

Report of Task Force on Review of Government Procurement Regime

**Financial Services and the Treasury Bureau
January 2026**

Index

I. Introduction

II. The Incident

III. Findings of the Task Force

IV. Enhancement Measures

V. Re-tender Exercise

VI. Response to Recommendations from the Audit Commission

VII. Conclusion

Annex A Membership and Terms of Reference of the Task Force

Annex B Follow-up Actions in Response to Recommendations from the Audit Commission

I. INTRODUCTION

The Government's procurement of bottled drinking water ("the Incident") in mid-2025 has brought up concerns among government colleagues and drawn attention from the public and the media. The Secretary for Financial Services and the Treasury ("SFST") announced on 17 August 2025 a three-pronged approach to investigate the Incident and review the government procurement regime so as to avoid re-occurrence of similar incidents. As one of the three-pronged actions, the Task Force on Review of Government Procurement Regime ("Task Force") was established under the leadership of SFST to review the government procurement regime and relevant procedures. The membership and terms of reference of the Task Force are set out at **Annex A**. The cross-departmental and multi-disciplinary set-up of the Task Force aims to bring in insights from multiple perspectives such as market operation, industry best practices, legal implications and staff stewardship.

2. The Task Force met three times between August and November 2025. It received briefings on the Incident and the government procurement regime on goods and service contracts, as well as explored various policy options before endorsing a series of enhancement measures. It aimed to ensure that deficiencies and loopholes in the existing procurement regime¹ would be plugged and procurement officers would perform the gatekeeping role more effectively.

II. THE INCIDENT

3. In anticipation of the expiry of the original contracts, the Government Logistics Department ("GLD") issued an open tender in March 2025 to select suitable suppliers of bottled drinking water for government offices in three regions. With the approval of the Central Tender Board, GLD awarded three contracts for the supply of bottled drinking water to government offices in June 2025. Details are as follows –

¹ In view that the Incident was concerned with the procurement of goods, the Task Force considered it appropriate to focus on reviewing the government procurement regime on goods and service contracts of a general nature. The subject review does not cover the procurement of construction and engineering works.

	Area	Company	Brand	Manufacturer
(a)	Hong Kong Island and parts of the outlying islands	Xin Ding Xin Trade Co., Limited (“XDX”)	XinLe	樂百氏（廣東）飲用水有限公司廣州分公司 （“樂百氏”） <i>(in Chinese only)</i>
(b)	Kowloon	AS Watson Group (HK) Limited	COOL	AS Watson Group (HK) Limited
(c)	New Territories and part of Lantau Island	Professional Trade International Limited	Happy/ 喜士	Dongguan Dongwa Drinking Water Co., Limited

4. According to the contract, XDX was to supply bottled drinking water, branded “XinLe” and manufactured by 樂百氏, to government offices on Hong Kong Island and parts of the outlying islands starting from June 2025 for a period of 36 months. On 8 August 2025, XDX requested to change the manufacturer of bottled drinking water owing to the alleged disruption in the operation of the original manufacturer in the Guangdong Province being seriously affected by heavy rain. A series of events in the following week exposed suspected fraudulent acts of XDX and GLD reported to the Police on 15 August 2025. GLD initiated partial termination of the contract on 16 August 2025 and subsequently terminated the contract with XDX on 19 August 2025. By 20 August 2025, the Government terminated all contracts associated with XDX’s owners.

5. In response to the Incident, SFST announced the three-pronged approach on 17 August 2025 as follows –

- (a) the Audit Commission (“the Audit”) was invited to review the tender exercise for the subject bottled drinking water contract to find out if there were any negligence or deficiencies in the process. The management letter issued by the Audit was made available to the public in full on 20 October 2025²;
- (b) a Task Force, chaired by SFST, would be established to review the existing government procurement regime and relevant procedures

² See https://gia.info.gov.hk/general/202510/20/P2025102000285_516542_1_1760942582158.pdf.

with a view to plugging loopholes and avoiding re-occurrence of similar incidents; and

- (c) GLD had been tasked to step up its remedial actions in a proactive manner.

III. FINDINGS OF THE TASK FORCE

6. The Task Force reviewed the Incident at its first meeting, and identified the following issues contributing to the Incident –

- (a) at the human/implementation level, the Incident revealed that procurement officers were not sensitive enough to fraudulent acts in tender evaluation and contract management. While the officers concerned had made attempts to verify the authenticity of the documents received, the breadth and depth should be further enhanced;
- (b) at the systemic/institutional level, there were no explicit standards and requirements on due diligence such as conducting checks on tenderers' track record and past performance under the existing government procurement regime. The Incident also revealed that there was insufficient understanding on some of the tender specifications, particularly on food safety testing requirements and food importer registration under the prevailing laws and legislations. To better safeguard the Government's interest, immediate contract termination under exceptional situations (e.g. on public interest grounds) by the Government should be provided for, and the introduction of financial vetting to high-value goods contracts should be explored; and
- (c) at the organisational level, the Task Force saw a need to heighten procurement officers' understanding of and alertness to possible fraudulent practices through continued staff training and capacity building. The Government should also reshape work culture and promote the ownership mindset when handling government procurement.

