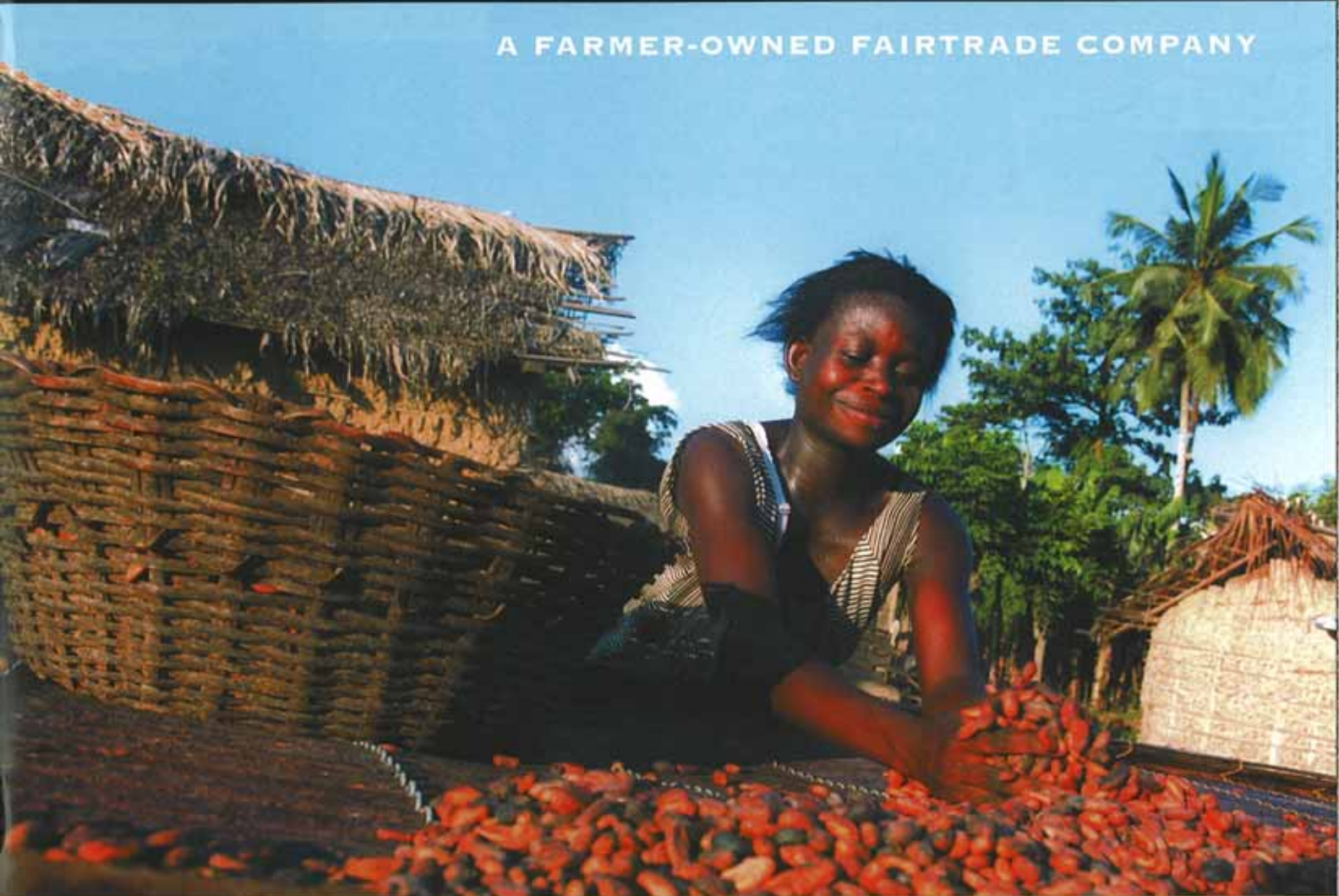


Divine

CHOCOLATE

A FARMER-OWNED FAIRTRADE COMPANY



The mission of Divine Chocolate Limited (formerly The Day Chocolate Company) is to improve the livelihood of smallholder cocoa producers in West Africa by establishing their own dynamic brand proposition in the UK chocolate market, thus putting them higher up the value chain.

Annual Report 2005/6

Chairman's Report



Sandy Balfour,
Chairman

I am delighted to present the annual report and accounts for the year to 30 September 2006.

