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福耀玻璃工业集团股份有限公司
FUYAO GLASS INDUSTRY GROUP CO., LTD.

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 3606)

**CONTINUING CONNECTED TRANSACTION
IN RELATION TO LEASING OF PRODUCTION PLANT BY
FUYAO EUROPE**

On October 25, 2017, Fuyao Europe, a wholly-owned subsidiary of the Company, entered into the Lease Agreement with Global Cosmos German, pursuant to which, Fuyao Europe shall lease from Global Cosmos German the production plant located in Germany for a term of 12 years from January 1, 2018 to December 31, 2029.

Global Cosmos German is wholly owned by Mr. Cho Tak Wong, the chairman of the Company, and therefore is an associate of Mr. Cho Tak Wong and Mr. Tso Fai, the vice chairman of the Company and a son of Mr. Cho Tak Wong. Global Cosmos German is a connected person of the Company under Chapter 14A of the Listing Rules, and the transaction between Global Cosmos German and the Company constitutes a connected transaction of the Company.

Pursuant to Rule 14A.76 of the Listing Rules, as the highest applicable percentage ratio in respect of the annual caps of rent, both on a standalone basis and when aggregating with the continuing connected transactions under the property lease contract entered into between the Company and Fujian Yaohua Industrial Village Development Co., Ltd. as detailed in the announcement of the Company dated August 5, 2017, is more than 0.1% but less than 5%, the Lease Agreement and the transactions thereunder are subject to the reporting, announcement and annual review requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the validity period of the Lease Agreement exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, Octal Capital, the Independent Financial Adviser, has produced independent opinion and confirmed that (i) it is normal business practice for the lease arrangement to be of such duration and it is in line with commonly adopted practice for similar transactions; and (ii) it is commercially justifiable for the Company to obtain a lease arrangement longer than three years in order to secure the sizeable production base which will be constructed according to the production needs of Fuyao Europe and is in close proximity to the customers.

On October 25, 2017, Fuyao Europe, a wholly-owned subsidiary of the Company, entered into the Lease Agreement with Global Cosmos German, pursuant to which, Fuyao Europe shall lease from Global Cosmos German the production plant located in Germany for a term of 12 years.

I. PRINCIPAL TERMS OF THE LEASE AGREEMENT

Principal terms of the Lease Agreement are set out as follows:

Parties: (a) Global Cosmos German, as the lessor; and
(b) Fuyao Europe, as the lessee.

Date: October 25, 2017

Property to be leased: The standard production plant located at OhmStrasse 1,73211 Leingarten, Germany with a total area of 57,809.95 square meters (including a road area of 29,518.30 square meters), which is owned by Global Cosmos German.

Lease term: For a term of 12 years from January 1, 2018 to December 31, 2029.

If Fuyao Europe needs to renew the lease upon expiry of the term, it shall notify Global Cosmos German about its intent of renewal in writing 60 days prior to the expiry date, and negotiate the renewal terms with Global Cosmos German and proceed with the renewal procedures. Fuyao Europe shall have the pre-emptive right to lease the premises under the same conditions.

Rents and pricing principles: Within the lease term, the annual rent for the first year is €2.9 million and from the second year onwards, the annual rent shall increase progressively at 2.5% for each year. Fuyao Europe shall pay €12 million to Global Cosmos German as security deposit for the lease within 45 days after signing the agreement.

Rents payable by Fuyao Europe for the years from 2018 to 2021 shall be deducted from the security deposit. In the event of Fuyao Europe's failure to lease the production plant as agreed or early termination of the agreement by Fuyao Europe before 2021, the security deposit shall not be refunded.

For the years from 2022 to 2029, rents shall be paid by Fuyao Europe before June 30 of each year. In case of early termination of the agreement by Fuyao Europe during the years from 2022 to 2029, Fuyao Europe shall pay an amount of €4 million to Global Cosmos German as default penalties.

The rents are determined based on the market price in the place where the property leased by Fuyao Europe is located and upon negotiation between the parties concerned.

Others:

Global Cosmos German shall take out insurance for the leased property with an insurance company for the entire term of the contract at its own expense. Utilities, wastewater treatment charges, telephone bills, waste disposal fees and other operation-related expenses actually incurred during the lease term shall be borne by Fuyao Europe.

During the lease term, Global Cosmos German shall be responsible for the maintenance of the exterior of the leased property while expenses arising from any further interior decoration made by Fuyao Europe shall be borne by Fuyao Europe.