IV. ENHANCEMENT MEASURES

7. Taking into account the Task Force’s observations, the Financial Services and the Treasury Bureau (“FSTB”), as the policy bureau for government procurement, and GLD, as the Government’s procurement agent, proposed a number of enhancement measures to plug the loopholes as revealed by the Incident. In formulating the proposed measures, FSTB and GLD engaged frontline procurement officers, relevant government departments and industry stakeholders³ to take into account market operation and industry best practices as well as to ensure that the proposed measures were operationally feasible. The enhancement measures, as endorsed by the Task Force, focus on four broad directions, namely, (a) institutional change; (b) reshaping work culture; (c) enhancement in cross-departmental information exchange; and (d) application of technologies and artificial intelligence (“AI”) and are set out in the following paragraphs. Some measures which were ready for immediate implementation were announced on 20 October 2025 to plug the loopholes at the earliest time, while others have been progressively implemented to continuously enhance the Government’s procurement work.

Institutional Change

Measure (1) Formulate operational guidelines on due diligence checks

8. Due diligence in procurement involves verification of facts, identification of risks and compliance checking to ensure that our suppliers are reliable, operationally capable and compliant with legal and operational requirements. The Task Force considered that due diligence checks in government procurement were inadequate. It was therefore imperative to develop a set of standardised protocol for adoption by procuring departments, so that due diligence checking would be embedded into the government procurement regime and become an integral part of the procurement process and contract management. Not only would this be conducive to attaining value for money procurement, but it would also

³ The stakeholders include business chambers, small and medium enterprises organisations, procurement/supply chain and technology institutes, and private companies with experience in due diligence checks.

ensure that procurement decisions were well-informed and could minimise reputational or operational risks.

9. GLD issued an internal memorandum to bureaux/departments (“B/Ds”) in late August 2025 to remind colleagues of the aspects in the procurement and contract management processes in need of proper due diligence checks. Moreover, as a step further, GLD promulgated a set of internal operational guidelines in October 2025 to stipulate specific requirements and provide detailed guidelines on conducting due diligence checks at various stages of procurement, including preparation of tender documents, tender evaluation and contract management (including contract variation), so as to raise the awareness of procurement officers on due diligence and help them guard against fraudulent acts more effectively.

10. When undertaking procurement, B/Ds should conduct due diligence checks in accordance with the operational guidelines. During tender evaluation, if the documents submitted by tenderers are provided by third parties (including testing bodies, certification bodies and regulatory authorities), procuring departments should verify the authenticity of the documents with the third parties direct. As for test reports submitted by tenderers and contractors, procuring departments should also check whether the testing bodies have obtained accreditations for the relevant test categories on official websites of the accreditation bodies concerned. Meanwhile, procuring departments should, among others, conduct background checks on tenderers to strengthen the protection against fraudulent acts and facilitate the selection of suitable contractors. Furthermore, procuring departments should, where necessary, arrange testing by independent testing bodies on samples submitted by tenderers before contract award, and conduct regular or ad hoc testing of the goods provided by contractors after contract award, so as to ensure that the goods comply with quality requirements. GLD will continue to explore further measures to strengthen checking in collaboration with relevant departments, the trade and professional organisations, so as to guard against fraudulent acts such as those involving forged documents.

11. To enable procurement officers to better understand the operational guidelines and have a full grasp of the implementation details, GLD organised four training sessions in November 2025, with a total attendance of about 1 800. Going forward, taking into account the operational experience, staff feedback as well as best practices in the public and private sectors, GLD will update the operational guidelines from time to time. Training and experience sharing on due diligence checks and the operational guidelines will be incorporated in induction training of procurement officers. Targeted training and refresher courses will also be arranged for officers handling government procurement in future.

Measure (2) Set up the Procurement and Stores Management Audit Section to step up inspections

12. Internal audit is commonly recognised as a useful measure in detecting irregularities and enhancing compliance. Whilst GLD all along had a Supplies Surveys and Stock Verification Section (“the Section”) for conducting procurement compliance checks, it mainly focused on stock verification and compliance with prevailing regulations and guidelines. The Task Force saw room for GLD to conduct audits on the due diligence work of procuring departments through the Section.

