

**Ministry of Foreign Trade and Economic Cooperation, Questions Relating to Foreign Investors Investing in and Establishing Research and Development Centres Circular**  
(Issued by the Ministry of Foreign Trade and Economic Cooperation on 18 April 2000.)

To the Commissions (Departments, Bureaus) of Foreign Trade and Economic Cooperation of each province, autonomous region, municipality directly under the central government and municipality with independent development plans:

The State encourages foreign investors to invest in and establish research and development centres in China. We hereby notify you of questions relating to the examination and approval of the contracts for, and the articles of association of, research and development centres invested in and established by foreign investors.

**1. Form and Scope of Business of Research and Development Centres With Foreign Investment**

(1) Research and development centres with foreign investment may take the form of Sino-foreign equity or cooperative joint ventures or wholly foreign-owned enterprises lawfully established by foreign investors (including investment companies invested in and established by foreign investors), or independent departments or branches within a foreign investment enterprise.

(2) Research and development centres shall be organizations that engage in research and development and in experimental development (including pilot testing) in the areas of natural sciences and their related scientific and technical fields. The subject of research and development may be basic research and development, product application research, high-technology research and public service research. Research and development subjects may not include prohibited items in the Foreign Investment Industrial Guidance Catalogue. Research and development centres may neither engage in technology trading other than that involving the technological achievements of their own research and development nor engage in production activities other than pilot testing. Research and development centres may assign the achievements of their own research and development, and may engage in cooperative research and development with domestic scientific research institutes by means of entrustment or joint development. The term 'research and development centres' does not include training centres.

**2. Establishment Conditions for Research and Development Centres With Foreign Investment**

(1) The research and development centre shall have a defined research and development field and specific research and development projects, fixed premises, the apparatus and equipment required for scientific research and the other conditions required for scientific research. The research and development centre's investment in research and development shall not be less

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than US\$2 million.

(2) The research and development centre shall have dedicated management and scientific research personnel. Personnel directly engaged in research and development who hold the equivalent of an undergraduate degree or higher qualification shall account for not less than 80% of the centre's total number of personnel.

### 3. Establishment Procedures for Research and Development Centres With Foreign Investment

(1) The investment in and establishment of research and development centres by foreign investors in the form of equity or cooperative joint ventures or wholly-owned enterprises shall be subject to examination and approval by the approval authorities at the provincial level.

(2) Establishment of internal research and development centres by a foreign investment enterprise (including investment companies):

a. The establishment of research and development branches or independent research and development departments shall be subject to examination and approval by the authorities which examine and approve the establishment of the foreign investment enterprises, according to their corresponding approval limits. However, all those which are branches or departments of Restricted Category A enterprises below the limit shall be subject to examination and approval (or be accepted for record-filing in accordance with the following paragraph) by the approval authorities at the provincial level.

b. Where an independent research and development department is to be established within an established foreign investment enterprise whose scope of business includes the business of 'research' or 'development', the enterprise shall file the relevant details of the independent research and development department (see Paragraph (c) hereof) for record-filing by the original examination and approval authority. If the enterprise's scope of business does not include the aforementioned business, the enterprise shall amend its contract and articles of association and submit the same for approval by the original examination and approval authority. The conditions for recognition of the qualifications of enterprises which file details for the record or add items to their scope of business are the same as those set forth in Article 2.

(3) Applications submitted to the examination and approval authorities shall additionally include the following:

a. the direction, fields and principal tasks of, and the implementation plan for, research and development;

b. details of the site, personnel and scientific research conditions;

c. the source, specific application and amount of the funds required for research and development, and a corresponding budget report;

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- d. a list of the equipment for own use, and its corresponding technology, fittings and spares, which are to be imported within the total amount of investment or with self-owned funds, and the prototypes and chemical reagents involved in the research and development process; and
- e. a description of the advanced nature of the research and development and a statement as to the ownership of the research and development achievements.

#### 4. Other Relevant Regulations

(1) A research and development centre with foreign investment shall lawfully engage in research and development business activities. The investment in the establishment of a research and development centre must be used to engage in research and development business activities.

(2) The funds required for a research and development centre established in the form of an independent department or a branch shall be listed as a separate item of the establishing enterprise's annual budget and be accounted for separately.

(3) The investment in a research and development centre established by a foreign investment enterprise of Restricted Category A in the form of an independent department or a branch may not exceed 50% of the enterprise's total amount of investment.

(4) A research and development centre shall file a report with the examination and approval authority on its research and development progress and business activities during the preceding year by 31 March.

(5) The preferential policies applicable to research and development centre under relevant State regulations are set forth in the Annex.

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