This was a year of change and growth for Divine Chocolate. The company continued to perform strongly; sales grew by 18% and we made pre-tax profits of £611,071, which allowed the Directors to recommend our first ever dividend to shareholders. In the normal run of things this is a small moment in a company's history. For Divine Chocolate it has added importance because it completes the first stage of the long journey we began more than a decade ago. Divine Chocolate prides itself on being a farmer-owned company. This matters not only in terms of control and participation in decision making, but also because it means that cocoa-growers participate in profits as owners and not only as suppliers.

This was - and is - not easy to achieve. The logic of capital is that those with capital earn profits and acquire further capital. When we set up Divine Chocolate we were able to extend ownership of one-third of the company to Kuapa Kokoo Farmer's Union. This was made possible in part through a highly innovative piece of government intervention. The Department for International Development, then under the leadership of Clare Short MP, provided a loan guarantee. This meant that the bulk of our start-up funds could come in the form of borrowing rather than investment. The other investors - Twin Trading Ltd. and Body Shop International Plc. - took two-thirds of the shares. The rest went to Kuapa Kokoo.

Over the years, and with our growing success, the question of ownership became ever more important. Kuapa Kokoo's farmers receive income from Divine Chocolate through the price of cocoa, through the Fairtrade social premium, through money we spend on securing the supply chain and through dividends. It is a simple equation: the more they own, the more dividends they get. But our experience had also been that this is a very powerful marketing tool. We believe Kuapa Kokoo's participation in our selling campaigns to be a crucial factor in our success.

During the year we decided to launch a US subsidiary and we were seeking further investment to make this possible. For some years we had a small presence in the US market through the agency of SERRV. The question was, how could we attract investment without diluting Kuapa Kokoo's ownership.

The solution was a mixture of politics and good business sense. We argued that farmer-ownership was a key ingredient of our success. I was delighted when two new investors, Oikocredit of Holland and Lutheran World Relief of Washington DC, and the existing shareholders, Twin and Body Shop, accepted our argument that their investment should not dilute Kuapa's Kokoo's share. We made the deal in such a way that Kuapa Kokoo owned one third of the UK and the US companies. The principle of non-dilution of farmer-ownership is established and worth defending. Divine Chocolate Inc. has offices in Washington DC and a staff of four people.

Farmer ownership received another significant boost when Body Shop International was acquired by L'Oreal. Through the good offices of Gordon and Anita Roddick, Body Shop made the decision to transfer its shares in Divine Chocolate to Kuapa Kokoo. This deal went through in September, as a result of which Kuapa Kokoo is the biggest shareholder in Divine Chocolate, with a holding of 45%. I am delighted that Gordon Roddick has agreed to remain on our Board as an independent director.

During the year I had the privilege to attend Kuapa Kokoo's annual general meeting, the primary business of which was to elect a new executive committee. Fairtrade places a considerable onus on producer organisations. It was a pleasure to witness a robust and vibrant democratic process.

I want to pay tribute to our Managing Director, Sophi Tranchell and her team who have continued to surprise and delight me and my fellow directors with their work. We made a decision early on to keep as many skills as possible 'in-house' and not to outsource our various functions. I believe this policy is paying rich dividends.

I want also to pay tribute to the Board of Directors. During the year we welcomed Oikocredit as investors in Divine Chocolate and Stefan Harpe joined the board on their behalf. We were sorry to lose Peter Lockyer who left to take up new challenges.

Thank you for your continuing support.

Sandy Balfour
April 2007



2006 **Kuapa Kokoo** AGM and Elections

Managing Director **Sophi Tranchell** reports on witnessing democracy in action

When Kuapa Kokoo set up in 1993 it would have been extraordinary to imagine that in 2007 it would be a co-operative of 45,000 members in 1,200 villages, selling 40,000 tonnes of cocoa, turning over more than £20million. This represents 8% of Ghana's output and nearly 1% of the world's.

The foundation of this is a democratic farmers' Union that members join at a village level. The vibrant democracy, supported by the committed Research and Development team, has created an environment where the business of cocoa growing and trading cocoa can flourish.

This year was very important as it was an election year. All the posts

were up for election, so from a village level through to the National Executive, positions have been contested.

Hustings were organised in all areas, and the candidates travelled in a mini bus together to these meetings to present themselves to the membership. Two delegates from every village, a man and a woman, travelled to the AGM in Kumasi to vote for the National Executive Committee. The election was supervised by the Electoral Commission of Ghana and the Ministry of Co-operatives. For a full day in the hot equatorial sun the delegates queued to vote on ballot papers which featured a photo of each candidate. There were 15 separate ballot papers. The result was a new executive which, for the

first time, had more women (12) than men (8). A new President, Mr Buah was also elected who was flour bombed as a traditional part of the celebrations! The new executive was installed by Hon Akosua Frema Osie-Opare, Ghana's Deputy Minister for Manpower.

