

## **Audit Review of Government's Tender Exercise for Procuring Bottled Drinking Water**

In March 2025, the Government Logistics Department (GLD) invited open tenders for the supply of bottled drinking water to various government bureaux/departments (B/Ds) (hereinafter referred to as the “2025 tender exercise”). The supplier, Xin Ding Xin Trade Co., Limited (XDX), a Hong Kong incorporated company, was awarded a 36-month contract on 26 June 2025 to supply bottled drinking water to any locations (e.g. government offices and beaches) on Hong Kong Island and parts of the outlying islands, with an estimated contract value of \$52.9 million (Note 1). According to the contract, XDX would supply bottled drinking water branded “XinLe” and manufactured by “樂百氏(廣東)飲用水有限公司廣州分公司” (available in Chinese only) (Manufacturer A), a Chinese Mainland incorporated company. On 19 August 2025, GLD terminated the relevant contract with XDX on the grounds that it was not satisfied that XDX would be capable of performing the contract.

### **Audit scope**

2. The audit review covers the 2025 tender exercise (focusing on the contract awarded to XDX) and the management of the contract with XDX with an objective to assessing the compliance with relevant rules and regulations and identifying room for improvement, focusing on:

- (a) tender preparation (PART 1);
- (b) tender vetting and evaluation (PART 2);
- (c) contract monitoring (PART 3); and
- (d) way forward (PART 4).

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**Note 1:** *Two other tenderers were respectively awarded a contract for supplying bottled drinking water in Kowloon with an estimated contract value of \$47.6 million, and in the New Territories and part of Lantau Island with an estimated contract value of \$65.5 million under the 2025 tender exercise.*

## Audit observations and recommendations

### *PART 1: Tender preparation*

3. **Issue 1: Need to enhance market research.** According to section 350(e) of the Stores and Procurement Regulations (SPRs — Note 2), departments are encouraged to research the market for likely sources of supply and other relevant information on current features of the goods or services to be procured and technological trends. The information obtained from the market research is useful to ensure proper design of the tender specifications including essential requirements in order to obtain responsive and competitive tenders.

4. For the 2025 tender exercise, GLD conducted a market research in November 2024 by issuing a questionnaire (Note 3) to 138 suppliers on the GLD Supplier List (Note 4) to gather market information for the supply of bottled drinking water. The Audit Commission (Audit) noted that:

- (a) of the 138 suppliers, 132 suppliers were from Hong Kong and the remaining were from outside Hong Kong. No suppliers from the Chinese Mainland (including Manufacturer A and Manufacturer B (see para. 29)) were included in the GLD Supplier List; and
- (b) while suppliers should generally be allowed one month to respond to the questionnaire according to GLD's practice manual, only 2 weeks were allowed in the current case due to urgency. In the event, 8 suppliers responded and only 3 of them indicated interest in submitting bids.

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**Note 2:** *SPRs, issued by the Financial Secretary under the Public Finance Ordinance (Cap. 2), are supplemented by Financial Circulars and Financial Services and the Treasury Bureau Circular Memoranda which are of equal application and force as SPRs. The Regulations, Circulars and Memoranda apply to all public officers. The Secretary for Financial Services and the Treasury has been authorised to amend, supplement, apply, interpret and make exceptions to SPRs, Circulars and Memoranda.*

**Note 3:** *The questionnaire included 15 questions, mainly addressing suppliers' interest, product quality, pricing, delivery schedules, production capacity, and contingency plan.*

**Note 4:** *GLD maintains lists of suppliers for goods and related services tendered by GLD (GLD Supplier Lists). GLD Supplier Lists are categorised by the types of goods and related services. Suppliers included in GLD Supplier Lists will normally receive tender notifications from GLD, as and when opportunities arise, for the types of goods and/or related services for which they have been included. Suppliers can apply for inclusion in GLD Supplier Lists free of charge by submitting applications to GLD. Suppliers may bid for open tenders arranged by GLD even if they are not included in GLD Supplier Lists.*

5. ***Audit recommendation.*** In light of the experience of the 2025 tender exercise (i.e. receiving bids from new suppliers to supply bottled drinking water from the Chinese Mainland), Audit recommends that the Director of Government Logistics should consider enhancing the market research and allowing sufficient time for suppliers' response.

