results of operations, and (~~kk~~ **ll**) our operating results may be adversely affected by our investment in ~~unconsolidated affiliates~~ **equity method investees** ; ~~•~~ **2023 Form 10- K** Risks related to doing business in China, including (a) changes in Chinese political policies and economic and social policies or conditions, (b) ~~uncertainties with respect to~~ the interpretation and enforcement of Chinese laws, rules and regulations ~~, which~~ may ~~be subject to~~ change from time to time with little advance notice, and the risk that the PRC government may intervene or influence our operations ~~at any time~~ , which could result in a material change in our operations and / or the value of our securities to decline, (c) the audit report included in this Form 10- K is prepared by auditors who are located in China, and in the event the PCAOB is unable to inspect our auditors, our common stock will be subject to potential delisting from the New York Stock Exchange, (d) changes in political, business, economic and trade relations between the United States and China, (e) fluctuation in the value of the Chinese Renminbi, (f) the fact that we face increasing focus on environmental sustainability issues, (g) limitation on our ability to utilize our cash balances effectively, including making funds held by our China- based subsidiaries unavailable for use outside of mainland China, due to interventions in or the imposition of ~~2022 Form 10- K~~ restrictions and limitations by the PRC government on currency conversion and payments of foreign currency and RMB out of mainland China, (h) changes in the laws and regulations of China or noncompliance with applicable laws and regulations, (i) reliance on dividends and other distributions on equity paid by our principal subsidiaries in China to fund offshore cash requirements, (j) potential unfavorable tax consequences resulting from our classification as a China resident enterprise for Chinese enterprise income tax purposes, (k) uncertainty regarding indirect transfers of equity interests in China resident enterprises and enhanced scrutiny by Chinese tax authorities, (l) difficulties in effecting service of legal process, conducting investigations, collecting evidence, enforcing foreign judgments or bringing original actions in China against us, (m) the Chinese government may determine that the variable interest entity structure of Daojia does not comply with Chinese laws on foreign investment in restricted industries, (n) inability to use properties due to defects caused by non- registration of lease agreements related to certain properties, (o) risk in relation to unexpected land acquisitions, building closures or demolitions, (p) potential fines and other legal or administrative sanctions for failure to comply with Chinese regulations regarding our employee equity incentive plans and various employee benefit plans, (q) proceedings instituted by the SEC against certain China- based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Exchange Act, (r) restrictions on our ability to make loans or additional capital contributions to our Chinese subsidiaries due to Chinese regulation of loans to, and direct investment in, Chinese entities by offshore holding companies and governmental ~~control~~ **administration** of currency conversion, (s) difficulties in pursuing growth through acquisitions due to regulations regarding acquisitions, and (t) the PRC government has significant oversight and discretion to exert ~~control~~ **supervision** over offerings of securities conducted outside of China and over foreign investment in China- based issuers, and may limit or completely hinder our ability to offer securities to investors, or cause the value of our securities to significantly decline; these risks are each discussed in detail in the section " Risks Related to Doing Business in China. " ~~•~~ Risks related to the separation and related transactions, including (a) incurring significant tax liabilities if the distribution does not qualify as a transaction that is generally tax- free for U. S. federal income tax purposes and the Company could be required to indemnify YUM for material taxes and other related amounts pursuant to indemnification obligations under the tax matters agreement, (b) being obligated to indemnify YUM for material taxes and related amounts pursuant to indemnification obligations under the tax matters agreement if YUM is subject to Chinese indirect transfer tax with respect to the distribution, (c) potential indemnification liabilities owing to YUM pursuant to the separation and distribution agreement, (d) the indemnity provided by YUM to us with respect to certain liabilities in connection with the separation may be insufficient to insure us against the full amount of such liabilities, (e) the possibility that a court would require that we assume responsibility for obligations allocated to YUM under the separation and distribution agreement, and (f) potential liabilities due to fraudulent transfer considerations; ~~•~~ Risks related to our common stock, including (a) the fact that we cannot guarantee the timing or amount of dividends on, or repurchases of, our common stock, (b) the impact on the trading prices of our common stock due to different characteristics of the capital markets in Hong Kong and the U. S., (c) different interests between Primavera ~~and Ant Financial~~ and other holders of our common stock, and (d) the existence of anti- takeover provisions that may discourage or delay acquisition attempts that you might consider favorable; and ~~•~~ General risk factors. Risks Related to Our Business and Industry Food safety and foodborne illness concerns may have an adverse effect on our reputation and business. Foodborne illnesses, such as E. coli, hepatitis A and salmonella, have occurred and may re- occur within our system from time to time. In addition, food safety issues such as food tampering, contamination and adulteration occur or may occur within our system from time to time. Any report or publicity linking us, our competitors, our