

McCAULEY Bros., Inc., Ridley's equine nutrition business unit, turned in a strong performance in fiscal 2003, increasing sales volumes and sales revenues. McCauley, in which Ridley acquired a 51% interest in April 2002, produces a line of premium quality equine feeds and nutritional supplements from a state-of-the-art plant in Versailles, Kentucky, in the heart of one of the largest concentrations of thoroughbred and standardbred horses in America.

ITS reputation for excellence in equine nutrition has been built over the past 65 years by focusing exclusively on the equine market, using only the finest ingredients available and by applying the most stringent quality control measures to all aspects of production. McCauley's feed formulations are fixed and are only reformulated to improve their nutritional qualities. To ensure the highest quality and consistency, formulas are not "least-costed," and because the company's Versailles facility manufactures only horse feed, safety is assured – there are no potentially harmful additives on-site.

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FISCAL 2003 RESULTS

IN fiscal 2003, McCauley's strong reputation and the high quality of its products produced an increase of 13% in sales volumes. Key to this growth was increased market share in Kentucky, larger export sales and expansion into new markets in the Mid-Atlantic States.

IMPROVED sales volume in Kentucky was achieved despite lush pastures produced by heavy rainfall in the spring, which typically reduces the amount of manufactured feed that farm managers must buy. Another key factor in the 2003 improvement has been McCauley's Rice Bran Oil, which continues to impact positively on the company, both in terms of growing sales and in the way it acts as a door-opener for McCauley's other products.

TOTAL sales revenues rose in 2003, primarily due to price increases introduced to offset a steep rise in oat prices. McCauley normally purchases the premium oats it uses in most of its equine diets from western Canada, but the drought in western Canada resulted in a scarcity of high-quality oats

and a doubling of prices for what was available. As a result, McCauley had to source oats from offshore in fiscal 2003, paying higher prices and incurring additional shipping costs.

MARGINS were slightly reduced as the rapidly increasing cost of oats outpaced McCauley's ability to re-price its products, particularly when faced with lower-priced competitors' products that are predominantly mids and/or corn based.

IN spite of lower margins, McCauley managed to increase its operating income as a result of higher sales volumes, better plant utilization, and a number of cost reductions, including savings realized on ingredient and packaging costs as a result of Ridley's purchasing power.



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conditions in the general economy and particularly in the equine industry, growing synergies with Ridley in terms of cooperative marketing and an expanded distribution network, and an expected reduction in Canadian oat prices all will allow McCauley to increase sales volumes and recover margins in fiscal 2004.

McCAULEY'S new plant in Chambersburg also will come on line in fiscal 2004, allowing the company to expand its market reach and begin to build significant market share in the important Mid-Atlantic region.

THE relationship between McCauley and Ridley is also beginning to develop synergies in terms of wider exposure for McCauley products through Ridley's dealer network, an expanded advertising program and an increased sales presence brought about by sharing McCauley's equine expertise with the Ridley sales team.

EXTENDING McCAULEY'S REACH

McCAULEY'S considerable market share in the thoroughbred and standardbred industries of Kentucky makes it difficult to achieve further significant growth in this market. While efforts will continue to build on their market position in the prestigious trading area in the immediate vicinity of the Versailles plant, McCauley is also driving overall growth by expanding its presence in the vast equine markets of the Mid-Atlantic region of the U.S. There are extensive horse numbers in the suburbs surrounding major cities in the Mid-Atlantic region that encompasses Pennsylvania, Maryland and Delaware. The area represents the largest market for premium equine feeds in North America.

McCAULEY has been serving this region from its Versailles plant, but high freight costs make it difficult to compete effectively. To address this, McCauley and Ridley will cooperate on construction of a new equine feed plant in Chambersburg, Pennsylvania, to be completed in late 2003. The Chambersburg plant is the first step in a strategy to expand sales of McCauley feeds and nutritional products to areas of the U.S. where there are concentrations of breeding farms, racing stables, English and western performance stables, upper-end riding stables and pleasure horses.

OUTLOOK FOR 2004

WE expect the strong operating performance that McCauley delivered in fiscal 2003 will continue in the coming year. Improving

1. Dr. Dennis B. Longmire, C.E.O., McCauley Bros., Inc.

2. Customers have access to a wide array of McCauley services and support, including seminars, personal consultations, and custom feed formulations to address special nutritional requirements.

3. McCauley's Rice Bran Oil is a feed supplement with numerous advantages over alternative fat products. McCauley is the exclusive source for unrefined rice bran oil for the equine industry.

4. Horse owners expect that a feed program developed by McCauley will be high in nutritional quality, and will contribute to their horse's healthfulness, appearance and overall contentment.