6. ***Issue 2: Need to explicitly specify food safety requirements pertinent to bottled drinking water rather than general requirements in tender document.*** According to SPR 350(d), B/Ds shall set out in the tender document all requirements and evaluation criteria that will be applied in deciding on the suitability of tenders. Tender specifications should be comprehensive and contain sufficient information for the tenderers to determine the nature, scope and estimated quantity or value of goods or services required, their characteristics, standards to be met, performance under specified conditions and other relevant information in order to obtain conforming and competitive bids.

7. According to the tender document of the 2025 tender exercise, the supply of the bottled drinking water shall comply with all applicable legislation and related standards in Hong Kong, including without limitation:

- (a) the Public Health and Municipal Services Ordinance (Cap. 132); and
- (b) the Microbiological Guidelines for Food (Revised in August 2014) (or its latest version if updated) concerning microbiological criteria for bottled/package drinking waters (other than natural mineral waters) issued by the Centre for Food Safety (CFS — Note 5) of the Food and Environmental Hygiene Department (FEHD).

A tenderer's tender will not be considered further if its offered item fails to meet the above mandatory features.

8. Audit examination however revealed that:

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**Note 5:** *CFS is the food safety authority under the Food and Environmental Hygiene Department. Its mission is to ensure food sold in Hong Kong is safe and fit for consumption through tripartite collaboration among the Government, food trade and consumers.*

- (a) tenderers were only required to submit test reports issued by an independent accredited laboratory in relation to 3 microbiological criteria (Note 6) to prove compliance with the required standards;
- (b) while the tender document had stipulated the general requirement of complying with all applicable legislation and related standards in Hong Kong, it did not explicitly specify other food safety standards pertinent to bottled drinking water for the tenderer's attention (e.g. the 12 metallic contaminants specified under the Public Health and Municipal Services Ordinance pertinent to bottled drinking water (Note 7));
- (c) as a step-up monitoring measure for quality assurance, GLD engaged an independent accredited laboratory in late July 2025 to ensure that the quality of the goods offered complied with the technical specifications. The test scope was however limited to the 3 microbiological criteria mentioned in (a). It was not until 13 August 2025 that GLD realised the test should have covered the 12 metallic contaminants mentioned in (b), after consulting CFS on their general practice in the regular surveillance of bottled drinking water; and
- (d) it was not stated in the tender document that if bottled drinking water would be imported, the tenderer must register as a food importer in accordance with the Food Safety Ordinance (Cap. 612). In August 2025, upon Audit's enquiry, FEHD confirmed that XDX had not been registered as a food importer at that material time.

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**Note 6:** *The 3 microbiological criteria for bottled/package drinking waters (other than natural mineral waters) are specified in Chapter III of the Microbiological Guidelines for Food and the corresponding limits are as follows:*

| <b>Microbiological criterion</b> | <b>Limit</b>                  |
|----------------------------------|-------------------------------|
| <i>E. coli</i>                   | <i>Not detected in 100 ml</i> |
| <i>Coliform bacteria</i>         | <i>Not detected in 100 ml</i> |
| <i>Pseudomonas aeruginosa</i>    | <i>Not detected in 250 ml</i> |

**Note 7:** *According to the Food Adulteration (Metallic Contamination) Regulations (Cap. 132V), a person must not import, consign, deliver, manufacture or sell for human consumption any specified food or compounded food which contains a specified metal in excess of the maximum level. For bottled or packaged drinking waters, the maximum levels of 12 specified metals apply. CFS conducts surveillance under a risk-based approach on bottled drinking water that is available for sales in Hong Kong to safeguard food safety. In addition to the microbiological tests, CFS also checks for 12 metallic contaminants in bottled drinking water.*

9. In this connection, GLD had consulted CFS in January 2025 on the food safety requirements of the technical specifications for the 2025 tender exercise. Audit noted that only an extract of the tender specifications (i.e. the general wording in paragraph 7) was provided to CFS. In the event, CFS did not provide any specific comments.