restaurants, including restaurants operated by us or our franchisees, to instances of foodborne illness or food safety issues could adversely affect our restaurants' brands and reputations as well as our revenues and profits and possibly lead to product liability claims, litigation and damages. If a customer of our restaurants becomes ill from foodborne illnesses or as a result of food safety issues, restaurants in our system may be temporarily closed, which would decrease our revenues. In addition, instances or allegations of foodborne illness or food safety issues, real or perceived, involving our or YUM' s restaurants, restaurants of competitors, or suppliers or distributors (regardless of whether we use or have used those suppliers or distributors), or otherwise involving the types of food served at our restaurants, could result in negative publicity that could adversely affect our sales. The occurrence of foodborne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, which could result in disruptions in our supply chain and / or lower margins for us and our franchisees. In October 2019, China' s State Council amended the Regulation for the Implementation of the Food Safety Law (the " Regulation of Food Safety Law "), which became effective on December 1, 2019. The Regulation of Food Safety Law outlines detailed rules for food safety **risk monitoring and** assessment, food safety standards, food production and food business, food inspection and other matters. Pursuant to the Regulation of Food Safety Law, certain violations of the food safety law may result in severe administrative and criminal penalties imposed on the Company, as well as its legal representatives, senior management members and other employees. If penalties are imposed on our senior management members, they may be prevented from performing their duties at the Company, which could in turn negatively affect our business operations. Such penalties could also have a material adverse impact on the Company' s reputation. Any significant failure to maintain effective quality assurance systems for our restaurants could have a material adverse effect on our business, reputation, results of operations and financial condition. The quality and safety of the food we serve is critical to our success. Maintaining consistent food quality depends significantly on the effectiveness of our and our franchisees' quality assurance systems, which in turn depends on a number of factors, including the design of our quality control systems and employee implementation and compliance with those quality control policies and guidelines. Our quality assurance systems include, but are not limited to, supplier / food processing plant quality assurance, logistics quality assurance, and restaurant quality assurance. There can be no assurance that our and our franchisees' quality assurance systems will prove to be effective. Any significant failure of or deviation from these quality assurance systems could have a material adverse effect on our business, reputation, results of operations and financial condition. Any significant liability claims, food contamination complaints from our customers or reports of incidents of food tampering could adversely affect our business, reputation, results of operations and financial condition. Being in the restaurant industry, we face an inherent risk of food contamination and liability claims. Our food quality depends partly on the quality of the food ingredients and raw materials provided by our suppliers, and we may not be able to detect all defects in our supplies. Any food contamination occurring in raw materials at our suppliers' food processing plants or during the transportation from food processing plants to our restaurants that we fail to detect or prevent could adversely affect the quality of the food served in our restaurants. Due to the scale of our and our franchisees' operations, we also face the risk that certain of our and our franchisees' employees may not adhere to our mandated quality procedures and requirements. Any failure to detect defective food supplies, or observe proper hygiene, cleanliness and other quality control requirements or standards in our operations could adversely affect the quality of the food we offer at our restaurants, which could lead to liability claims, complaints and related adverse publicity, reduced customer traffic at our restaurants, the imposition of penalties against us or our franchisees by relevant authorities and compensation awards by courts. Our sales have been significantly impacted by adverse publicity relating to supplier actions over the past decade. For example, our sales and perception of our brands were significantly impacted following adverse publicity relating to the failure of certain upstream poultry suppliers to meet our standards in late 2012 as well as adverse publicity relating to improper food handling practices by another supplier in mid- 2014. There can be no assurance that similar incidents will not occur again in the future or that we will not receive any food contamination claims or defective products from our suppliers in the future. Any such incidents could materially harm our business, reputation, results of operations and financial condition. Health concerns arising from outbreaks of viruses or other illnesses may have a material adverse effect on our business. ~~The COVID- 19 pandemic has had, and may continue to have, adverse effects on our results of operations, cash flows and financial condition.