II. ANNUAL CAPS AND DETERMINATION BASIS

Annual caps of the continuing connected transaction under the Lease Agreement for the 12 years from 2018 to 2029, are set out as follows:

	For the year ending December 31,											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Leasing of production plant												
by Fuyao Europe from												
Global Cosmos German	€2,900,000	€2,980,000	€3,050,000	€3,130,000	€3,210,000	€3,290,000	€3,370,000	€3,450,000	€3,540,000	€3,630,000	€3,720,000	€3,810,000

The rents are determined based on the market price in the place where the leased property is located and upon negotiation between the parties concerned.

III. REASONS FOR AND BENEFITS OF ENTERING INTO THE CONTINUING CONNECTED TRANSACTION

Fuyao Europe currently leases three production plants in Germany, which are scattered in different locations and inconvenient for management. Upon Fuyao Europe entering into the Lease Agreement with Global Cosmos German, all of the three production plants will be relocated to the new premise, which facilitates to consolidate its resources and manpower in a single location. Meanwhile, the new production plants will be constructed according to the existing production conditions of Fuyao Europe to satisfy the production needs of Fuyao Europe in virtue of its close proximity to the customers and guarantee the long-term and stable lease. To obtain and use the abovementioned leased property by way of lease in lieu of construction is beneficial for Fuyao Europe to expand the production scale and improve the liquidity of its assets, thereby enabling Fuyao Europe to invest more capital in its principal business and improve its core competitiveness.

IV. OPINION OF THE INDEPENDENT FINANCIAL ADVISER

As the validity period of the Lease Agreement exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, the Company is required to appoint an independent financial adviser to explain why the Lease Agreement requires a longer period and to confirm whether it is normal business practice for agreements of this type to be of such duration. In this regard, the Company has appointed Octal Capital as the Independent Financial Adviser.

In arriving at its opinion as to the reasons that the term of the Lease has to exceed three years, Octal Capital has discussed with the management of the Company regarding the Lease Agreement and has taken into account of the following:

- i. Fuyao Europe currently leases three production plants in Germany, which are scattered in different locations and inconvenient for management. Upon entering into the Lease Agreement between Fuyao Europe and Global Cosmos German, all of the three production plants will be relocated to the new premise located at OhmStrasse 1, 73211 Leingarten (the “**New Plant**”) which is in close proximity to the customers;
- ii. the New Plant will be constructed according to the existing production conditions of Fuyao Europe to satisfy the production needs of Fuyao Europe and guarantee the long-term and stable lease;
- iii. it is more cost effective and flexible for Fuyao Europe to occupy a furnished production plant by way of lease in lieu of construction on its own; and
- iv. entering into the Lease Agreement can facilitate Fuyao Europe to consolidate its resources and manpower in a single location which can expand production and improve efficiency.

In considering whether it is normal business practice for the lease arrangement of similar business to be of such duration, Octal Capital has taken the following steps:

1. identified similar transactions (the “**Comparable Leases**”) conducted by eight companies listed on the Hong Kong Stock Exchange during the period from August 1, 2016 to the date of this announcement and Octal Capital noted that these companies occupied the core premises for its operations. These premises include cinema, office, hotel, retail store, factory, port and storage facility which are vital to their respective operations. All Comparable Leases’ leasing items are the core tangible tool to generate revenue which cannot be neglected. Among the eight Comparable Leases, most of the leasing terms of Comparable Leases are over 10 years and six of them were continuing connected transactions.
2. it is a common practice for a manufacturing operation to either acquire or lease premises for its production. Octal Capital considered that there is no assurance that the Company will be able to identify a suitable location and plant when the leases expire. The leasing arrangement under the Lease Agreement offers the Company a long and stable lease which can minimise initial set up costs and acquisition costs in the case of acquiring a premise and future relocation costs upon expiry of respective leases. In addition, by relocating to the New Plant, Fuyao Europe can expand its production scale capacity and guarantee a long-term use.
3. In Germany, all registered companies in industry, commerce or service sectors are mandatorily required by public law to become a member of a Chamber of Commerce and Industry (the “**IHK**”). Each region forms its own IHK in Germany. IHKs are public corporations with compulsory membership. Heilbronn-Franken IHK includes company members of approximately 53,000 within the region. Its published report is considered professional. According to a report published by IHK, the monthly rent of the neighbouring regions of the New Plant during the year 2016 ranged from €3.5 to €7.0 per square meter. Based on the terms of the Lease Agreement, the monthly rent of the New Plant for the year 2018 would be €4.18 per square meter. Thus, Octal Capital considers that the monthly rent of the New Plant is comparable to the market monthly rent in the neighbouring regions.

Having considered the abovementioned, Octal Capital is of the view that (i) it is normal business practice for the lease arrangement to be of such duration and it is in line with commonly adopted practice for similar transactions; and (ii) it is commercially justifiable for the Company to obtain a lease arrangement longer than three years in order to secure the sizeable production base which will be constructed according to the production needs of Fuyao Europe and is in close proximity to the customers.

