
RISK FACTORS

The Directors consider that investment in Shares could be speculative and involves significant risks. Investors should consider carefully all of the information contained in this prospectus, especially the following, in making an investment decision.

RISKS ASSOCIATED WITH THE BUSINESSES AND OPERATIONS OF THE GROUP

Reliance on CCRI

Since 1991, the Group has established strategic relationship with CCRI which includes the procurement of Electroplating Chemicals from CCRI, subcontracting the processing of Palladium Salt to CCRI and obtaining technical assistance from CCRI.

The Group has heavily relied on CCRI in conducting its business of Palladium Salt subcontracting services and procurement of Electroplating Chemicals for trading which have generated a significant portion of the Group's revenue during the Track Record Period. For the three years ended 31 March 2002 and the nine months ended 31 December 2002, the volume of business transactions in terms of value, including Palladium Salt subcontracting and procurements of Electroplating Chemicals, technical transfers and construction of production facilities, between the Group and CCRI amounted to HK\$12.6 million, HK\$24.5 million, HK\$63.8 million and HK\$6.5 million respectively, accounted for approximately 13.8%, 26.5%, 39.9% and 3.1% of the Group's turnover for the same periods.

During the Track Record Period, the Group appointed CCRI to process Palladium powder into Palladium Salt, and the revenue for Palladium Salt subcontracting amounted to approximately HK\$14.9 million, HK\$22.9 million, HK\$30.1 million and HK\$37.6 million, respectively. The gross profit of the Group from Palladium Salt subcontracting amounted to approximately HK\$12.8 million, HK\$19.9 million, HK\$26.1 million and HK\$33.7 million, respectively, accounted for approximately 80.5%, 87.2%, 82.2% and 81.8% of the Group's gross profit during the same periods respectively.

CCRI is one of the Electroplating Chemicals suppliers of the Group and, during the Track Record Period, the procurement of Palladium Salt, Silver Salt and Rhodium Sulphate from CCRI amounted to approximately HK\$10.5 million, HK\$21.5 million, HK\$6.2 million and HK\$2.6 million, respectively. For the same period of time, the Group procured Palladium Salt, Silver Salt and Rhodium Sulphate for trading from CCRI which generated gross profits of approximately HK\$1.2 million, HK\$0.7 million, HK\$0.9 million and HK\$0.2 million, respectively.

The gross profit generated from the trading of Palladium Salt, Silver Salt and Rhodium Sulphate which were procured from CCRI accounted for approximately 7.5%, 3.0%, 2.7% and 0.4% of the Group's gross profit during the same periods respectively. During the Track Record Period, the Group's gross profit margin of the Palladium Salt subcontracting business were 85.8%, 87.0%, 86.7% and 89.6%, respectively.

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In addition, the Group obtained all of its Electroplating Chemicals production technologies from CCRI and CCRI assisted in the construction of the Group's production facilities. Pursuant to the supplemental agreement to the technology transfer agreement with CCRI dated 8 October 2002, CCRI will provide the enhancement and improvement of specialised technology to the Group without any consideration for the next five years after the completion of the technical transfer in November 2001. Please see "Business of the Group – Strategic relationship with CCRI" for the details of such cooperation. Before the Zhuhai Plant operates at full capacity and the Group commences its R&D activities which is expected to be in the first quarter of 2004 and third quarter of 2003 respectively, if the Group cannot maintain its strategic relationship with CCRI, it may have a material adverse effect on the Group's business operations and prospects.

Credit risk

During the Track Record Period, the Group has adopted two billing methods. For the sales and trading of Electroplating Chemicals, most of the Group's sales are made on credit terms, ranging from 7 to 45 days. For the three years ended 31 March 2002 and the nine months ended 31 December 2002, the gross profit attributable from the sales and trading of Electroplating Chemicals (including production of Gold Salt in the Hunghom Plant) amounted to approximately 19.5%, 12.8%, 17.8% and 18.2%, respectively of the Group's total gross profit.

