

C&J CLARK LIMITED

ANNUAL REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST JANUARY 2006

COMPANY NUMBER: **3314066**

Clarks



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RESULTS AT A GLANCE

24p

Full year dividend

Basic earnings per share
before exceptional items (pence) (restated)

2002	51.2
2003	72.1
2004	77.8
2005	98.0
2006	84.4

Group sales from continuing operations (£m)

2002	874.8
2003	880.6
2004	892.4
2005	906.8
2006	920.6

Turnover from the Elefanten group has been excluded from all years

SUMMARY OF TRADING RESULTS

Group turnover by geographical
area of origin (%)

UK	66.5
America	27.9
Europe	3.5
ROW	2.1

Group operating profit before exceptional and
corporate items (%)

UK	71.8
America	19.8
Europe	7.0
ROW	1.4

RESULTS AT A GLANCE FOR THE YEAR ENDED 31ST JANUARY 2006

	2006	2005 (restated)
Turnover	£921.4m	£954.8m
Operating profit*	£82.1m	£92.4m
Basic earnings per Ordinary Share*	84.4p	98.0p
Dividend per Ordinary Share declared in respect of the financial year – interim	7.5p	7.5p
– final	16.5p	16.5p
Net borrowings	£25.6m	£18.1m
Return on capital employed*	24.3%	31.9%

*before exceptional items

Pre-tax profits (£m) after exceptional items (restated)		Return on capital employed before exceptional items (%) (restated)	
2002	41.5	2002	14.3
2003	52.9	2003	24.0
2004	58.0	2004	30.5
2005	80.4	2005	31.9
2006	71.9	2006	24.3

SUMMARY OF TRADING RESULTS FOR THE YEAR ENDED 31ST JANUARY 2006

	Turnover 2006 £m	Turnover 2005 £m	Operating profit before exceptional items 2006 £m	Operating profit before exceptional items 2005 (restated) £m	Capital employed 2006 £m	Capital employed 2005 (restated) £m
UK	612.4	634.0	67.8	75.0	235.8	211.6
Overseas:						
America	256.9	222.2	18.1	18.0	99.3	82.5
Europe	32.2	33.2	1.0	2.0	3.0	2.1
Rest of the world	19.1	17.4	0.5	1.2	3.0	1.1
	308.2	272.8	19.6	21.2	105.3	85.7
Corporate items	-	-	(5.0)	(7.6)	(5.1)	(20.3)
Continuing Operations	920.6	906.8	82.4	88.6	336.0	277.0
Discontinued Operations*	0.8	48.0	(0.3)	3.8	1.8	12.7
Total Operations	921.4	954.8	82.1	92.4	337.8	289.7

*Discontinued operations relate entirely to the Elefanten group of companies which entered into voluntary liquidation on 30th July 2004.

Corporate items comprise long-term incentive scheme releases of £0.3m (2005 – £5.4m cost), holding company activity and pension charges other than regular costs arising from employment. Turnover and operating profits are disclosed on a geographical origin basis which does not directly correlate to trading divisions as referred to with the Review of Activities on pages 6 to 19.

REVIEW OF ACTIVITIES

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CHAIRMAN'S STATEMENT

As this is my last report to you as Chairman, I thought you would indulge me if I deviate from the conventional Chairman's statement and give you something a bit different. The activities and results from last year are more than adequately covered in Peter's and Robin's reports, so I will not be cheating you by not summarising them for you here.

It is a disappointment to me that in my last year as Chairman the Company has suffered its first reverse for over a decade, and a reverse not wholly brought about by external forces, as Peter makes clear. That the decline has been most severe in our core market, the UK, is of serious concern and the fact that the decline is not as bad as it might have been is due to our reduced dependence on the UK and our increased penetration of global markets, particularly the US.

If we take the UK as largely representative of what will happen to us in the medium-term, then as we mature in markets around the world and learn from our successes and failures, the experience of 2005 will not have been in vain. But before becoming too depressed, let us remember how far we have come, how we have grown and how profitable our business has become (see chart opposite). The platform we have, and are building for the future, delivers even in a bad year an operating profit from continuing activities of £82.4 million, 9.0% of sales, a return on capital employed of 24.3% and a free cash flow of over £70 million! The Board has therefore decided to hold the final dividend at 16.5 pence per share making the full year dividend 24.0 pence per share, in line with last year. Nevertheless we would be foolish to pass off 2005 just as a bad year and ignore the threats.