10. ***Audit recommendations.*** Audit recommends that the Director of Government Logistics should:

- (a) in consultation with relevant B/Ds, review the tender specifications to ensure that food safety requirements pertinent to bottled drinking water are considered and explicitly specified in the tender document;
- (b) require tenderers to provide documentary proof on the compliance with all food safety requirements as explicitly specified in the tender document;
- (c) arrange for independent quality assurance tests covering all food safety requirements as explicitly specified in the tender document; and
- (d) provide relevant B/Ds with necessary details for effective consultation on tender documents.

## ***PART 2: Tender vetting and evaluation***

11. ***Issue 3: Need to step up verification of tenderer information and raise staff awareness on fraud.*** On 11 August 2025, GLD received a letter from Manufacturer A (see para. 1) clarifying that it had no involvement in the supply of bottled drinking water under the contract between the Government and XDX. On 12 August 2025, GLD sent an email to XDX to request its clarification on the allegation stated in the letter from Manufacturer A. GLD met XDX on 14 August 2025, and representatives from Manufacturer A on 18 August 2025. Manufacturer A confirmed that two documents submitted by XDX in its tender dated 25 April 2025, and re-submitted on 14 and 19 May 2025 respectively for the 2025 tender exercise (i.e. (a) the letter of intent to supply bottled drinking water if the contract is awarded to XDX; and (b) the declaration of production capacity) were not issued by Manufacturer A.

12. Audit examined GLD's guidelines and noted that there were no laid-down procedures on verification of documents submitted by the tenderers. However, Audit

noted that, according to a press release by GLD in response to the procurement of surgical masks with suspected false trade descriptions in July 2020:

- (a) GLD would evaluate information provided by tenderers;
- (b) if the documents submitted by the suppliers are in doubt, GLD would request certification from the manufacturers which issued undertaking/letter of intent and/or from the independent accredited laboratories which issued the test reports; and
- (c) where necessary, GLD would also pass the samples received to the Government Laboratory or other independent accredited laboratories for testing.

13. For the two documents submitted by XDX (see para. 11), GLD found that the name of Manufacturer A shown on the company chop in the two documents first submitted by XDX in its tender dated 25 April 2025 was incorrect. Specifically, while the name of Manufacturer A was “樂百氏(廣東)飲用水有限公司廣州分公司”, the company name shown on the chop was “百氏(廣東)飲用水有限公司”. After GLD noted the irregularity and sought clarification with XDX in May 2025, XDX re-submitted the documents with a company chop with the correct company name. Audit noted that GLD did not raise further queries upon receipt of the revised documents.

14. In Audit’s view, the incorrect name on the company chop was an obvious fraud signal. However, GLD did not contact Manufacturer A directly to verify the authenticity of the two documents (see para. 12(b)) and report the case to the relevant law enforcement agencies immediately. The incident indicated not only an inadequacy in verification of tenderers’ information, but also a lack of awareness on fraud among GLD staff. In this connection, Audit noted that when applying for contract variations to change the manufacturer and brand name of the bottled drinking water in August 2025, XDX also submitted suspected fraudulent documents and GLD similarly failed to take immediate and necessary actions (see para. 29 for details).

15. ***Audit recommendations.*** Audit recommends that the Director of Government Logistics should:

- (a) lay down procedures on verifying authenticity of documents submitted by tenderers;

- (b) step up verification of information submitted by tenderers using a risk-based approach (e.g. conducting physical inspections as appropriate);
- (c) take measures to raise vigilance and fraud awareness among staff involved in procurement (e.g. providing training on common procurement frauds and fraud prevention in collaboration with law enforcement agencies); and
- (d) take immediate and necessary follow-up actions (e.g. reporting the case to law enforcement agencies) after identifying suspected fraud cases.

16. ***Issue 4: Need to review requirements for financial vetting.*** According to SPR 370(b), in evaluating the acceptance of a tender, a department should take into account, as appropriate, technical and financial capabilities of the tenderers and their performance records, among other requirements. Financial vetting shall be conducted to ensure that the tenderer is financially capable of fulfilling the contract requirements for the following contracts:

- (a) service contracts of a value exceeding \$15 million; or
- (b) contracts for supply of stores which require also the provision of services of a value exceeding \$15 million.