For the Palladium Salt subcontracting services, in order to attract new subcontracting customers in the PRC, the Group offered the subcontracting services to customers with a payment term of up to 12 months. The Group continues to adopt this credit policy to retain its existing 5 subcontracting customers. According to the subcontracting agreement entered into between Kenlap and each of the subcontracting customers, the subcontracting customers are required to pay the processing fee in 2 instalments. Approximately 15% of the subcontracting fee is paid as the first instalment when the Palladium Salt is received by the subcontracting customers, and the remaining balance will be paid by the subcontracting customers within 12 months from the delivery date of the Palladium Salt. For the three years ended 31 March 2002 and the nine months ended 31 December 2002, the gross profit attributable from the Palladium Salt subcontracting services amounted to approximately 80.5%, 87.2%, 82.2% and 81.8%, respectively of the Group's total gross profit.

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The debtors turnover days for different business segments of the Group during the Track Record Period are summarised as follow:

	Year ended 31 March			Nine months ended 31 December
	2000	2001	2002	2002
Sales and trading of Electroplating Chemicals	35 days	40 days	21 days	34 days
Palladium Salt subcontracting services	387 days	208 days	320 days	215 days

As at 31 December 2002, the trade receivables of the Group amounted to approximately HK\$92.5 million. Up to 12 May 2003, the unsettled trade receivables of the Group as at 31 December 2002, after the provision of HK\$0.89 million, amounted to approximately HK\$28.4 million, out of which approximately HK\$27.7 million is from four of the Group's existing subcontracting customers, and their respective trade receivables have not been overdue according to their payment terms. The expected due dates of these subcontracting customers are ranging from June 2003 to December 2003. The remaining approximately HK\$0.7 million is from 12 customers for the sales of Electroplating Chemicals and their respective trade receivables for the sales of Electroplating Chemical are already overdue. There is no assurance that the Group will be able to duly collect all of its trade receivables. The Group's business, operating results and financial position may be adversely affected if the Group experiences difficulties in realising its trade receivables in the future.

Reliance on key management

Each of Mr. Yao Zongren and Mr. Lau Ping has a 2-year service contract with the Company. The Group's success is, to a significant extent, attributable to the management skill and experience of Mr. Yao Zongren and Mr. Lau and their well-established relationship with the Group's customers and suppliers. Consequently, there may be an adverse impact on the Group's profitability should any of Mr. Yao Zongren and Mr. Lau cease to be involved in the Group's management in the future.

Possible infringements of the Group's trademark

The applications for the registration of the Group's trademark "®" with the relevant governmental authorities in Hong Kong and the PRC were made by the Group's agents on 24 October 2002 and 29 October 2002 respectively. At present, based on the business decision of the Group, the Company has no intention to apply for the registration of its trade name. Since the Group commenced its Gold Salt production in March 1993, the Electroplating Chemicals of

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the Group are sold under the trademark “Kenlap”. In the event that the brand names of the Electroplating Chemicals of the Group are subject to challenge or dispute, the Group may be forced to adopt alternative brands or to rebrand its products entirely. The Group’s business, results of operation and financial position may be materially and adversely affected if there is any infringement of or challenge to the Group’s trademark.

Storage and usage of dangerous substance

The Group stores certain amounts of potassium dicyanoaurate, which is a toxic substance, at the Hunghom Plant and the Zhuhai Plant and uses such potassium dicyanoaurate in its manufacturing and processing process. In case of any infringement of applicable safety and environmental regulations in the PRC and Hong Kong, the Group faces the risk of incurring liabilities and the Group may be required to take remedial measures which may in turn have an adverse effect on the operations of the Group. On 20 November 2002, Kenlap received a summons for a breach of section 6(1) of the Dangerous Goods Ordinance (Chapter 295 of the laws of Hong Kong) when it stored 450 kg of potassium dicyanoaurate at the Hunghom Plant otherwise than under and in accordance with the exempted quantity of 5 kg of potassium dicyanoaurate under the Dangerous Goods Ordinance. Kenlap pleaded guilty to this charge and was fined a sum of HK\$10,000.

In addition, if there is any accidental leakage of dangerous substances, it may have adverse impacts on the Group’s business and profitability.

The Group will continue to face intensive competition

The Directors cannot rule out the possibility that the increase in business opportunities in the industry might attract more overseas Electroplating Chemical suppliers into the PRC market through setting up their production facilities, packaging centers or appointing local distributors in the PRC.

