

China Markets Update – August 2026

China: From Copying to Creating

Dear Investor,

China's policy framework is increasingly focused on improving the quality of growth through domestic demand, productive investment, technological upgrading, and capital market reform. The effects are becoming visible across multiple sectors. Domestic tourism reached 3.46 billion trips and RMB3.21 trillion of spending in the first half of 2026 with holiday bookings continued to trend ahead of last year. Selected premium consumption indicators including baijiu pricing and gold jewellery sales have also improved. High-tech manufacturing remained firmly expansionary with a PMI of 53.3 as investment continued to accelerate across artificial intelligence, semiconductors, robotics, and advanced manufacturing. Domestic AI chips already account for more than 20% of dispatched computing capacity. Authorities launched another round of coordinated housing measures including further easing of purchase restrictions, expanded use of housing provident funds, broader financing channels for stronger developers, and reforms aimed at improving the sector's long-term structure. Equally important, China's capital markets are becoming increasingly shareholder-oriented. The country's five listed insurers announced record cash dividends of RMB102.4 billion, up 12.8% year-on-year, while more than 850 A-share companies unveiled interim dividend plans and insurers committed to increasing equity allocations as long-term capital. Taken together, these developments point to a gradual reallocation of China's savings pool toward consumption, innovation, and financial assets. Although progress is unlikely to be linear, improving shareholder returns, advances in technology, growing participation from institutional capital, and attractive valuations support the view that China remains an attractive market for long-term investors.



Steven Luk
CEO, FountainCap
Research &
Investment

From Copying to Creating

A sector that increasingly illustrates China's transition away from its old growth model is biotechnology. After several years of consolidation driven by volume-based procurement reforms, regulatory uncertainty, and tighter funding conditions, the sector is beginning to re-emerge as a meaningful source of innovation and export growth. Unlike previous cycles, the recovery is being driven by improvements in competitiveness rather than financial leverage. Artificial intelligence is reshaping the economics of drug discovery by lowering costs, improving success rates, and compressing development timelines. According to recent industry research, AI-generated drug candidates have achieved Phase I clinical success rates of 80-90%, compared with a historical range of 40-65% while overall development success rates could potentially increase from 5-10% to 9-18%. China appears particularly well positioned to benefit because it combines one of the world's most integrated pharmaceutical ecosystems with a large clinical-trial infrastructure. Since 2021, China has conducted more clinical trials annually than the United States accounting for roughly 30% of global clinical-trial activity in 2025. Early-stage trials are estimated to proceed 60-70% faster and at roughly half the cost of comparable U.S. studies.

Importantly, these advantages are no longer confined to research laboratories and are increasingly translating into commercial outcomes. Just as China's leadership in renewable technology and advanced manufacturing ultimately became visible through export growth and global market share gains, biotechnology is beginning to demonstrate a similar pattern through licensing revenues, intellectual property creation, and scientific output. Innovative-drug out-licensing transactions reached approximately US\$135.7 billion across 157 deals in 2025, more than doubling from the prior year. Yet the first half of 2026 alone generated 81 transactions worth approximately US\$110 billion, equivalent to roughly 80% of 2025's full-year total. Chinese innovative drugs now account for roughly 30% of the global development pipeline and Chinese-developed assets are expected to represent more than two-thirds of global licensing value in 2026, compared with less than 5% only five years ago. Global pharmaceutical companies are increasingly turning to China as they confront an estimated US\$236 billion patent cliff between 2025 and 2030,

creating strong demand for innovation and replenishment of drug pipelines. China's innovation output is also increasingly reflected in scientific and regulatory achievements. Between 2014 and 2023, China generated nearly 60% of global life-science generative-AI patents with the National Medical Products Administration approving 94 novel oncology drugs between 2020 and 2025, exceeding the 87 approvals by the U.S. FDA during the same period. Taken together, these developments suggest biotechnology is emerging as another pillar of China's new growth model alongside artificial intelligence, semiconductors, robotics, and advanced manufacturing. After several years of regulatory overhang and capital withdrawal, the sector is entering a phase where improving innovation output, growing licensing revenues, AI-enabled productivity gains, and rising international recognition are beginning to reinforce one another, creating a markedly different backdrop from the one investors have associated with Chinese healthcare over much of the past five years.

Closing Thoughts – Positioning for the New China

Although the geopolitical backdrop remains challenging, one of the more important developments of recent years is that China's investment case is increasingly anchored in domestic capabilities rather than external conditions. A recent Economist article highlighted how China reduced crude-oil imports by approximately 5.5 million barrels per day during the Iran conflict while maintaining economic stability, supported by strategic reserves, renewable energy, electrified transportation, and years of investment in industrial capacity. The significance extends beyond energy. It reflects the emergence of an economy built on resilience, productivity and technological self-sufficiency. These capabilities now span artificial intelligence, semiconductors, robotics, biotechnology and advanced manufacturing. Many of the themes discussed in my previous letters point to the same conclusion: China is gradually moving away from an old growth model centred on property development, infrastructure investment and imported technology toward a new growth model driven by innovation, intellectual property and shareholder returns. While geopolitical tensions and market volatility are likely to remain persistent features of the investment landscape, improving market quality, rising domestic participation, growing technological competitiveness and attractive valuations provide a supportive foundation for long-term returns. The question is no longer whether China can grow without relying on its old model, but whether global investors are adequately positioned for the new one that is already taking shape.

Best regards,

Steven Luk

CEO
FountainCap Research & Investment

Unit 2401-02 | China Resources Building | 26 Harbour Road | Wan Chai, Hong Kong

Direct: +852 2170 3303 | Fax: + 852 2178 0755 | Email: steven.luk@fountaincapri.com

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