17. According to GLD, for the contract awarded to XDX, it did not conduct financial vetting because the contract was for the supply of stores only (i.e. did not require the provision of services). While this might be in compliance with SPRs, the incident may suggest a need to review the requirements for financial vetting, taking into account the following audit observations:

- (a) according to the information provided to GLD, XDX was a company with only 3 full-time employees. It had no previous track records in the supply of bottled drinking water to the Government. The multiple instances of non-compliances since contract commencement (see para. 26) indicated that XDX might not have the scale and capabilities required to perform the contract. In this regard, it might suggest a need to require XDX to prove its financial capabilities to fulfill the contractual requirements (e.g. having the adequate resources to support the core functions like order processing, transportation, warehousing and customs clearance, etc.); and
- (b) as stated in the terms of tender, the unit price covered the supply of one carboy of the bottled drinking water in full compliance with the mandatory

features of the technical specifications and all charges for delivery to various B/Ds. While there is no breakdown of unit cost for bottled drinking water and delivery service in the submitted price schedule, the service component could be substantial given the delivery work is labour intensive and that bottled drinking water carboys are bulky in nature and have to be delivered to a large number of locations. GLD should have clarified with XDX on the estimated cost on the provision of water delivery service, and considered whether the condition stated in paragraph 16(b) (i.e. provision of services of a value exceeding \$15 million) was applicable.

18. ***Audit recommendation.*** Audit recommends that the Secretary for Financial Services and the Treasury should review the requirements for financial vetting stipulated in SPRs, taking into account the audit observations in paragraph 17 (e.g. when the service component represents a substantial portion of the overall contract value or deliverables, request bidders to provide the cost estimates and evaluate the need for financial vetting).

19. ***Issue 5: Need to strengthen due diligence checks of tenderers.*** According to a media report in August 2025, the director and a shareholder of XDX were arrested by the Hong Kong Police Force (HKPF) for a suspected fraud case in 2022 (upon Audit's enquiry, HKPF informed Audit in October 2025 that the arrest for the suspected fraud case was made in 2023). According to the tender document:

- (a) the Government reserves the right to disqualify a tenderer if the tenderer, or a related person or director or management staff of the tenderer (related parties), has been convicted by the final judgement in respect of one or more serious offences including conviction of offences involving bribery, false accounting, corruption, dishonesty or employment handed down any time during a period of 5 years preceding the tender closing date and thereafter up to the time of contract award; and
- (b) tenderers shall provide a statement of no conviction or details of conviction mentioned in (a) in Hong Kong or any overseas jurisdiction when submitting the tender.

20. According to the statement submitted by XDX, the tenderer (and its related parties) declared no conviction records in the 5 years preceding the tender closing date and thereafter up to the time of contract award. Upon enquiry on the need to verify tenderers' conviction records, GLD informed Audit in August 2025 that:

- (a) there were no guidelines in that regard; and
- (b) tenderers were not required to provide consents for conducting criminal record checks.

In this connection, Audit noted that there was also no such requirement in SPRs. To facilitate the evaluation of the integrity and suitability of potential tenderers for contract awards, there are merits for exploring the need to require tenderers (including their related parties) to provide consents for verifying the conviction records with HKPF and conduct criminal record checks using a risk-based approach (e.g. for new suppliers or suppliers with adverse records/reports from other sources). Upon enquiry, HKPF informed Audit in October 2025 that HKPF had strong reservation over the legality and feasibility for releasing criminal records for contractual purpose. For instance, according to HKPF, the provision of criminal conviction records to a third party is permissible only for complying with specific areas of law. Criminal records, which are highly sensitive information, should only be provided when it is essential for the requesting department to determine whether the subject is a fit and proper person for some roles/activities. The provision of criminal records must be for legitimate purpose and it must be reasonably connected and proportional to the purpose. Audit acknowledges HKPF's concern and considers that the Financial Services and the Treasury Bureau (FSTB) and GLD should explore measures to strengthen due diligence checks of tenderers (e.g. asking tenderers to submit relevant information or proof of their background and challenging their replies as appropriate).

21. ***Audit recommendation.*** Audit recommends that the Secretary for Financial Services and the Treasury and the Director of Government Logistics should explore measures to strengthen due diligence checks of tenderers.