The threats to our brand and business became more acute and pervasive last year and bore down on us most heavily in the UK. Deflation and discounting continued their corrosive effects, we succeeded in selling more pairs but at a lower average price per pair. The greater gross margins we have been able to earn in recent years as a result of lower buying prices have become the prey of discounters and value retailers who are not respecters of brands or brand standards. These forces cause a 'masstige' brand like ours difficult and confusing problems, since the mass requires us to compete on price and the (pres)tige on brand values or value added. The advent of anti-dumping duties (covered in Peter's report) imposed on buying prices from China and Vietnam will make the product more expensive for the first time in a long time, but whether it will prompt a pause in discounting or value retailing is doubtful. How we deal with this conundrum will be one of the major keys to our future.

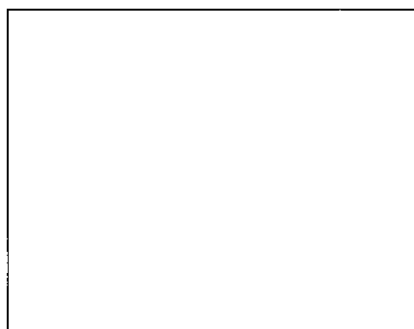
The continued growth of sports remains a challenge for us, as it has been for the past twenty years or so, since it increases its share in a broadly static footwear market. The sports market itself is showing signs of maturity in that the product is becoming a commodity, competition is intense and driving mergers to gain economies of scale, and overcapacity in retail is leading to price wars and diminishing returns. Unfortunately we are not immune either to the creative and innovative end of the sports market, nor the 'volume at a price' retail end, both of which leach away our pairage sales.

Little appreciated is the growth of non-specialist sellers of footwear where the extra sale is a welcome addition to another purchase for the retailer at attractive margins. As shoes become cheaper and more disposable so it will be more difficult to combat this development. Cheap fashion has always been with us, but the relative price of footwear to other goods today makes the task all the more difficult for the brand. The fact that Clarks is predominantly a specialist retailer in the UK largely prevents its entry into this expanding market.

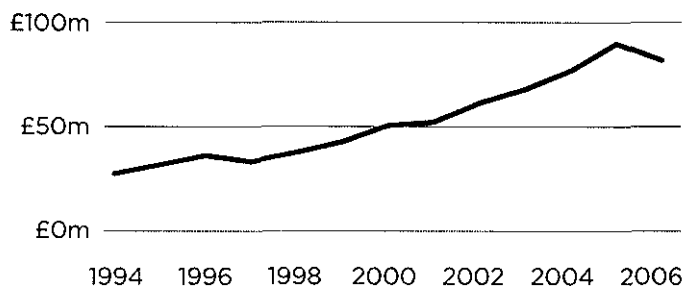
There are creative solutions to most of these problems and they are being investigated and worked on by your management. These include:

- (i) Innovation in the construction of footwear, including the use of new materials and technologies from other industries.
- (ii) (a) The geographical expansion of our markets and the progressive regionalisation of our management organisation.
- (b) The expansion of owned and franchised flagship shops around the world to demonstrate the width of the brand offering and standards of presentation.
- (iii) The development of sub brands to satisfy market segments where the mainstream Clarks brand does not enjoy credibility.
- (iv) The development and trialling of new retail formulas in the UK to address the growth of value retailing.
- (v) Greater investment in product and brand differentiation to sustain the value added by the brand.

**CHAIRMAN'S
STATEMENT**
ROGER PEDDER



PRE-EXCEPTIONAL OPERATING PROFITS FROM CONTINUING ACTIVITIES



Note: The profit figures used in this graph are as they were reported in that year and have not been restated for changes in accounting standards.

The necessary infrastructure to deliver the existing business and execute the new initiatives has been put in place over the last 2-3 years and the final pulling together via the Fusion systems project will go live roughly coincidental with the publishing of this report. Patience will be needed by all while the new system beds down. When it is all in place we will be able to act, and react, on a global scale in a seamless, efficient and timely manner.

My era was much taken up with the restructuring of the business, dismantling some of the success of the past, most particularly in manufacturing. We inherited a phenomenally powerful brand, a robust children's fitting system, the major part of a dominant specialist retail chain in the UK and a ragbag of overseas operations. I hope we have used that inheritance well to form the business we have today. It is essential management tackles, and is left and encouraged to tackle, the challenges of today and tomorrow and that these are not avoided and/or fought over as they were at the end of the last era. Single issue remedies are not enough and individual causes are just that.

The corporate governance we have developed over the last fifteen years has a vital role to play; it has provided stability and direction through the good times and its challenge is to do so through more difficult times. It is important it maintains its role as a discussion forum and source of advice for the Chairman and Board but leaving management to manage, whilst holding it to account. Equally, the Shareholder Council needs to look at itself in the light of present and future challenges and update itself accordingly.