13. As proposed by GLD and endorsed by the Task Force, GLD re-organised the Section into the Procurement and Stores Management Audit Section (“the new Section”) in October 2025. Being a dedicated team for conducting third-party audits, the new Section steps up inspections of due diligence work on B/Ds’ procurement under a risk-based approach. Having reviewed the wide-ranging nature and types of government procurement, the Task Force considered that emphasis should be given to high-risk contracts to ensure best use of resources. Contracts involving newcomers, of high value (exceeding \$15 million), or involving goods and services of a sensitive nature (e.g. those related to public health) are considered of higher risk and warrant more attention in terms of internal audit.

14. It is estimated that the new Section will audit about 120 tender cases a year on average, accounting for over 20% of the total caseload. Among the tender cases selected for internal audit, over half will be high-risk contracts. The new Section puts emphasis on checking whether B/Ds have conducted due diligence checks properly when handling relevant cases on top of ascertaining whether B/Ds have followed the relevant regulations and guidelines. Where deficiencies or loopholes are identified, the new Section will make recommendations to the Heads of Departments concerned to ensure timely intervention and rectification.

Measure (3) Revise the Standard Terms and Conditions of Tenders and Contracts (“STC”) to strengthen vetting and contract management power

15. The STC⁴ contains standard terms and conditions that are applicable to invitations to tender for the supply of goods and provision of services issued by procuring departments. It sets out obligations of tenderers and contractors in tendering for government contracts and performing contractual obligations, with a view to safeguarding the Government’s interest.

16. Taking into account the operational experience and feedback from procurement officers at the staff engagement sessions held in September 2025, the Task Force considered it important to give officers the necessary powers to conduct due diligence checks and take follow-up actions in case of irregularities during tendering and contract management by revision of the STC. Key revisions are set out below –

- (a) the Government may conduct site visits to tenderers/contractors’ offices, manufacturing plants, etc., and they should be in full co-operation;
- (b) tenderers/contractors should give consent to the Government to verify with third parties the authenticity of information submitted;

⁴ The STC is available for public access on GLD’s Procurement and Contract Management System website.

- (c) the Government may disqualify a tenderer if it considers that the tenderer will not be capable of fulfilling the contract terms;
- (d) the Government may terminate a contract immediately if it reasonably believes that the contractor has made a material misrepresentation during the contract period; and
- (e) the Government may terminate a contract immediately on public interest grounds.

17. The STC was revised in October 2025 and further updated in November 2025 incorporating all of the above revisions. With the strengthened STC in place, procurement officers would be better equipped in conducting tender evaluation as well as addressing irregularities and suspected fraudulent acts in a timely manner, thereby enhancing the Government's procurement work.

Measure (4) Refine financial vetting arrangements for procurement of goods

18. In the past, financial vetting⁵ was only applicable to service contracts but not goods contracts, as the Government's interest is generally protected by the established practice of making payments only after acceptance of goods. In view of public concerns over the adequacy of the prevailing safeguards and the Audit's recommendation to review the requirements for financial vetting in government procurement, the Task Force considered it necessary to look into the introduction of financial vetting to goods contracts so that the financial capability of tenderers would be assessed when conducting tender evaluation for goods contracts.

19. To strike a balance between safeguarding the Government's interest and promoting competition without undue hurdles to participation by businesses, FSTB and GLD recommended adopting a risk-based approach by introducing financial vetting only to goods contracts exceeding \$15 million. By doing so, the arrangements of financial vetting for goods

⁵ As a means of risk management, financial vetting is conducted based on a general analysis of the tenderers' adequacy of financial strength as well as past and projected earning performance for assessing the financial capability of a recommended tenderer and determining the amount of contract deposit to be paid to protect the Government's interest (which will not be refunded until the contract has been completed). The prevailing requirements are as follows –

Contract type	Total estimated contract value	Contract deposit (as a percentage of total estimated contract value)
Goods	Over \$1.35 million (Note 1)	2%
Services	Over \$1.35 million (Note 1) and up to \$15 million	2%
	Over \$15 million	<ul style="list-style-type: none">• 2% if a successful tenderer meets the requirements of financial vetting• 5% (for low-risk contracts) or 6% (for high-risk contracts) (Note 2) if a successful tenderer does not meet the requirements of financial vetting

Note 1: As a signatory to the Agreement on Government Procurement of the World Trade Organization ("WTO GPA"), Hong Kong, China is obliged to observe the relevant thresholds under the agreed mechanism. Currently, procurement of goods and services exceeding \$1.35 million is subject to tendering procedures regulated by the WTO GPA.