22. ***Issue 6: Need to step up checking of essential requirements.*** According to the Financial Circular No. 2/2019 “Pro-innovation Government Procurement” issued by FSTB:

- (a) to ensure adequate room in the tender evaluation process for assessing and recognising innovative suggestions, B/Ds are encouraged to adopt marking schemes with sufficient technical weighting to facilitate the assessment of potential benefits; and
- (b) to cater for special and warranted circumstances which have little room for innovative suggestions, B/Ds may decide not to adopt marking schemes in

tender evaluation, provided that approvals are obtained from public officers (normally at directorate level) designated by the Controlling Officers under SPR 350(h).

23. Audit noted that a marking scheme had been adopted in the previous tender awarded in June 2023 (hereinafter referred to as the “2023 tender exercise” — Note 8). For the 2025 tender exercise, GLD proposed not to use a marking scheme (i.e. the contract is awarded to the lowest price bid among tenderers which fully comply with the tender requirements). The decision of not using a marking scheme for this tender was duly endorsed by the Director of Government Logistics in February 2025 in accordance with the established mechanism citing the following reasons:

- (a) the goods under procurement have little room for innovative suggestions (see para. 22(b));
- (b) the characteristics of bottled drinking water to be procured are simple and straightforward; and
- (c) significant variation among bidders about the technical aspects of bottled drinking water concerned is unlikely (Note 9).

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**Note 8:** *The marking criteria adopted in the 2023 tender exercise were as follows:*

- (a) *Innovative suggestions;*
- (b) *ISO 22000 (Food Safety Management System) Certificate;*
- (c) *ISO 9001 (Quality Management System) Certificate;*
- (d) *ISO 14001 (Environmental Management Systems) Certificate;*
- (e) *Delivery schedule; and*
- (f) *Online ordering system.*

**Note 9:** *In the 2023 tender exercise, only a difference of 5 technical marks (on ISO 9001 (Quality Management System) Certificate) out of a total of 100 was noted for the technical aspects between the two offers received.*

24. The Central Tender Board (CTB — Note 10) considered the tender report from GLD which stated that the Tender Assessment Panel (Note 11) had found the recommended offers (including that from XDX) fully compliant with all the procedural and essential requirements as substantiated by the documentary evidence submitted by the tenderers with no irregularities highlighted. When making recommendations to the Permanent Secretary for Financial Services and the Treasury (Treasury) for approving the award of the contract in June 2025, CTB commented that:

- (a) GLD had led by example as the use of marking scheme for standard goods such as bottled drinking water in the tender exercise would not be necessary;
- (b) indiscriminate use of marking scheme might not be conducive to achieving value for money procurement and the prudent use of public money; and
- (c) as two of the bidders to be awarded contracts had no track record of supplying bottled drinking water to the Government, GLD would arrange for quality assurance tests at the beginning of the contracts as a step-up monitoring measure on top of tests to be conducted by the contractors as required under the contracts.

While noting the justifications for not adopting the marking scheme, in Audit's view, the poor performance of XDX in fulfilling the contractual requirements (e.g. failure to label the carboys with the required information, and deliver the bottled drinking water as scheduled — see para. 26) has indicated that there might be room for more rigorous checking of the essential requirements in the tender exercise. For instance, for the essential requirement of the delivery schedule, GLD only relied on a declaration submitted by XDX that it committed to deliver the bottled drinking water within 4 working days. No record was available showing that GLD had requested XDX to provide further proof of its capabilities in fulfilling the delivery schedule

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**Note 10:** *CTB, appointed by the Financial Secretary, is chaired by the Permanent Secretary for Financial Services and the Treasury (Treasury) and comprises the Director of Government Logistics, Permanent Secretary for Development (Works) or representative, a legal adviser at a rank not lower than Deputy Principal Government Counsel and Deputy Secretary for Financial Services and the Treasury (Treasury)<sup>3</sup>, to make recommendations to the Permanent Secretary for Financial Services and the Treasury (Treasury) for his approval on the acceptance of tenders.*

**Note 11:** *According to SPR 370(a), tender evaluation should normally be conducted by a Tender Assessment Panel consisting of not less than 2 persons. For the 2025 tender exercise, the Tender Assessment Panel had 4 persons, comprising a representative from GLD as chairperson, and three members (not lower than the rank of Supplies Officer) from other major user departments.*

(e.g. availability of adequate transportation and labour resources to support on-time delivery). In Audit's view, there is a need for GLD to step up checking of essential requirements during tender vetting.