~~ Our business could be materially and adversely affected by the outbreak of a widespread health epidemic, such as COVID- 19, avian flu or African swine flu. Outbreaks of contagious illness occur from time to time around the world, including in China where virtually all of our restaurants are located. The occurrence of such an outbreak or other adverse public health developments in China could materially disrupt our business and operations, including if government authorities impose mandatory closures, seek voluntary closures or impose restrictions on operations of restaurants. Furthermore, the risk of contracting viruses or other illnesses that may be transmitted through human contact could cause employees or guests to avoid gathering in public places or interacting with other people, which could materially and adversely affect restaurant guest traffic or the ability to adequately staff restaurants. An outbreak could also cause disruption in our supply chain, increase our raw material costs, increase operational complexity and adversely impact our ability to provide safety measures to protect our employees and customers, which could materially and adversely affect our continuous operations. Our operating costs may also increase as a result of taking precautionary measures to protect the health and wellbeing of our customers and employees during an outbreak. If an outbreak reaches pandemic levels, there may also be long- term effects on the economies of affected countries. Any of the foregoing within China would severely disrupt our operations and could have a material adverse effect on our business, results of operations, cash flows and financial condition. For example, starting in the first quarter of 2020 and throughout 2021 and 2022, the COVID- 19 pandemic significantly ~~impacted the restaurant industry in China. Strict public health measures were implemented across the country, including mass testing, regional lockdowns and travel restrictions. These actions led to reduced travel, fewer social activities and softened consumption demand. During peak outbreak periods, hundreds of millions of people were under some type of lockdown in multiple regions in China. The COVID- 19 pandemic significantly~~ affected the Company' s operations, resulting in severe impact on our financial results ~~mainly driven by same- store sales declines~~ and **caused** ~~temporary store closures. In 2022, severe COVID- 19 outbreaks in China resulted in~~ significant ~~disruptions to~~ **volatility in** our ~~business~~ operations ~~. During April and May 2022, over 2, 500 of our stores in China, on average, were either temporarily closed or offered only takeaway and delivery services. During such period, same- store sales declined by more than 20 % year over year. 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 stores 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. Due to widespread infections following the relaxation of COVID restrictions, 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. We expect that our operations will continue to be impacted by the COVID- 19 pandemic. Experiences in other countries suggest that further outbreaks following relaxation of COVID restrictions and emergence of different COVID variants may occur. A portion of the population may remain cautious about going out in public. In addition, consumers tend to be more careful with spending after holidays. It remains difficult to predict how consumer behavior will change in the long- term. The extent to which our operations continue to be impacted by the pandemic will depend largely on future developments, which are highly uncertain and cannot be accurately predicted, including resurgences and further spread of existing or new COVID- 19 variants, actions by the government authorities to contain the pandemic or treat its impact, the economic recovery within China and globally, the impact on consumer behavior and other related factors. Our insurance policy does not cover any losses we incur as a result of the pandemic. The COVID- 19 pandemic also may have the effect of heightening other risks disclosed in the " Risk Factors " section of this report, such as, but not limited to, those related to supply chain management, labor shortage and cost, cybersecurity threats, as well as consumer perceptions of our brands~~ . Even if a virus or other illness does not spread significantly, the perceived risk of infection or health risk may affect our business. Our operations could also be disrupted if any of our employees or employees of our business partners were suspected of having a contagious illness or susceptible to becoming infected with a contagious illness, since this could require us or our business partners to screen and / or quarantine some or all of such employees or disinfect our restaurant facilities. With respect to the avian flu, public concern over an outbreak may cause fear about the consumption of chicken, eggs and other products derived from poultry, which could cause customers to consume less poultry and related products. This would likely result in lower revenues and profits. Avian flu outbreaks could also adversely affect the price and availability of poultry, which could negatively impact our profit margins and revenues. The operation of our restaurants is subject to the terms of the master license agreement which, if terminated or limited, would materially adversely affect our business, results of operations and financial condition. Under the master license agreement with YUM, we are required to meet a Sales Growth Metric, which requires the average annual Gross Revenue (as defined in the master license agreement) for each of the KFC, Pizza Hut and Taco Bell brands for each rolling five (5) calendar year period throughout the term of the master license agreement (" Measurement Period "), beginning January 1, 2017, to exceed the annual Gross Revenue of the calendar year immediately preceding the corresponding Measurement Period (" Benchmark Year "), unless otherwise agreed by the parties. To illustrate, the first Measurement Period was January 1, 2017 through December 31, 2021 (corresponding to the first Benchmark Year of January 1, 2016 through December 31, 2016) and the second Measurement Period is January 1, 2018 through December 31, 2022 (corresponding to the second Benchmark Year of January 1, 2017 through December 31, 2017). The requirement regarding the Sales Growth Metric began at the end of the first Measurement Period on December 31, 2021. Within an agreed period after the beginning of each calendar year following December 31, 2021, and during the term of the master license agreement, we are required to provide to YUM