These overseas competitors may have certain advantages over the Group, such as greater financial and technical resources and more established relationship in the PRC. Such competition, if materialised, may adversely affect the business of the Group.

Reliance on major customers

For each of the three years ended 31 March 2002 and the nine months ended 31 December 2002, total sales to the Group’s top five customers accounted for approximately 38.5%, 39.3%, 64.0% and 58.6% respectively of the Group’s total sales. The largest customer of the Group accounted for approximately 14.0%, 10.4%, 23.2% and 37.2% respectively of the Group’s total sales for each of these periods. For the nine months ended 31 December 2002, four of the top five largest customers were from the PRC. For the business of Palladium Salt subcontracting, the sales to the five subcontracting customers accounted for approximately 16.3%, 24.7%, 18.8% and 17.7%, respectively of the Group’s total sales during the Track Record Period and

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they were all from the PRC. However, the gross profit attributable from the subcontracting customers amounted to approximately 80.5%, 87.2%, 82.4% and 81.8%, respectively of the Group's total gross profit during the Track Record Period. Should such customers cease to purchase or reduce substantially the amount of products to be purchased from the Group in the future, the turnover and profitability of the Group would be adversely affected.

Reliance on major suppliers

For the three years ended 31 March 2002 and the nine months ended 31 December 2002, the top five largest suppliers of the Group together accounted for approximately 99.4%, 100%, 98.7% and 97.9% respectively of the Group's total purchases. The largest supplier of the Group accounted for approximately 39.4%, 58.3%, 44.8% and 45.1% respectively of the Group's total purchases of each of the periods. In order to maintain flexibility in sourcing quality suppliers with competitive prices, the Group has not entered into any long term supply agreements with any of its suppliers. Should any of its major suppliers cease to supply products to the Group and the Group is unable to find suitable replacements, then the Group's production and trading activities may be disrupted.

Reliance on the PRC market

For each of the three years ended 31 March 2002 and the nine months ended 31 December 2002, a significant portion of the Group's revenue was contributed by customers in the PRC. Should there be any significant deterioration in the condition of the PRC economy, the Group's sales and profitability may be adversely affected.

Dividends

During the year ended 31 March 2000, Kenlap declared and paid interim dividends of HK\$16,904,000 to its then equity holders, which is reported in the accountants' report set out in Appendix I to this prospectus. The dividend payment was financed by the Group's internal resources and represented about 136% of the net profit attributable to shareholders for the year ended 31 March 2000. The payment of the aforesaid dividends should not be used as a reference for the Company's future dividend policy. There is no assurance that dividend distributions will continue in the future although the Directors currently plan to recommend the distribution to Shareholders of about 30% of the Group's distributable earnings as cash dividend. The declaration and payment of future dividends will be at the discretion of the Board subject to the approval of the Shareholders at its general meetings and will depend upon, among other things, the Company's operations, capital requirements and surplus, and such other factors as the Board may deem relevant.

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Ability to sustain a high profit margin

The Group's continuous growth in profit during the Track Record Period was mainly attributable to the increase in the provision of Palladium Salt subcontracting services. For the three years ended 31 March 2002 and the nine months ended 31 December 2002, the gross profit margin for the business of Palladium Salt subcontracting amounted to approximately 85.8%, 87.0%, 86.7% and 89.6% respectively, and the gross profit generated from Palladium Salt subcontracting services accounted for approximately 80.5%, 87.2%, 82.2% and 81.8% for the total gross profits of the Group respectively. There is no assurance that the Group will be able to sustain its high profit margin as that has been achieved previously.

Potential product liability

If products are defective or below industry standards, aggrieved customers may take actions against the Group and the Group could become liable for any losses suffered by them. Any such claim in the future, regardless of its merits, could result in costly litigation and put a strain on the Group's administrative resources. In addition they could damage the Group's relationship with its customers and the Group's business and result in negative publicity.

Research and development projects may not be commercialised

One of the Company's business strategies is to establish the R & D capabilities of the Group and approximately 30% of the net proceeds from the Share Offer of the New Shares is intended to be used for such enhancement. However, in view of the rapid changes in market demands and the period of time required for launching new products to the market, there is no assurance that the Company's research results can be put into commercial production, or that such new products will be accepted by the market.