To continue as a successful private family company requires the inclusion and involvement of the younger and future generation of shareholders and the Council is the main vehicle by which the shareholders have a tangible relationship with their company. Should the Council impose a retirement age for Councillors on itself?

The shape of the Board has remained the same during my time, with an equal number of executive and non-executive directors, and myself as non-executive Chairman, although an executive seat has been vacant in recent times. With the appointment of a further non-executive director, the balance will be disturbed and executives under-represented. Our structure of a Family Shareholder Council and a unitary Board I believe requires a strong and healthy representation of executive directors. This matter should be given due consideration post my retirement.

At this juncture, I would like to welcome Nigel Hall as a non-executive director in succession to Andrew Higginson as Chairman of the Audit and Share Valuation Committees. Nigel has enjoyed a successful career as a Finance Director in Burton Group and Arcadia plc and is a non-executive director of Unite Group plc, Pinewood Shepperton plc and Countrywide Farmers plc. He is also non-executive Chairman of BRC Trading Ltd.

My retirement coincides with another watershed in the Company's long history. A new chapter is opening, which has more to do with the taking of our opportunities than dealing with the problems of our past. We have the strength and resources available to do the job, it is management's challenge to realise them. I have little doubt, given the dedication of all to the Company, that Clarks will endure and prosper in the future as it has done in the past.

Goodbye

Roger Pedder
Chairman
22nd March 2006

CHIEF EXECUTIVE'S REPORT

Overview

The external factors influencing the Company's fortunes have been, on the whole, distinctly harsher than we have encountered for some years. In our heartland UK market in particular, the combined impact of a fragile housing market, rising personal taxation and energy costs and a generally uncertain economic outlook have contributed to a climate of lower consumer confidence. Consumer spending habits in footwear and apparel have increasingly been marked by the search for value. In turn, retailers have been forced to respond with ever more aggressive price promotions simply to remain competitive but with no increase in market share to show for it. It is not altogether surprising that we have found the going tough in such a climate, although we did not – as described in the following sections – rise to some of the challenges it presented as well as we might have. In North America, our next most important market, the economic landscape proved relatively benign for the most part, but we did observe some softening of consumer demand in the final quarter in our own stores, mirrored by a more cautious stance on the part of our trading partners in making stock commitments. We will watch carefully to assess whether, as anticipated, growth picks up again in the early months of 2006 or indeed if a more general US slow-down is beginning to emerge which might impinge on our business performance in the coming year.

Group sales from continuing operations, now excluding the results of the Elefanten business which effectively ceased trading in Autumn 2004, advanced by 1.5% overall to £920.6m. Substantially all of this growth was secured in North America, where our Dollar turnover improved by a truly impressive 16% on the strength of achieving volume sales 2.1 million pairs in excess of 2004/5 levels. In the UK, our sales fell by 3.8% in an environment marked by price deflation, although we did manage to sell 1% more pairs than in the previous year. Our sales performance in international markets outside North America also failed to sustain the exciting momentum we created last year, resulting in a 1.8% decline on 2004/5's outcome for the continuing business. Again, the international scene is illuminated by an underlying theme of increased unit sales (represented

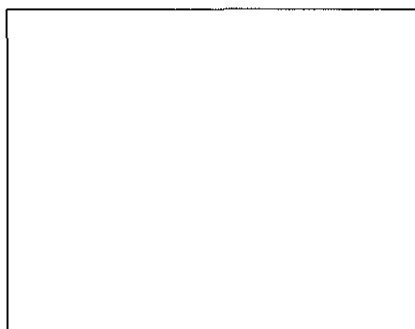
in more than a third of a million extra pairs of shoes) coupled with a trend towards lower average prices, reinforced in this instance by a product mix weighted in favour of more 'direct' shipments from source factories into the emerging markets of South East Asia.

For the first time since 1997, operating profits from continuing operations after exceptional charges actually fell this year to £79.4m, 6.6% below the £85.0m reported in 2004/5. Profit before tax was reduced by 10.6% to £71.9m, as the net financing expense associated with our sizeable pension deficit together with higher borrowing costs placed, as expected, additional pressure on earnings from operations. On a more positive note it is worth highlighting that the impact of increased financing costs is largely offset, at the level of profit before tax, by considerably lower exceptional spending this year, the only significant items being the one-off costs of bringing our new UK distribution centre facility fully into operation and the residual costs of cleaning up the few remaining assets and liabilities of the Elefanten companies. The resultant basic earnings per share of 79.0 pence compares with 86.5 pence in the previous year.

