



Press Release

Independent Review of Failed Octopus EPS Add-Value Transactions Completed

Octopus to Carry Out Immediate Return of Past Unclaimed Funds

Hong Kong, July 27 2007 – Octopus Cards Limited (OCL) announced today that the independent review of failed Octopus EPS add-value transactions carried out by PricewaterhouseCoopers (PwC) has just been completed.

OCL's understanding after reading the report submitted by PWC regarding the root cause of the 571 failed Octopus EPS add-value transactions that occurred between December 2006 and February 2007, is:

- No evidence was found to suggest that Octopus add-value channels other than EPS were affected;
- Of these failed Octopus EPS add-value transactions approximately 84% percent could be attributed to identified root causes, of which about 80% of the failed Octopus EPS add-value transactions were due to a malfunction of one type of the electronic funds transfer modules in the add-value machines at MTR stations being unable to send reversal payment instructions after a short period of network disconnection and reconnection between the machines and the EPSCO host system. The electronic funds transfer module was developed by a third party supplier, owned and maintained by MTR, and has been certified by EPSCO;
- The causes of the remaining approximately 16% of these failed Octopus EPS add-value transactions are likely to be related to such things as inadvertently misleading messages when the cardholder cancels the add-value process or prematurely removes the Octopus card from add-value machines, or data loss when the add-value machine reset buttons were being triggered during system maintenance or malfunction;
- Failed Octopus EPS add-value transactions identified between December 2006 and February 2007 were not the result of an isolated incident and similar failed transactions date back to January 2000.

Using a complex transaction matching process, OCL was able to identify 15,270 failed Octopus EPS add-value transactions with a total value of approximately HK\$3.7 million between January 2000 and December 2006. This number of failed Octopus EPS add-value transactions represents 0.06% of the total number of Octopus EPS add-value transactions during the period under review. Octopus EPS add-value service accounted for 1.5% of all Octopus add-value transactions prior to the Octopus EPS add-value service being suspended in February of this year.

The refund process, which will use funds that have been held in a specific account reserved for customer claims, will cover all failed Octopus EPS add-value transactions during the period under review, but it will also result in some over-refunds because the process did not allow OCL to also factor in valid claims that were already refunded during that period. OCL will make immediate refunds through the assistance of EPSCO and relevant banks to those customers

affected by these additional failed Octopus EPS add-value transactions. This refund process is expected to be completed within 10 weeks.

Similar to the refund program last February, customers receiving refunds will be notified in writing through the relevant banks. Octopus will also provide a special Octopus card for each failed Octopus EPS add-value transaction as a gesture of goodwill.

Octopus customers with questions regarding this refund program can contact our dedicated Octopus EPS Add-Value Refund Hotline at 3752 1010 from 9 am to 9 pm Monday through Sunday. This hotline service is specially created to cater to customer needs.

Commenting on the review and the refund process, Prudence Chan, Chief Executive Officer of OCL, said: "We are heartened that the independent review was able to determine the root cause for the majority of the 571 failed Octopus EPS add-value transactions and that PwC was able to review and make recommendations to fine-tune our refund process for failed Octopus EPS add-value transactions established in February of this year. We can now make immediate refunds to affected customers. I can assure customers that the Octopus EPS add-value service will not be reinstated unless all issues that caused this problem have been addressed to the satisfaction of all parties involved."

"We apologise to our customers for any inconvenience the continued suspension of the Octopus EPS add-value service may cause. We also regret that customers affected by the incident did not receive their refunds earlier but, due to the fact that over 90% of our customers are anonymous, we did not have a process in place until recently to review the millions of Octopus EPS add-value transactions going back to 2000 and carry out the refunds through the assistance of EPSCO," she said.

"We are grateful to Professor Andrew Chan, our Independent Advisor, and the HKMA for their guidance and support throughout the review" said Ms. Chan. Professor Chan will continue to advise OCL on the implementation of the recommendations made by PwC.

"Whilst the majority of the failed Octopus EPS add-value transactions are caused by a component supplied by a third party, OCL accepts responsibility to ensure all systems in the add-value process are functioning effectively and reliably to safeguard cardholders' interests. OCL will implement all the relevant recommendations of the report relating to this," said Ms. Chan

As part of the Independent Review, PwC also made recommendations that will assist OCL to further enhance other aspects of its operations, including customer communication. OCL will immediately begin implementing these recommendations.

"The anonymous cards which are used by the majority of our customers make it impossible for us to contact them. To address this issue, we are encouraging a larger number of our customers to take up a Personalised Card. We will be launching a new community-wide program to make Personalised Cards easier to obtain," said Ms. Chan. Effectively August 1 2007, the program will provide Personalised Cards free of handling fee for the next twelve months. OCL will also have teams to assist customers in getting instant issuance of Personalised Cards at selected locations throughout Hong Kong."

"We are also launching a new customer-engagement program that will strengthen our communication with our customers so they can play a greater role in the development and improvement of our products and services," she said.

Over the past few months, Octopus has implemented a range of new and enhanced initiatives to provide more information to customers and to ensure that they have more channels to review their transaction history.

“In that regard, the programs we have just announced, and others we are developing, will help us to better address our commitment to customers,” said Ms. Chan. “That includes ensuring that customers who use the Octopus services each and every day continue to do so with the confidence and trust that have made us an integral part of daily life in Hong Kong. We take our responsibility to our customers very seriously and the initiatives we will be rolling out in the weeks and months ahead will make our services to customers even better,” she said.

About Octopus

Launched in 1997, Hong Kong’s Octopus is the world’s leading and most extensive smartcard payment system, with over 446 service providers across different businesses including public transport, parking, retail, vending and kiosks, schools and leisure facilities, and access control for residential and commercial buildings. Merchants and Octopus holders embrace Octopus for both its simplicity and its convenience. Today, more than 15 million Octopus are in circulation, and the system handles over 10 million transactions a day, with transaction value exceeding HK\$78 million.

In recent years, Octopus has started to export its unique experience and technology overseas, offering consultancy services and holding workshops for parties from different parts of the world.

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