V. IMPLICATIONS UNDER THE LISTING RULES

Global Cosmos German is wholly owned by Mr. Cho Tak Wong, the chairman of the Company, and therefore is an associate of Mr. Cho Tak Wong and Mr. Tso Fai, the vice chairman of the Company and a son of Mr. Cho Tak Wong. Global Cosmos German is a connected person of the Company under Chapter 14A of the Listing Rules, and the transaction between Global Cosmos German and the Company constitutes a connected transaction of the Company.

Pursuant to Rule 14A.76 of the Listing Rules, as the highest applicable percentage ratio in respect of the annual caps of rent, both on a standalone basis and when aggregating with the continuing connected transactions under the property lease contract entered into between the Company and Fujian Yaohua Industrial Village Development Co., Ltd. as detailed in the announcement of the Company dated August 5, 2017, is more than 0.1% but less than 5%, the Lease Agreement and the transactions thereunder are subject to the reporting, announcement and annual review requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Cho Tak Wong and Mr. Tso Fai had abstained from voting on the resolutions of the Board in relation to approving the signing of the Lease Agreement and the transactions contemplated thereunder in accordance with the requirements of the articles of association of the Company. Save as disclosed above, no other Director has any material interest in the transactions contemplated under the Lease Agreement. Therefore, none of the other Directors abstained from voting on the relevant resolutions of the Board.

The Board (including independent non-executive Directors) is of the view that the continuing connected transaction under the Lease Agreement is entered into on normal commercial terms in the ordinary course of business of the Company, the terms of the agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole, and the annual caps are fair and reasonable.

VI. GENERAL INFORMATION

The Company

The Company is the dominant market leader in China and the only company that specializes in automotive glass production among the world's leading automotive glass manufacturers. Our products are sold in the domestic and overseas OEM and ARG automotive glass markets.

Fuyao Europe

Fuyao Europe is a wholly-owned subsidiary of the Company established in Germany on October 26, 2007. It is mainly engaged in installation, production and sale of various kinds of automobile spare parts.

Global Cosmos German

Global Cosmos German was established under the laws of Hong Kong in January 2013 and is held as to 100% by Mr. Cho Tak Wong. It is principally engaged in real estate investments and equity investments. As at December 31, 2016, the total assets, total liabilities and owners' equity of Global Cosmos German amounted to €6,182,900, €6,183,500 and €-500, respectively. In 2016, it did not record any operating revenue, and its operating profit and net profit amounted to €-1,500 and €-1,500, respectively. (The aforesaid financial data for the year of 2016 are audited). As at September 30, 2017, the total assets, total liabilities and owners' equity of Global Cosmos German amounted to €33,377,500, €33,387,900 and €-10,400, respectively. From January to September 2017, it recorded no operating revenue, an operating profit of €-9,900 and a net profit of €-9,900, respectively. (The aforesaid financial data for the nine months ended September 30, 2017 are unaudited)

VII. DEFINITIONS

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors of the Company
“Company”	Fuyao Glass Industry Group Co., Ltd. (福耀玻璃工業集團股份有限公司), a joint stock company incorporated in the PRC with limited liability
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules

“Director(s)”	the director(s) of the Company
“Fuyao Europe”	Fuyao Europe GmbH, a company incorporated in Germany with limited liability, which is a wholly-owned subsidiary of the Company
“Germany”	the Federal Republic of Germany
“Global Cosmos German”	Global Cosmos German Limited, a company incorporated in Hong Kong with limited liability, and a connected person of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, a licensed corporation registered with the Securities and Futures Commission pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) activities, which is the independent financial adviser appointed by the Company in respect of the continuing connected transactions under the Lease Agreement in accordance with Rule 14A.52 of the Listing Rules
“Lease Agreement”	the property lease agreement entered into between Fuyao Europe and Global Cosmos German on October 25, 2017
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)

“PRC”

the People’s Republic of China, excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region and Taiwan region

“subsidiary(ies)”

has the meaning ascribed thereto under the Listing Rules

By order of the Board of
Fuyao Glass Industry Group Co., Ltd.
Cho Tak Wong
Chairman

Fuzhou, Fujian, the PRC, October 26, 2017

As at the date of this announcement, the Board comprises Mr. Cho Tak Wong, Mr. Chen Xiangming and Ms. Sun Yiqun, as executive Directors; Mr. Tso Fai, Mr. Wu Shinong and Ms. Zhu Dezhen, as non-executive Directors; Ms. Cheng Yan, Ms. Liu Xiaozhi and Mr. Wu Yuhui, as independent non-executive Directors.