This downturn in operating earnings is clearly disappointing. It could of course have been more severe, and we have been helped in this regard by the spread of our geographical footprint and the relative diversity of our distribution channels. The composition of our earnings this year is, however, instructive: profits from footwear trading, which touched a tremendous new record of £100.3m in 2004/5, fell back quite sharply to £85.7m at constant exchange rates, with the UK division alone accounting for £10.3m of this shortfall. Conversely non-footwear items, comprising mainly exchange translation differences, central pension costs and executive incentive charges, amounted to a net cost of £3.3m in contrast to a £11.7m cost last year. In the light of this, I would not want shareholders to under-estimate the considerable challenges my management team face in addressing our market performance and the competitive threats during the course of 2006 and beyond. Our footwear business has been badly affected by the downturn, and in my view it will take time – and patience – to fully recover.

Whilst the year just ended has undoubtedly been coloured by a difficult trading environment in the UK and by the distracting effects of our infrastructure projects, I remain confident that there are many opportunities

**CHIEF EXECUTIVE'S
REPORT**
PETER BOLLIGER



to progressively enhance business performance in the future by improving our operational execution across the key areas of product management, supply chain processes and cost control. At the same time we remain committed as a team to pursuing the major elements of the business strategy described in this report in previous years: to develop the Clarks brand as a global footwear brand, supported by core product ranges across our UK and international distribution and simpler, more common business processes, all underpinned by an appropriate modern technology platform and logistics infrastructure.

For all the challenges of the trading environment, the Group has continued to enjoy a strong balance sheet position and unimpaired cash flow generation throughout the year. Capital employed in the business has risen by £48.1m, with fixed assets representing some two-thirds of the increase. This is partly the planned result of our increased capital investment in information technology systems and distribution facilities, but also reflects the addition of 29 new retail stores in North America. The year has seen a modest rise in working capital levels, primarily as a consequence of the same programme of store expansion, but on the whole the Group continues to benefit from tight management of the disciplines surrounding stock planning and merchandising. The post-exceptional return on capital employed worsened from 29.3% to 23.2%, in line with the reduced profit performance.

Shareholders will also note the inclusion for the first time in our balance sheet of the current pension liability, amounting to £96.3m, in accordance with Financial Reporting Standard 17. Whilst the pension deficit has the potential to remain a significant long-term risk factor, I am satisfied that the issues are being managed robustly and that the Group and the Trustees have jointly set in hand effective actions to deal with the deficit over the medium-term.

Whilst cash flow from operations did not match last year's level, as anticipated the burden of infrastructure spending was also significantly reduced as the Fusion programme reached its later phases. Net capital expenditure of £37.5m was therefore well below the all-time high of £59.8m incurred last year, but still approximately twice the charge for depreciation.

The net cash flow was roughly neutral and left year end borrowings at £25.6m, producing an implied gearing rate of 12.7%. It remains one of the great strengths of the Group that it is capable of funding significant non-recurring events such as capital returns and large investment projects without the need for recourse to increased gearing.

In the following sections, I have sought to highlight some of the principal issues I consider most important to shareholders' understanding of the Group's performance over the past year. In addition, I have sought to reaffirm and expand upon my observations in previous reports concerning the future strategy of the Group and its prospects.

UK Operations

Most commentators agree that retail trading conditions in the UK have proved the most challenging for a decade. Aggressive promotional activity across the high street has prevailed at key trading periods. The British Retail Consortium statistics suggest that the footwear sector has perhaps been affected more severely than most by the general downturn, with like-for-like sales declining by around 5% on average for adults shoes and by 2% in children's. Our brand shares again came under sustained pressure from the value sector, including the supermarkets, as well as from clothing retailers and the sports brands. Against this backdrop, our UK division has inevitably struggled to achieve any real sales growth and its profitability has declined.

Our market position in the UK has long combined together positive features such as our sheer dominant size, the brand loyalty of our customers, our economic reach and the quality of our retail estate, with inherent weaknesses such as our vulnerability to competitive attack and the nature of our labour-intensive retail service model with its high fixed cost base. Despite this we have achieved remarkable success in recent years by capturing the enhanced margins made accessible by outsourcing domestic production, especially to the Far East, and by reinvesting effectively in brand marketing, the appearance of our stores and in product improvement. The potential to make further improvements in product margins has, however, naturally diminished as the change to our sourcing model has matured. At the same time, the strong price deflation pressures we encountered in the UK market this year have reduced average prices and restricted achieved margins across each of the genders.

Whilst the control of discretionary costs has been strong, the upward pressure on areas such as retail occupancy expenses and remuneration costs in stores has left our overall UK cost base rising at a rate in excess of cash contribution. The resulting UK divisional profit of £51.6m represents a creditable 9.4% return on sales, but fell 16.7% short of the exceptionally high benchmark profit set last year of £61.9m.