Note 2: High-risk contracts include (a) mission-critical, emergency-related or health-related contracts or contracts of public interest, such as systems that relate to law and order, life and death, etc.; or (b) contract types with high concentration risks (e.g. the lion's share of contracts for like services awarded by the same department is dominated by one or two contractors).

contracts are on par with those of service contracts, viz. based on the result of financial vetting –

- (a) if a successful tenderer meets the requirements of financial vetting, it pays a contract deposit at 2% of the total estimated contract value (same as the current deposit requirement); or
- (b) if a successful tenderer does not meet the requirements of financial vetting, it pays a contract deposit at 5% or 6% of the total estimated contract value, depending on the risk level of the contract.

20. FSTB and GLD held an engagement session with ten business and professional organisations in October 2025 to, among others, tap their views on the practicality of introducing financial vetting to goods contracts. In general, representatives of these organisations expressed understanding of the need to step up protection of the Government's interest in view of the ever-evolving business environment, and considered the proposed arrangement a sensible move. They also noted that instead of imposing an across-the-board financial vetting requirement for all tenders, the Government adopted a balanced approach by focusing on high-value goods contracts, taking into account public expectations whilst minimising the impact on businesses.

21. With the endorsement of the Task Force and the understanding from the trade, FSTB and GLD have introduced financial vetting to goods contracts exceeding \$15 million. The new arrangement is applicable to tenders to be invited on or after 1 January 2026.

22. Apart from the introduction of financial vetting to goods contract, the Treasury has also provided internal guidelines to help B/Ds identify whether there are any “red flags” from financial statements to facilitate them in assessing tenderers' financial capability. The guidelines also assist officers responsible for conducting financial vetting to identify possible fraud symptoms, so that they will be more vigilant and take timely follow-up actions if the above scenarios come to their attention in the financial vetting process.

Measure (5) Provide more flexibility for setting tenderer's experience as an essential requirement in tendering

23. Pursuant to a number of measures introduced in 2019 under the pro-innovation government procurement policy, tenderer's experience should not be set as an essential requirement in goods and service tenders to encourage competition in procurement and minimise entry barriers, unless prior approval⁶ is obtained. The Task Force acknowledged that the Incident had revealed that setting relevant tenderer's experience as an essential requirement might be useful for GLD to select suitable tenderers and assess whether they have the requisite operational and technical capabilities to supply bottled drinking water.

24. Having regard to the experience from the Incident and noting the wide variety of goods and services procured by various B/Ds, the Task Force saw room to provide more flexibility for B/Ds to consider whether prior experience would be essential and to formulate the best arrangements for their procurement exercises. FSTB thus proposed dispensing with the need to seek prior approval for setting relevant tenderer's experience as an essential requirement, on the premise that competition would not be undermined. This arrangement would give procurement officers greater autonomy in deciding whether to set tenderer's experience as an essential requirement in the tender document, having regard to the nature and scale of procurement and practical operational needs. FSTB updated the relevant guidelines in November 2025, and the new arrangement is applicable to tenders to be invited on or after 1 January 2026. GLD will also continue to review tender requirements in government procurement to ensure that they will be practical and keep pace with the times.

⁶ If procurement officers would like to set tenderer's experience as an essential requirement in a tender which adopts a marking scheme, they should seek prior approval from the relevant tender board/departmental tender committee. For cases where a marking scheme is not adopted, procurement officers should seek prior approval from designated public officers in their B/Ds (normally at directorate level) if they would like to set tenderer's experience as an essential requirement in a tender.

Reshaping Work Culture

25. The Task Force recognised that driving positive changes in work culture would be an on-going process. As procurement officers play a pivotal role in the implementation of procurement policy and serve as gatekeepers to safeguard the Government's interest in procurement, the Task Force considered it crucial to help staff internalise due diligence into their thinking and daily work. In particular, with the ever-evolving business environment and market practices, there is a need to equip staff with the necessary skills and knowledge to guard against frauds and uphold the principle of integrity during procurement.

Measure (6) Strengthen staff training to guard against frauds

26. The Incident revealed a need to heighten the alertness of procurement officers to fraudulent acts. GLD, in collaboration with the Hong Kong Police Force and the Hong Kong Customs and Excise Department, organised five seminars in September 2025. With a total attendance of over 750, the seminars introduced scam tactics and identification techniques to officers involved in procurement and finance matters in various departments. Furthermore, GLD will provide special sessions in induction training for new recruits and refresher briefings for serving officers to guard against fraudulent acts and enable them to perform duties effectively.

Measure (7) Cultivate a stronger sense of ownership and sensitivity towards fraudulent acts among procurement officers

27. While procurement work requires adherence to rules, proper execution by staff is of the utmost importance. In formulating various enhancement measures, GLD encouraged staff to offer their views through multiple channels, including staff engagement sessions, to gauge feedback on due diligence work and other proposals being explored, so as to foster a greater sense of involvement and commitment among staff and build a culture of ownership at work. GLD also disseminated important messages such as ownership mindset, enhancing alertness and vigilance, and strengthening the gatekeeping role, etc., to the attendees in the four

training sessions on the internal operational guidelines held in November 2025.