a written statement with the calculations of the Sales Growth Metric. If our calculations indicate that any of these restaurant brands failed to meet the Sales Growth Metric (an " SGM Breach "), there is a mechanism under the master license agreement for us to explain and remediate such breach in good faith. YUM has the right to terminate the master license agreement in the event of an SGM Breach. In the event of two consecutive SGM Breaches for KFC, Pizza Hut or Taco Bell, YUM shall be entitled to exercise its right to eliminate or modify the exclusivity of the license granted to us and conduct and further develop the relevant restaurant brand in our licensed territory or license one or more third parties to do so. As a result of factors beyond the Company' s control, namely the severe impact of the COVID- 19 pandemic, **there** ~~Pizza Hut~~ was **a breach of** ~~not able to meet~~ the Sales Growth Metric **requirement** for the ~~second~~ Measurement Period ~~ending~~ **ended** December 31, 2022 **by** ~~, which constitutes a breach of the master license agreement. YUM has waived this SGM Breach. However,~~ Pizza Hut ~~will likely not be able to meet the Sales Growth Metric for the next two Measurement Periods~~ , **which was waived by** ~~given the inclusion of three COVID- 19 years (2020, 2021 and 2022) in those periods. Unless~~ YUM ~~also waives those additional SGM Breaches, YUM may exercise its rights under the master license agreement described herein~~ . The master license agreement may also be terminated upon the occurrence of certain events. We do not believe there has been any material breach of the master license agreement, and we actively monitor our compliance with the terms of the master license agreement on an on- going basis. Under the master license agreement, we have the right to cure any breach of the agreement, except for the dissolution, liquidation, insolvency or bankruptcy of the Company or upon the occurrence of an unauthorized transfer or change of control or other breach that YUM determines will not or cannot be cured. Upon the occurrence of a non- curable breach, YUM will have the right to terminate the master license agreement (or our rights to a particular brand) on delivery of written notice. Upon the occurrence of a curable breach, YUM will provide a notice of breach that sets forth a cure period that is reasonably tailored to the applicable breach. If we do not cure the breach, YUM will have the right to terminate the master license agreement (or our rights to a particular brand). The master license agreement also contemplates remedies other than termination that YUM may use as appropriate. These remedies include: actions for injunctive and / or declaratory relief (including specific performance) and / or damages; limitations on our future development rights or suspension of restaurant operations pending a cure; modification or elimination of our territorial exclusivity; and YUM' s right to repurchase from us the business operated under an affected brand at fair market value, less YUM' s damages. ~~In the second quarter of 2022, we invoked the dispute resolution process pursuant to the master license agreement to resolve a disagreement with YUM over royalties charged on delivery and aggregator platform fees. We took the position, pursuant to the master license agreement, that delivery fees paid by customers for delivery services and commissions paid to third- party aggregator platforms should not be subject to royalties, which YUM believed to be a material breach of the master license agreement. YUM' s notice also alleged, for the first time, that the Company had engaged in unauthorized use of YUM' s intellectual property under the master license agreement. In December 2022, the parties settled the dispute.~~ If the master license agreement were terminated, or any of our license rights were limited, our business, results of operations and financial condition would be materially adversely affected. We derive substantially all of our revenue from our operations in China and, as a result, our business is highly exposed to the risks of doing business in China. Virtually all of our restaurants are located, and our revenues and profits originate, in China. As a consequence, our financial results are dependent on our results in China, and our business is highly exposed to all of the risks of doing business there. These risks are described further under the section " Risks Related to Doing Business in China. " Our success is tied to the success of YUM' s brand strength, marketing campaigns and product innovation. The KFC, Pizza Hut and Taco Bell trademarks and related intellectual property are owned by YUM and licensed to us in China, excluding Hong Kong, Macau and Taiwan. The value of these marks depends on the enforcement of YUM' s trademark and intellectual property rights, as well as the strength of YUM' s brands. Due to the nature of licensing and our agreements with YUM, our success is, to a large extent, directly related to the success of the YUM brand strength, including the management, marketing and product innovation success of YUM. Further, if YUM were to reallocate resources away from the KFC, Pizza Hut or Taco Bell brands, these brands and the license rights that have been granted to us could be harmed globally or regionally, which could have a material adverse effect on our results of operations and our competitiveness in China. In addition, strategic decisions made by YUM management related to its brands, marketing and restaurant systems may not be in our best interests and may conflict with our strategic plans. Shortages or interruptions in the availability and delivery of food products and other supplies may increase costs or reduce revenues. The products used in the operation of our restaurants are sourced from a wide variety of suppliers inside and outside of China. We are also dependent upon third parties to make frequent deliveries of food products and other supplies that meet our specifications at competitive prices. Shortages or interruptions in the supply of food products and