The new Executive has a challenge ahead but hopefully the election process will give them the confidence and authority they need to take on the job they have been mandated to do - serve the membership of Kuapa Kokoo and lead them over the next few years. Divine has a strong and continuing interest in the wellbeing of Kuapa Kokoo, and we were pleased to contribute towards the costs of the elections.

Company News

Change of Company name

On January 1st 2007 the company changed its name from The Day Chocolate Company, to Divine Chocolate Limited. The original name was given in memory of Richard Day, a key member of the team at Twin Trading who helped Kuapa Kokoo build its organisation, and who sadly died before seeing Kuapa Kokoo launch its own chocolate company. The Board made the decision to change the name to more obviously align the company with its flagship brand. Although this change fell outside the period covered by this Annual Report we will be referring to the company as Divine Chocolate Limited, throughout.



Divesting and investing - good news for **Divine** and **Kuapa Kokoo**

In July 2006 Body Shop International, on the recommendation of Anita and Gordon Roddick, **THE BODY SHOP.** made the excellent decision to hand over their shares in Divine Chocolate Ltd to Kuapa Kokoo, the farmers' cooperative which was an original founder of the Company. Kuapa Kokoo now holds 45% of shares in Divine Chocolate Ltd., with 43% still being held by founder NGO Twin Trading, and 12% by new investor, the Dutch international development finance institution Oikocredit. The boost in Kuapa Kokoo's shares was met with enormous gratitude by the farmers, and comes at a point when Divine Chocolate Ltd. is about to announce its first dividend.

Producer **support** and **development**

Divine continues to regard the integrity of its supply chain as vital to its commercial interests. During the year we allocated £170,000 to our Producer Support and Development programme. Our focus this year was the integrity and accountability of Kuapa Kokoo and the participation of its members in how the organisation is run. We supported a range of activities including constitutional development, membership data collection, membership training and we contributed to costs of holding this year's elections to Kuapa Kokoo's national executive. We have supported continuing farmer education programmes.



Divine in USA

Oikocredit has also come on board with our exciting new venture in the USA, which, with additional investment by Divine Chocolate Ltd. and Lutheran World Relief aims to introduce Divine into the US retail market in 2007.

Divine cheers on the **Ghana** football team in *The Guardian*



Divine Nationwide

Divine focuses each year on the optimum opportunities to engage with chocolate lovers, and the very diverse audiences that are interested and motivated by the Fairtrade proposition. We reach out to audiences both nationally through media coverage, advertising, and promotions, and regionally, with local events and local competitions. The aim is to ensure that every year we evolve and refresh our presentations and style, capture new hearts and minds, and that we continue to take our vision of a farmer-owned, Fairtrade chocolate company to as wide an audience as possible.

2006 **Fairtrade** Fortnight - a tale of two **Comforts**

Fairtrade Fortnight, the nationwide awareness campaign organised annually by the Fairtrade Foundation, gives us the opportunity to reach new audiences with the Divine story, to support Fairtrade initiatives all over the country, and to convince businesses and governments to put Fairtrade firmly on their agenda. The farmers from Kuapa Kokoo, who come as ambassadors for the cooperative, and tell of their own personal experiences and the impact Fairtrade has made on their lives, are what makes the Divine story so special.

This year it was Comfort Kwaasibea and Comfort Asare-Kwabi who joined us from Ghana, and braved the March weather up in Scotland. We choose a different area to tour each year, so we can really focus our efforts and make a real impact. Scotland is firmly behind Fairtrade - and we wanted to support some of the great events they had organised to celebrate the Fortnight. Our tour took in Edinburgh, Glasgow, Aberdeen, Stirling, Dundee, Aberfeldy and Ullapool, and included meetings with mayors and retailers, presentations at schools and churches, and guest appearances



Comfort Kwaasibea and **Comfort Asare-Kwabi** with the Chancellor of the Exchequer **Gordon Brown**.

at fairs and Fairtrade dinners. Highlights included meeting the Lord Provost Lesley Hinds in Edinburgh and members of the Scottish National Parliament. There was a really memorable performance by the Comforts at the Glasgow Fairtrade Experience - where they unexpectedly broke into song and were accompanied by an African drumming group who improvised with them. During their stay in the UK Comfort Kwaasibea appeared on GMTV, and was interviewed on BBC radio by Colin Blaine, and for My Weekly magazine - some of the highspots of some excellent PR coverage.