28. Looking ahead, GLD will organise more experience sharing sessions to gauge feedback from procurement officers in various B/Ds on the operational guidelines on conducting due diligence checks, so as to enrich the relevant content and streamline work procedures. Furthermore, GLD will organise team building activities with real-life examples, interactive mode of discussions and collaborative projects to enhance staff alertness and knowledge in guarding against fraudulent acts and to cultivate a sense of ownership among staff. Our goal is to remind staff to handle procurement work with greater alertness, care and prudence.

29. GLD will keep up its efforts to reinforce cultural change, which will be led by the entire leadership and sustained through carefully crafted staff engagement activities over time. GLD will continue to conduct induction training, regular refresher courses and staff engagement activities to foster a stronger sense of ownership at work among staff. These activities will seek to build amongst frontline staff the mindset that they should not merely go about their work according to the letter of the duty list, but should also perform an effective gatekeeping role to safeguard government and public interests. The Civil Service College (“CSC”) is also ready to share its experience in culture building and staff engagement with GLD.

30. Furthermore, CSC provides training to instill in civil servants across departments a deep sense of commitment and responsibility. All new recruits, including those serving at GLD and other B/Ds, are currently required to complete a foundation training programme within the probationary period, which places strong emphasis on civil service’s core values and public service culture. The mindset and behavioural requirements stipulated in the updated Civil Service Code (including but not limited to people-oriented, dedication to duty, professionalism and accountability for performance) are also infused into CSC’s training programmes, including those on management, leadership, and team collaboration for other serving officers.

Enhancement in Cross-departmental Information Exchange

Measure (8) Establish a digital database for information sharing

31. Procurement work is not confined to GLD, as other B/Ds may also procure services and goods in accordance with their policy objectives and operational needs. The Task Force considered that the experience of departments in dealing with various tenderers and contractors would be a valuable source of information, and efforts should be made to facilitate sharing of information among departments.

32. To this end, GLD established an internal digital database in October 2025 to collate information of bidders at tendering stage and contractors' performance during the contract period that warrants B/Ds' attention. The database serves as a government-wide procurement information portal accessible by procurement officers round the clock, assisting them to identify high-risk tenderers in a more effective and timely manner.

Measure (9) Ensure that procuring departments clearly understand the importance of essential requirements to safeguard the Government's interest

33. The Incident revealed a misconception that adoption of marking schemes was the sole means to attain value for money procurement, and that essential requirements set by procuring departments were only basic requirements which tenderers had to fulfill. In reality, essential requirements are important for meeting departmental needs and ensuring that the goods or services procured possess the requisite functions and quality. Irrespective of whether marking schemes are adopted or not, tenderers must fully meet the essential requirements before their tenders can be considered further; otherwise, they will not be awarded the contract even if they offer the lowest tender price.

34. The Task Force considered it important to dispel the above misconception as essential requirements, a straightforward "PASS/FAIL" concept in other words, serve a crucial gatekeeping role in ensuring tenderers' capability of performing contractual obligations and safeguarding the Government's interest in procurement. For example, for

the procurement of goods, essential requirements may include objective testing standards, professional certifications that are recognised locally, nationally and internationally, as well as specific product materials, sizes and specifications, etc. B/Ds should conduct market research and user surveys, where appropriate, when formulating essential requirements for their procurement.

35. To this end, GLD will make clear to procurement officers at all levels, including frontline colleagues as well as those at management level, that (a) requirements that are important for ensuring that the goods or services procured could meet the procurement needs in terms of functions and quality should be set as essential requirements; and (b) adoption of marking schemes is not the sole means to attain value for money procurement. Procurement officers should always critically review whether their procurement would benefit from the use of marking schemes, having regard to the nature and scale of procurement. GLD disseminated the above messages in the four training sessions on the internal operational guidelines held in November 2025, and it will promote these messages through training and staff engagement sessions on an on-going basis.

Measure (10) Rationalise general “supplier lists” within the Government

36. The Task Force also observed a public misconception that inclusion in “supplier lists” maintained by B/Ds represented the Government’s endorsement of the relevant suppliers. In practice, the purpose of these “supplier lists” is just to allow potential tenderers and contractors to register their interest in receiving tender notifications. In other words, the “supplier list” serves more as a “mailing list”. The public often mixes it up with a pre-qualified list of suppliers, where pre-qualification evaluation of the suppliers’ technical and/or financial capability would be conducted before admission to the list (e.g. a pre-qualified supplier list on works procurement).