The Zhuhai Plant may not be able to meet the needs of customers when the subcontracting agreement with CCRI expires in May 2004

The gross profit generated from the business of Palladium Salt subcontracting accounted for a significant percentage of the Group's total gross profit during the Track Record Period. For the three years ended 31 March 2002 and the nine months ended 31 December 2002, 80.5%, 87.2%, 82.2% and 81.8%, of the Group's gross profit were generated from the business of Palladium Salt subcontracting respectively. Before the Zhuhai Plant commenced its operation in January 2003, the Group did not have production facilities in the PRC. In order to develop its subcontracting business, the Group entered into a subcontracting agreement with CCRI in May 1998 under which CCRI was appointed by the Group to provide Palladium Salt subcontracting services to the Group. During the Track Record Period, the Group has engaged CCRI in processing raw materials into Palladium Salt for the Group at a pre-determined fixed price. Since January 2003, the Zhuhai Plant commenced its operation and it is envisaged that these processing process will gradually be taken up by the Zhuhai Plant. The Directors are of the view that the annual production and processing capacity of the Zhuhai Plant in the financial

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year 2004 may not be able to reach its maximum of 6,000kg Palladium Salt. On 25 March 2003, the Group and CCRI further entered into a supplemental agreement to the subcontracting agreement to extend the term of the subcontracting agreement until May 2004. Pursuant to the supplemental agreement with CCRI, if the demand for Palladium Salt processing services exceeds the capacity of the Zhuhai Plant, the Group will engage CCRI to process some of the Palladium Salt for the subcontracting customers of the Group until 7 May 2004.

Nevertheless, if the production and processing capacity of the Zhuhai Plant cannot reach its maximum capacity after the expiry of the subcontracting arrangement with CCRI on 7 May 2004, it may have a negative impact on the revenue of the Group as the production facilities of the Group is expected not to be able to satisfy all of the orders for Palladium Salt processing services.

As the mode of operation for Palladium Salt subcontracting services has been gradually changing from subcontracting to direct processing in the Zhuhai Plant, the Directors cannot rule out the risk that existing customers may not be completely satisfied with the products and services provided by the Zhuhai Plant. If these customers are not satisfied with the products or services provided by the Zhuhai Plant, it may lead to the discontinuation of business relationships between the Company and these customers which will have a negative impact on the Group's financial performance.

The Zhuhai Plant has a limited operating history

The Zhuhai Plant commenced operations in January 2003. Prior thereto, the Group did not have production facilities in the PRC and CCRI was appointed by the Group to provide Palladium Salt subcontracting services to the Group. Therefore, the Group has limited experience in the production and processing of Palladium Salt, Silver Salt and Rhodium Sulphate in the Zhuhai Plant. Therefore, there can be no assurance that the Group will operate the Electroplating Chemicals subcontracting services successfully in the Zhuhai Plant.

The limited operating history of the Zhuhai Plant makes it difficult for an investor to evaluate the Group's business and prospects. Investors should consider the business and prospects of the Group in the light of the risks that the Group may face.

Fluctuations in the price of precious metals

The principal raw materials for the products of the Group include certain types of precious metals such as gold, silver, palladium and rhodium. The costs of raw materials account for a significant part of the Group's total production cost. For example, the selling prices of Gold Salt produced by the Group are highly sensitive to the price of gold, which may fluctuate due to changes in demand and supply conditions at the international precious metal markets. If there is any downward fluctuations in the price of gold during the period when the Group is holding stock, the Group may incur loss as a result of such fluctuations.

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Taxation

During the Track Record Period, the Group's operation, which was mainly carried out by Kenlap, was subject to Hong Kong profits tax. The effective tax rate of the Group for the three years ended 31 March 2002 and the nine months ended 31 December 2002 were approximately 1.8%, 1.3%, 0.4% and 1.6% respectively. The low effective tax rate of the Group as compared to the Hong Kong profits tax statutory tax rate of 16% was mainly because profits generated from the Palladium Salt subcontracting business has not been subject to Hong Kong profit tax.