other supplies to our restaurants could adversely affect the availability, quality and cost of items we use and the operations of our restaurants. Such shortages or disruptions could be caused by inclement weather, natural disasters such as floods, drought and hurricanes, increased demand, labor shortages, problems in production or distribution, restrictions on imports or exports, government levies, political instability in the countries in which suppliers and distributors are located, the financial instability of suppliers and distributors, suppliers' or distributors' failure to meet our standards, product quality issues, inflation, other factors relating to the suppliers and distributors and the countries in which they are located, food safety warnings or advisories or the prospect of such pronouncements or other conditions beyond our control. Despite our efforts in developing multiple suppliers for the same items where and when possible, a shortage or interruption in the availability of certain food products or supplies could still increase costs and limit the availability of products critical to restaurant operations, which in turn could lead to restaurant closures and / or a decrease in sales. In addition, failure by a principal supplier or distributor for us and / or our franchisees to meet its service requirements could lead to a disruption of service or supply until a new supplier or distributor is engaged, and any disruption could have an adverse effect on our business. In addition, we centrally purchase the vast majority of food and paper products, then sell and deliver them to most of our restaurants. We believe this central procurement model allows us to maintain quality control and achieve better prices and terms through volume purchases. However, we may not be able to accurately estimate the demand from franchisees and unconsolidated affiliates, which may result in excessive inventory. We may also not be able to timely collect payments from franchisees and unconsolidated affiliates, which could have a material adverse effect on our business, results of operations and financial condition. The prices of raw materials fluctuate, which may adversely impact our profit margin. Our restaurant business depends on reliable sources of large quantities of raw materials such as protein (including poultry, pork, beef and seafood), cheese, oil, flour and vegetables (including potatoes and lettuce). Our raw materials are subject to price volatility caused by any fluctuation in aggregate supply and demand, or other external conditions, such as changes in international trade policies and international barriers to trade, the emergence of a trade war, climate and environmental conditions where weather conditions or natural events or disasters may affect expected harvests of such raw materials, as well as outbreak of viruses and diseases. For example, in 2019, the price of protein, including poultry, increased significantly in China as a result of the African swine flu. We cannot assure you that we will continue to purchase raw materials at reasonable prices, or that our raw materials prices will remain stable in the future. In addition, because we and our franchisees provide competitively priced food, our ability to pass along commodity price increases to our customers is limited. When commodity prices increase, we may not be able to recover the increased costs through higher pricing in our products. If we are unable to manage the cost of our raw materials or to increase the prices of our products, it may have an adverse impact on our future profit margin. We may not attain our target development goals; aggressive development could cannibalize existing sales; and new restaurants may not be profitable. Our growth strategy depends on our ability to build new restaurants in China. We are accelerating our store network expansion to reach our 20, 000 store milestone. The successful development of new units depends in large part on our ability to open new restaurants and to operate these restaurants profitably. We cannot guarantee that we, or our franchisees, will be able to achieve our expansion goals or that new restaurants will be operated profitably. Further, there is no assurance that any new restaurant will produce operating results similar to those of our existing restaurants. Other risks which could impact our ability to increase the number of our restaurants include prevailing economic conditions and our or our franchisees' ability to obtain suitable restaurant locations, negotiate acceptable lease or purchase terms for the locations, obtain required permits and approvals in a timely manner, hire and train qualified restaurant crews and meet construction schedules. In addition, the new restaurants could impact the sales of our existing restaurants nearby. There can be no assurance that sales cannibalization will not occur or become more significant in the future as we increase our presence in existing markets in China. Our growth strategy includes expanding our ownership and operation of restaurant units through organic growth by developing new restaurants that meet our investment objectives. We may not be able to achieve our growth objectives, and these new restaurants may not be profitable. The opening and success of new restaurants depends on various factors, including: • our ability to obtain or self- fund adequate development financing; • competition in current and future markets; • our degree of penetration in existing markets; • the identification and availability of suitable and economically viable locations; • sales and margin levels at existing restaurants; • the negotiation of acceptable lease or purchase terms for new locations; • regulatory compliance regarding restaurant opening and operation; • the ability to meet construction schedules; • our ability to hire and retain qualified restaurant crews; and • general economic and business conditions. We are subject to all of the risks associated with leasing real estate, and any adverse developments could harm our business, results of operations and financial condition.