25. ***Audit recommendation.*** Audit recommends that the Director of Government Logistics should step up checking of essential requirements during tender vetting.

### ***PART 3: Contract monitoring***

26. ***Issue 7: Need to take prompt follow-up actions on contractors' non-compliances in accordance with contracts.*** Audit noted that from 26 June 2025 (contract award date) to 19 August 2025 (contract termination date) (see para. 1), XDX repeatedly failed to comply with the contract requirements, with the key issues summarised as follows:

- (a) XDX failed to ensure that all the carboys must be marked with the required information, including the manufacturer's name or brand name, the production lot or batch number, and the best before date or expiry date. Despite rounds of discussion with GLD since early July 2025, XDX entered into mass production of non-compliant carboy labels and delivered the carboys using these labels without obtaining the consent of GLD. Consequently, B/Ds received bottled drinking water carboys with non-compliant labels;
- (b) numerous complaints were received from over 20 B/Ds from 22 July to 12 August 2025 against XDX on its poor performance including delays in delivery, and failure to assist B/Ds in opening accounts for placing orders or resolving issues; and
- (c) XDX failed to pay the contract deposit of about \$1 million by the deadline on 17 July 2025. After repeated reminders from GLD, XDX paid the deposit on 30 July 2025.

27. According to the contract, there are different clauses to deal with non-compliances with contract requirements. For example, GLD is entitled to issue a Non-delivery Rejection Notice if the contractor fails to deliver the goods by the deadline delivery date and a Rejection Notice if the goods fail to pass the inspections. Upon the issuance of five or more Non-delivery Rejection Notices or Rejection Notices within any six months of the contract period, the Government may terminate

the contract partially or entirely. Audit however noted that except repeated reminders and clarifications, GLD had not issued any rejection notices as entitled under the contract. While acknowledging that the contract had just commenced for about 2 months, there is a need to draw lessons from this case and take prompt follow-up actions on contractors' non-compliances in future in accordance with contract provisions (e.g. issuing rejection notices for repeated and/or serious non-compliances).

28. ***Audit recommendation.*** Audit recommends that the Director of Government Logistics should take prompt follow-up actions on contractors' non-compliances in future in accordance with contract provisions.

29. ***Issue 8: Need to improve vetting of contract variations.*** In early August 2025, XDX requested to change the manufacturer under its contract from Manufacturer A to "Dongguan Dongwa Drinking Water Co., Ltd" (Manufacturer B), and the brand name from "XinLe" to "Happy/喜士" respectively, alleging that the operation of Manufacturer A had been seriously affected by heavy rain. Audit noted the following issues:

- (a) upon receipt of XDX's request to change the manufacturer on 8 August 2025, GLD requested XDX to provide the required supporting documents (e.g. letter of intent from Manufacturer B and test reports on water quality) for vetting. In response, XDX submitted on 8 August 2025, among others: (i) the test reports with the applicant name of Professional Trade International Limited (hereinafter referred to as "Professional Trade") (i.e. the contractor for the New Territories and part of Lantau Island); (ii) a letter issued by Manufacturer B (i.e. manufacturer of bottled drinking water for Professional Trade) for confirming that the bottled drinking water to be supplied to XDX is the same as that supplied to Professional Trade so that the test reports in the name of Professional Trade could be shared with XDX; and (iii) the letter of intent issued by Manufacturer B. GLD had verified the authenticity of the above documents with Professional Trade through phone calls (for (i) and (ii)) and emails (for (iii)) on 8 August 2025. XDX also submitted the test reports (with XDX as applicant) on 11 August 2025, which were issued by the Hong Kong Standards and Testing Centre (STC), an independent accredited laboratory in Hong Kong. GLD contacted STC to verify the validity of the test reports on the same day;
- (b) however, while still pending STC's confirmation on the validity of the test reports submitted on 11 August 2025, GLD approved the contract variation

to change the manufacturer from Manufacturer A to Manufacturer B on the same day. According to GLD, the approval was based on the three key documents (i.e. items (i) to (iii)) in (a) above, as the documents together proved that the bottled drinking water to be supplied by Manufacturer B to XDX could meet the required safety standards, so as to maintain the continuity of supply of bottled drinking water to various B/Ds;