Under the prevailing PRC tax laws and regulations, the income and profit generated from the subcontracting arrangements with the PRC subcontracting customers are subject to PRC value-added tax and corporate income tax. As Kenlap has no permanent establishment in the PRC, the subcontracting customers, in accordance with the PRC tax laws and regulations, are obliged to deduct such taxes at source and make payment to the PRC tax authority. Such obligation of the subcontracting customers has been specifically mentioned in their subcontracting agreements with Kenlap. As disclosed in section 2 of the Accountants' Report in this prospectus, it is the Group's accounting policy to recognise the subcontracting fee income, net of PRC taxes deducted at source, when services are rendered. As the revenue is recognised on a net basis, the relevant portion of the PRC corporate income taxes has not been included in the taxation charge for the year.

After the Zhuhai Plant commenced its operation in January 2003, the Zhuhai Plant will gradually replace CCRI and take up the processing operation of Palladium Salt for subcontracting customers of the Group. The revenue of the Zhuhai Plant is subject to the applicable enterprise income tax of the PRC. Pursuant to the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, Kenlap Zhuhai is exempted from income tax for its first two profitable years of operation and is entitled to a 50% relief on the income tax in the PRC for the following three years. The applicable value added tax for the sale of manufactured Electroplating Chemicals or processing fee earned by Kenlap Zhuhai is 17%, and such changes will affect the Group's profitability and operating results.

Should any of the above preferential tax treatments or privileges expire or cease to apply to the Group as a result of any change in the PRC tax policies, the Group's profitability may be materially affected.

RISKS RELATED TO THE INDUSTRY

Environmental liability exposure

Current PRC national and local environmental protection regulations impose a graduated schedule of fees for discharging waste materials, require the payment of fines for pollution and closure of any facility which causes serious environmental problems. Production projects under construction are required to have environmental protection facilities designed and put into operation simultaneously with the production facilities.

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In the production and processing process, the Zhuhai Plant discharges solid chemical wastes and smoke and produces a certain level of noise. As an on-going requirement, the Group is required to satisfy testings carried out from time to time by the relevant local environmental regulatory authorities for smoke emissions, noise level, solid waste disposal and waste water discharges. Non-compliance with environmental regulations may, depending on the seriousness of the circumstances, result in an order for rectification from the authorities, penalties or an order for stoppage of production. Furthermore, there is no assurance that the PRC national or local authorities will not impose additional environmental protection requirements which might disrupt the Group's operation or require the Group to incur additional expenditures in complying with such additional requirements.

ECONOMIC AND POLITICAL CONSIDERATIONS

Instability in political and economic conditions relating to war

Hong Kong has not been directly affected by war since World War II. Nevertheless, the responses to the recent terrorist attacks in the United States and the unrest in the Middle East may have political and economic impact on Hong Kong. There is no assurance that there will not be a war in any geographical region which will have direct or indirect impact on the existing political and economic conditions in Hong Kong. The Directors believe that if the political and economic conditions of Hong Kong are adversely affected by any war, the operations and profitability of the Group may in turn be adversely affected especially due to the likelihood that the demand of Electroplating Chemicals may be affected negatively in the event of war.

Discontinuation of, or amendment to, the peg of the HK Dollar to the US Dollar

The HK Dollar has been pegged to the US Dollar at the ratio of HK\$7.80 to US\$1.00 since 17 October 1983. In the event that this policy is changed or there is a devaluation of the HK Dollar, it could adversely affect the financial position of the Group. As at 31 December 2002, the Group had US Dollar denominated liabilities of approximately US\$2.0 million, representing approximately 10.5% of the total liabilities at the same date. A significant change in the exchange rate between the US Dollar and the HK Dollar may have an adverse effect on the liquidity and financial position of the Group.

RISKS RELATED TO THE PRC ECONOMY

Since part of the business of the Group is operated in the PRC, the profitability, financial position and prospects of the Group may be affected by the PRC's economic, political and regulatory regime. The Group's operations may therefore be affected by the following risk factors which are specific to the PRC.

