Prudence Chan
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By email and post

Ms Sharon Chan
LGA(1)8
Legislative Council Secretariat
3/F Citibank Tower
3 Garden Road
Hong Kong

Dear Ms Chan,

On behalf of Octopus Cards Limited ("OCL"), I would like to again thank the LegCo Panel on Financial Affairs (the "Panel") for giving us the opportunity to provide background on the failed Octopus EPS add-value transactions and to outline the steps that are being taken to rectify this matter and ensure that it can never happen again.

We are pleased to provide the following responses to the specific points included in the letter of 5 March 2007 regarding follow-up actions requested by Panel Members.

Competition (1a)

Hong Kong is a free market and competition for multi-purpose stored-value cards comes from both existing payment systems such as cash, credit cards and EPS, as well as new entrants. Customers are always given different choices in making a payment.

Octopus welcomes competition and is committed to honoring the 'Code of Practice for Multi-purpose Stored-Value Card Operation' that states "where appropriate, given the design of the system and where technically feasible, the system operators should aim to share their technical platform with parties interested in card issuing and merchant acquiring business, subject to the required security standards of the system operators and on commercial terms to be agreed between the system operators and the relevant interested parties."

Deposit (1b)

The $50 refundable deposit we charge upon issuance of every Octopus card on loan to customer is to cover the card cost (HK$30) and part of the negative value provision (up to a maximum of HK$35) we provide to our customers. As a business entity, we do take on a credit risk of not getting our on-loan card back after a customer uses it to the maximum negative value. Nevertheless, we still provide this $35 negative value on all Octopus cards to enable customers to complete a journey even when their cards' remaining value is insufficient to pay for the trip.

OCL maintains a prudent treasury policy as it relates the management of these deposit funds in order to ensure that it is in full compliance with the statutory ratio requirements stipulated under the Banking Ordinance.

Additional Failed Octopus EPS Add-Value Transactions (1c)

As we indicated in our submission to the Panel on 23 February 2007, we are aware that there have been some instances prior to 5 December 2006 where failed Octopus EPS add-value transactions have occurred. OCL has commissioned PricewaterhouseCoopers (PwC), as independent consultants, to review OCL's refund processes and procedures and make recommendations where appropriate. Let me assure you that OCL is committed to implementing measures to address any issues the Review identifies and we are committed to providing refunds to any and all customers who have a valid claim.

Response to Members' Views and Suggestions (2 a-c)

Octopus welcomes views and suggestions from all sectors in our community and we are actively considering those that were provided to us by the Panel Members at the recent meeting as part of our commitment to enhancing the information and services we provide to our customers. While we are exploring the option of adding more channels for customers to check details of their past transactions, we will also be stepping up our customer education efforts to promote greater use of the AAVS and Personalized Octopus Cards. These are only some of the initiatives that will be carried out as soon as practicable to further enhance our service to customers. It is important to point out that we are not waiting for the Review recommendations before taking actions that are achievable in the short term to improve our services.

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Independent Review Report (3)

The scope of the Independent Review is comprehensive and it will include investigating the root case of the problem related to the failed Octopus EPS add-value transactions, what can be done to rectify the problem and a review of our refund policies and procedures. We expect the Review to take about three to four months to complete. We look forward to providing the Panel and the public with relevant information of the Review and the steps OCL will carry out to implement the recommendations included in that Review.

Ms Chan, I hope this information is helpful and do let me know if you have any further questions.

Yours sincerely,