37. The Task Force also evaluated the merits of formulating pre-qualified lists for procurement of goods and services in general. While pre-qualified lists would help ensure that suppliers have met requisite technical and/or financial capabilities (e.g. for projects of complex nature or high level of technical expertise), the pre-vetting work would involve

much time, manpower and effort which might not be commensurate with the scale and nature of the relevant procurement exercises. The Task Force considered that pre-qualifying suppliers for the procurement of goods and services of a general nature might not be a cost-effective or efficient arrangement.

38. In view of the aforesaid considerations, the Task Force considered that a renaming exercise across the board would more accurately reflect the nature of these “supplier lists”. As such, GLD took the lead to rename its “supplier lists” into “notification lists” in October 2025, and it has been working with B/Ds to facilitate their renaming efforts. GLD will monitor B/Ds’ implementation progress on an on-going basis.

Application of Technologies and AI

Measure (11) Develop AI tool to support due diligence checks

39. The Task Force recognised the importance of embracing applications of technologies such as AI to progress with the times and leverage technological development to enhance due diligence. GLD met with industry practitioners from the information technology sector and the procurement/supply chain sector in September 2025 to better understand prevailing market practices. Industry practitioners shared that digital tools had been commonly used to assist companies to conduct online checking of tenderers’ and contractors’ background and relevant news coverage. However, these arrangements could not replace the necessary human judgements involved. To modernise government procurement and enhance efficiency in due diligence checks, GLD proposed that a government-wide AI tool should be developed to facilitate retrieval of information on tenderers and contractors from online open sources.

40. Acknowledging the labour-intensive nature and time-consuming work involved in due diligence checks, the Task Force agreed that the development of the AI tool would facilitate due diligence checks in government procurement, which was also in line with the Audit’s recommendation to explore wider use of technology in the Government’s procurement process. Under GLD’s proposal, the pilot AI tool will

enable simultaneous search across the Internet and various designated websites by requiring input of key search parameters only once and the output generated will consolidate all relevant findings from multiple online sources and present them in a well-organised and user-friendly way. GLD is formulating the implementation arrangements with a view to launching the AI tool for pilot trial in Q1 2026. Subject to the outcome of the trial, it is expected that the AI tool could be extended to B/Ds for adoption to assist in their procurement work.

V. RE-TENDER EXERCISE

41. Following the termination of the contract with XDX in August 2025, as an interim arrangement, GLD engaged AS Watson Group (HK) Limited to supply bottled drinking water to government offices on Hong Kong Island and parts of the outlying islands. GLD re-tendered the subject contract in late December 2025. The Task Force noted that GLD took proactive actions to review the tender requirements, so as to ensure that suppliers would possess sufficient technical and operational capabilities to comply with the necessary safety standards and maintain stable supply of bottled drinking water.

42. To keep tabs on the market pulse before tendering, GLD published a market research notice on its website on 20 October 2025, inviting interested suppliers to submit responses in a month's time. In response to the Audit's recommendation on enhancing market research, GLD extended the response time from two weeks to one month and improved the questionnaire design to collect more comprehensive information. GLD took into account the responses from market research in mapping out the re-tender arrangements, including introducing additional essential requirements in the re-tender exercise to safeguard the Government's interest.

43. GLD also took on board relevant Audit recommendations in taking forward the re-tender exercise. In consultation with relevant B/Ds, GLD made clear food safety requirements pertinent to bottled drinking water in the tender document, and required tenderers to provide documentary proof on compliance. GLD will also arrange independent quality assurance

tests covering all food safety requirements as explicitly specified in the tender document. Furthermore, GLD will strengthen due diligence checks during tender evaluation, including verifying the authenticity of documents with third parties (such as testing bodies, certification bodies and regulatory authorities) direct, conducting background checks on tenderers, etc. Moreover, GLD will arrange testing by independent accredited testing bodies on samples submitted by tenderers before contract award, and conduct regular or ad hoc testing of the samples after contract award to ensure that the bottled drinking water complies with the quality requirements.

VI. RESPONSE TO RECOMMENDATIONS FROM THE AUDIT COMMISSION

44. As one of the three-pronged actions announced by SFST in August 2025, the Audit investigated the tender exercise for the subject bottled drinking water contract. FSTB released in full the management letter submitted by the Audit on 20 October 2025. FSTB and GLD agreed with the Audit recommendations in full, and confirmed that they were in line with the enhancement measures set out in the report.

45. A summary of the recommendations by the Audit and the follow-up actions taken by FSTB and GLD is set out at **Annex B**.