- (c) on 12 August 2025, STC replied that it had not issued the test reports and the reports were not valid;
- (d) despite being informed by STC that the reports were invalid (i.e. suspected fraudulent documents — see para. 14), GLD only requested XDX to re-submit valid test reports by 25 August 2025; and
- (e) in the absence of valid test reports, GLD approved another contract variation to change the brand name from “XinLe” to “Happy/ 喜士” on 12 August 2025. According to GLD, the approval decision was based on the three key documents in (a) above, which together were sufficient for proving that the bottled drinking water to be supplied by Manufacturer B to XDX could meet the required safety standards.

30. ***Audit recommendation.*** Audit recommends that the Director of Government Logistics should take measures to improve the vetting of contract variations (e.g. ensuring that all required documents are received and in order before approving a contract variation).

#### ***PART 4: Way forward***

31. ***Issue 9: Need to take into account audit findings in procurement regime review.*** In August 2025, the Government established the Task Force on Review of Government Procurement Regime to review the existing Government procurement regime and procedures arising from the incident on the Government’s procurement of bottled drinking water to perform its gatekeeping role effectively and remedy deficiencies utilising a cross-bureau and cross-departmental approach.

32. Audit considers that, apart from the issues reported in paragraphs 3 to 30, the Task Force and FSTB may also take into account the following general observations arising from the audit review:

- (a) ***Need to investigate root causes of inadequacies.*** To prevent recurrence of similar incidents, there is a need to conduct a thorough investigation on the root causes of the inadequacies, especially those of greater concern (e.g. issues 2, 3, 7 and 8), i.e. to ascertain whether they were due to human errors, inadequate training and/or procedural shortcomings, and take follow-up actions as appropriate in the context of government rules and regulations;
- (b) ***Need to make reference to international best practices.*** SPRs are drawn up in compliance with the Agreement on Government Procurement of the World Trade Organization (WTO GPA), which ensure that Hong Kong's government procurement adheres to the principles of open, fair, and non-discriminatory competition outlined in the WTO GPA. According to the WTO GPA, in assessing whether a supplier satisfies the conditions for participation, a procuring entity shall evaluate the financial capacity and the commercial and technical abilities of a supplier on the basis of that supplier's business activities. The incident has clearly indicated room for improvement in this regard. Apart from the WTO GPA, Audit considers that the Task Force may also make reference to other international best practices on public procurement. For instance, the Organisation for Economic Co-operation and Development has promulgated a number of guidelines on managing risks in public procurement, which may be of relevance in the Task Force's review. The risk management process comprises a systematic risk planning, identification, analysis, evaluation and treatment process which is conducted with appropriate recording, monitoring and reviewing of the risks so identified, together with effective communication and consultation with various stakeholders. In light of the incident, there is merit for the Task Force to explore the feasibility to incorporate risk management elements, for example fraud risk and food safety risk, in the Government's procurement process; and
- (c) ***Need to explore wider use of technology.*** Audit examination has revealed that the tendering and contract management process currently undertaken by GLD (and presumably in B/Ds) involved a substantial amount of manual work, including but not limited to the drafting of tender documents, evaluation of information submitted by tenderers and monitoring of contractors' performance. To reduce human errors and improve efficiency, there is a need to explore a wider use of technology (e.g. artificial intelligence and data analytics) in the Government's procurement process.

33. ***Audit recommendations.*** Audit recommends that the Secretary for Financial Services and the Treasury should take into account the audit findings in the review undertaken by the Task Force on Review of Government Procurement Regime, including:

- (a) investigating the root causes of inadequacies identified by Audit and take follow-up actions as appropriate;
- (b) making reference to the international best practices in formulating improvement measures to the procurement regime (e.g. incorporating risk management elements); and
- (c) exploring a wider use of technology in the Government's procurement process.

**Audit Commission**  
**October 2025**