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Political and economic considerations

The PRC economy is currently evolving from a planned economy into a market-oriented economy. Although the State has adopted an open door policy, changes in the policies of the PRC government regarding the domestic economy (for example, changes affecting foreign exchange rates, inflation, taxation and trade) may have a material effect on the overall economy. The current reforms are unprecedented, creating effects that are unpredictable, and are subject to further refinement and improvement. New political, economic and social developments and consideration may lead the PRC government to make adjustments to these reform measures. Such amendments and adjustments may not have a favourable effect on the Group's business. The Directors believe that any changes, variations or adjustments to the reform measures taken by the PRC government may have a material adverse effect on the business of the Group.

Changes in laws, regulations and policies

The PRC legal system is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases have little precedential value. In 1979, the State began to promulgate a comprehensive system of laws and has since then introduced many laws and regulations to provide general guidance on economic and business practices in the PRC and to regulate foreign investments. Progress has been made in the promulgation of the laws and regulations dealing with economic matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. The promulgation of new changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the Group. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement involve significant uncertainty. The Directors believe that the Group's operations and profitability may be materially and adversely affected if changes that occur are not favourable to the Group.

Currency conversion and exchange rate risks

The value of the Renminbi is subject to changes in the State's policies and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of Renminbi to US Dollars has generally remained stable, and Renminbi has appreciated slightly against the US Dollar. However, given the economic instability and currency fluctuations in Asia in recent years, the Directors cannot give any assurance that the value of Renminbi will continue to remain stable against the US Dollar or any other foreign currencies.

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Since 1996, the State has promulgated various Policies to raise the convertibility of RMB. According to the Policies, a foreign-invested enterprise (“FIE”) must open a “current account”, a “capital account” and a “foreign debt account” at a bank authorised to trade foreign exchange. Current account items include dividends and other forms of profit distribution to foreign investors in the FIE whereas capital account and foreign debt account items include the foreign currency capital of a FIE, the repayment of the principal amount of foreign currency loans and any payment pursuant to foreign currency guarantees. A FIE may convert Renminbi in the capital account into any foreign currency at any bank authorised for foreign exchange transactions with the prior approval of the SAFE.

Part of the income and expenditures of the Group are denominated in RMB. At present, the RMB cannot be freely converted into other currencies. According to the Policies, upon producing the board resolution on the authorisation of the distribution of profits or dividends, the tax payment receipt, the FIE foreign exchange registration certificate, capital verification report, auditors’ report and other documents required by the administrative authorities of foreign exchange, the Group may purchase the foreign exchange required for distribution from a designated authorised bank. The Group cannot guarantee that the Policies will not be withdrawn or amended.

Furthermore, the Directors cannot assure that the Renminbi will not be subject to devaluation or depreciation due to administrative or legislative interventions by the State or adverse market movements, or that shortages in the availability of foreign currency will not develop. In such a case, the value of the Group’s investments and the profitability of its operations may be adversely affected.

Changes in tax laws and regulations in the PRC

Various tax reform policies have been implemented in the PRC in recent years. Interpretation of certain tax policies is still awaiting guidance from the State. Moreover, there can be no assurance that the existing tax laws and regulations will not be revised or amended, or that new laws and regulations will not be introduced in the future.

OTHER RISKS

An active market for the Shares may not develop or be sustained

Prior to the Share Offer, there has been no public market for the Shares. An active public market for the Shares may not develop or be sustained after the Share Offer. If an active market for the Shares does not develop after the Share Offer, the market price and liquidity of the Shares may be adversely affected. The Offer Price was determined through negotiations among the Company, OGHL and Kingsway SW Securities (for itself and on behalf of the other Underwriters), and may not be representative of the price that will prevail in the open market.

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Risks associated with statistics contained in this prospectus

Statistical and other information relating to the demand of Electroplating Chemicals, the electroplating industry and the Group's competitors contained in this prospectus have been compiled from various unofficial sources generally believed to be reliable. Moreover, statistics derived from multiple sources may or may not be on a comparable basis. None of the Company, OGHHL nor the Underwriters have independently verified the accuracy of the information contained in such sources. The Company, OGHHL and the Underwriters make no representation as to the accuracy of such information, which may not be consistent with other information compiled within or outside Hong Kong and the PRC. Accordingly, the industry information and statistics contained in this prospectus may not be accurate and should not be unduly relied upon.