VII. CONCLUSION

46. Shortly after the Incident, the Task Force was established with a critical mission to enhance the government procurement regime holistically through a cross-bureau and cross-departmental approach. Members of the Task Force adopted a proactive and innovative mindset whilst embracing reform. They considered and endorsed comprehensive enhancement measures from operational, financial, legal, technological and cultural perspectives. While the report concludes the work of the Task Force, the Government's commitment to enhance the government procurement regime is on-going and will never stop. With the ever-evolving business environment and technological advancement, the Task

Force considered that FSTB and GLD should keep refining the procurement regime to ensure that it would keep up with the times. Specifically, GLD has been tasked to closely liaise with procurement officers at all levels to take into account operational experience fully, maintain regular dialogue with stakeholders such as business and professional organisations, as well as make reference to best practices and standards in local, national and international contexts.

47. While the Incident has revealed loopholes in the government procurement regime which required urgent fixing, it also served as an alert for us to reflect on our system as well as our work culture. The measures introduced this time not only strengthened government procurement regime at the institutional level, but also helped drive cultural change – by better equipping all procurement officers to rise to the challenge and perform their gatekeeping role more effectively, as well as encouraging them to take more initiative and ownership in safeguarding the Government’s interest and ensuring prudent use of public money.

– End –

Financial Services and the Treasury Bureau
January 2026

Membership and Terms of Reference of the Task Force

Membership

Chairman: Secretary for Financial Services and the Treasury

Members: Permanent Secretary for Financial Services and the Treasury (Treasury)

Director of Government Logistics

Representative from the Commerce and Economic Development Bureau

Representative from the Civil Service Bureau

Representative from the Development Bureau

Representative from the Department of Justice

Terms of Reference

- (a) To identify inadequacies (including but not limited to human, organisational and systemic factors) and areas for improvement arising from the tender exercise of the government procurement of bottled drinking water;
- (b) To recommend enhancements to the government procurement regime with regard to the latest market operation for addressing the issues identified under (a) above; and
- (c) To formulate good practices in handling government procurement to ensure the interests of the Government and the public are served.

* * *

Annex B

Follow-up Actions in Response to Recommendations from the Audit Commission

	Audit Recommendations	Follow-up Actions
1.	The Director of Government Logistics (“DGL”) should consider enhancing the market research and allowing sufficient time for suppliers’ response.	For the re-tender exercise of bottled drinking water (“the re-tender exercise”), the Government Logistics Department (“GLD”) allowed one month (instead of two weeks previously) for suppliers to respond to its market research questionnaire. GLD also improved the design of the questionnaire to collect more information on suppliers’ capabilities and qualifications. GLD took into account the feedback received from market research in determining the tender requirements and arrangement in the re-tender exercise (paragraph 42 of the main text of this report).
2.	<p>DGL should –</p> <p>(a) in consultation with relevant bureaux/departments (“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;</p> <p>(b) require tenderers to provide documentary proof on the compliance with all food safety requirements as explicitly specified in the tender document;</p>	<p>To prepare for the re-tender exercise, GLD –</p> <p>(a) provided tender details for relevant B/Ds to ensure effective consultation and clear understanding on food safety requirements. Relevant legal requirements have been incorporated into the tender document (paragraph 43);</p> <p>(b) issued operational guidelines on due diligence checks to B/Ds in October 2025 (paragraph 9). GLD followed them in relevant procurement exercises, including the re-tender exercise which requires tenderers to provide the relevant documentary proof (paragraph 43); and</p>

	Audit Recommendations	Follow-up Actions
	<p>(c) arrange for independent quality assurance tests covering all food safety requirements as explicitly specified in the tender document; and</p> <p>(d) provide relevant B/Ds with necessary details for effective consultation on tender documents.</p>	<p>(c) will arrange independent quality assurance tests covering all specified food safety requirements during the tender process and subsequent contract management (paragraph 43).</p>
3.	<p>DGL should –</p> <p>(a) lay down procedures on verifying authenticity of documents submitted by tenderers;</p> <p>(b) step up verification of information submitted by tenderers using a risk-based approach (e.g. conducting physical inspections as appropriate);</p> <p>(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</p> <p>(d) take immediate and necessary follow-up actions (e.g. reporting the case to law enforcement agencies) after identifying suspected fraud cases.</p>	<p>GLD has stepped up due diligence checks and raised staff awareness on frauds by –</p> <p>(a) promulgating operational guidelines in October 2025 to stipulate specific requirements on due diligence checks, including verification of documents and follow-up actions on dubious cases (paragraph 9), followed by four training sessions in November 2025 recording a total attendance of around 1 800. GLD will continue to organise targeted training for serving officers and new recruits in this area. In addition, GLD will keep in view and update the operational guidelines from time to time, having regard to operational experience and best practices in the public and private sectors (paragraph 11);</p> <p>(b) revising Standard Terms and Conditions of Tenders and Contracts by November 2025 to strengthen tender vetting and contract management. These include requiring tenderers / contractors to provide consent for verification of the authenticity of information submitted with third parties, and to terminate a</p>

	Audit Recommendations	Follow-up Actions
		<p>contract immediately in case of material misrepresentation (e.g. submission of false statement) or on public interest grounds (paragraph 16);</p> <p>(c) organising seminars with Hong Kong Police Force and Hong Kong Customs and Excise Department in September 2025 to enhance anti-fraud awareness among staff, with a total attendance of over 750 (paragraph 26); and</p> <p>(d) organising training and staff engagement activities regularly to equip staff with the necessary skills and knowledge in guarding against fraudulent acts as well as to build up a culture of ownership at work. Our goal is to remind staff to handle procurement work with greater alertness, care and prudence (paragraph 28).</p>
4.	The Secretary for Financial Services and the Treasury (“SFST”) should review the requirements for financial vetting, taking into account the Audit observations (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).	The Financial Services and the Treasury Bureau (“FSTB”) has introduced financial vetting to goods contracts with a value exceeding \$15 million for tenders to be invited on or after 1 January 2026 (paragraph 21).
5.	SFST and DGL should explore measures to strengthen due diligence checks of tenderers.	<p>In addition to the follow-up actions set out under recommendation 3 above, GLD –</p> <p>(a) established an internal digital database in October 2025 to collate from B/Ds</p>

	Audit Recommendations	Follow-up Actions
		<p>information of bidders at tendering stage and contractors' performances that warrant attention when undertaking procurement exercises. The database serves to enhance cross-departmental information exchange for identification of high-risk tenderers (paragraph 32); and</p> <p>(b) set up the Procurement and Stores Management Audit Section in October 2025 to step up third-party inspections of due diligence work on B/Ds' procurement with a focus on high-risk contracts (viz. contracts involving newcomers, of high value, or involving goods and services of a sensitive nature) (paragraph 13).</p>
6.	DGL should step up checking of essential requirements during tender vetting.	GLD will heed the operational guidelines and step up checking of essential requirements during tender vetting, including requesting tenderers to provide further proof of their capabilities (e.g. on fulfilling the delivery schedule) (paragraphs 9 and 43).
7.	DGL should take prompt follow-up actions on contractors' non-compliances in future in accordance with contract provisions.	GLD will take prompt follow-up actions on contractors' non-compliances in accordance with contract provisions and in line with the operational guidelines, e.g. issuing warnings and default notices, suspending payment as appropriate (paragraph 9).
8.	DGL 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	GLD will heed the operational guidelines and step up vetting of contract variations. In particular, the operational guidelines set out points to note in vetting contract variations,

	Audit Recommendations	Follow-up Actions
	contract variation).	e.g. approval should only be given provided that all required documents are received and in order (paragraph 9).
9.	<p>SFST should take into account the Audit findings in the review undertaken by the Task Force on Review of Government Procurement Regime (“Task Force”), including –</p> <p>(a) investigating the root causes of inadequacies identified by Audit and take follow-up actions as appropriate;</p> <p>(b) making reference to the international best practices in formulating improvement measures to the procurement regime (e.g. incorporating risk management elements); and</p> <p>(c) exploring a wider use of technology in the Government’s procurement process.</p>	<p>The Task Force duly reviewed and identified the key issues contributing to the bottled drinking water incident (paragraph 6) and put forward a number of enhancement measures to plug the loopholes, some of which were announced in October 2025.</p> <p>Taking into account Audit recommendations, a risk-based approach has been suitably incorporated in the enhancement measures. For example, the newly established Procurement and Stores Management Audit Section mentioned in recommendation 5 above places greater emphasis on high-risk contracts (paragraph 13); and financial vetting mentioned in recommendation 4 above has been introduced to high-value goods contracts (paragraph 21). Going forward, FSTB and GLD will make reference to best practices in local, national and international contexts, including the incorporation of risk management elements as appropriate, in enhancing the procurement regime on an on-going basis.</p> <p>In terms of wider application of technology in government procurement, GLD established an internal digital database as mentioned in recommendation 5 above to enhance cross-departmental information exchange for identification of high-risk tenderers (paragraph 32). Besides, GLD is also developing an artificial intelligence tool</p>

	Audit Recommendations	Follow-up Actions
		<p>to support due diligence checks by enabling simultaneous search across multiple online sources and consolidating relevant findings in an organised and user-friendly manner. The target is to launch the tool for pilot trial in Q1 2026 (paragraph 40).</p> <p>Aside from the work of the Task Force on the review of the government procurement regime, the Government has conducted a disciplinary investigation on the human errors identified in the management letter to clarify the extent of responsibility of different officers involved, determine whether there were violations of government or departmental rules that constitute misconduct requiring disciplinary action, or whether their performance fell short of the standards expected for their rank and experience, hence necessitating management measures.</p>

* * *