Children's performed solidly in the midst of a generally turbulent market. Like-for-like sales performance was just about level with the prior year although pairs sold in our own stores improved by some 7%. Our core School business maintained its position throughout the year whilst our efforts to access new opportunities with 'Out of School' categories such as seasonals and our Cica trainer package were thwarted by weather, consumer pessimism and, in places, incorrect product and price positioning. High Sale volumes in retail cleansed any stock problems but did little to support margins, whilst wholesale orders actually fell in response to hostile high street conditions.

Our Women's business experienced an extremely tough year, with errors in product mix, styling and consumer focus compounding the challenges created by an intensely competitive value-driven footwear market. The Spring/Summer season contained a disproportionately large smart range which resulted in style duplications and forced in-season promotions, whilst basic comfort casual product was under represented throughout the year and caused some loss of brand share in a core part of our offering. Our boot ranges performed reasonably well through the Autumn but did not meet planned levels. Comparative sales performance ended the year well down on last year, and with the high mix of Sale and promotional trading producing average prices at retail £1.50 per pair below 2004/5, the divisional achieved margin fell back by some 6% overall.

Faced with the same competitive pressures as described above in connection with Women's, the Men's team had greater success in holding the proportion of Sale and promotional categories in line with the previous year. Price deflation was still a dominant factor, with average price at retail falling by £1 per pair as our improved value products sold well but lower growth was achieved in

more premium product categories. Like-for-like sales ended the year marginally in negative territory, whilst net achieved margin declined by some 3% on a year ago.

In our main Clarks retail chain, the disappointing sales performance caused us to intensify our focus on improving in-store operational standards and tightly managing our costs. Our store employment costs came under pressure due to increases in national minimum wage, national insurance and pensions, whilst establishment expenses were driven up by higher rental settlements, rates and energy-related services. We opened thirteen new stores during the year, many of them in out-of-town retail parks where we have been seeking to increase our representation. At the same time we continued to roll out the new global shop fit design launched last year to a further eighteen stores, including many of our major city centre locations. The response of consumers to our new store appearance has been largely positive and the financial performance of refitted stores remains encouraging for the most part, despite the difficult trading climate.

Our UK and Eire wholesale division was afflicted by the general malaise, with a lack of replenishment demand and cautious retailers keeping a tight rein on inventory levels. Our multiple account business was affected by the loss of a substantial sales volume with Littlewoods and an increased commitment to own-branded merchandise on the part of other major accounts. The independent sector performed fairly robustly as we continued to invest successfully in a partnership strategy geared to offering support by way of brand presentation, visual merchandising and selective investment in the global shop fit concept.

Our Factory Shopping operation posted continued pleasing growth, with underlying sales ahead by 1% and profits advancing strongly. A judicious combination of strong price promotions which drove sales across all genders, improved sourcing which held up average margins and effective control of the overhead base enabled us to sustain the momentum built up over several years in this business. In stark contrast, we continued to struggle with our objective of restoring Ravel to an acceptable level of return. In an already intensely competitive segment of the fashion footwear market characterised more than ever this year by the

search for value, we found a successful product and pricing formula elusive and again incurred a small trading loss on the back of a 3% fall in like-for-like sales. Late in the year we installed a new General Manager, Roy Carter, with a proven track record of achievement in our retail and Factory Shopping business. Roy has initiated a number of key changes to both operations and personnel, and has formulated a credible turnaround plan based on driving sales and margins harder, whilst matching overhead costs appropriately to the size of the Ravel operation. We anticipate that it will take some three years for the plan to be fully realised.

North America

In a generally tough year for the Group, the Clarks Companies North America (CCNA) again demonstrated a capacity to generate consistent and reliable growth. Of the many important features which shaped our fortunes during the year, most prominent were the strong return to form of the Clarks women's wholesale business and the aggressive expansion of owned store distribution. We again had occasion to be grateful for the resilience lent to our business model by its variety of brands and distribution channels. Hence for example the strong progress of our Privo sports casual offering, especially in women's, helped to offset a sharp decline in the performance of our Bostonian men's dress shoe category. Whilst the year threw up its share of challenges, both familiar and unexpected, the financial out-turn continued to trend in the right direction and some impressive new standards were set. Sales advanced by 16.3% to \$464.2m whilst operating earnings took a further appreciable step forward, this time by 6.2% to \$46.1m.

I pointed last year to the critical challenge of regaining lost market share in the core women's department store business, where we had seen serious erosion of both volumes and margins during 2004/5. I am delighted to report that the initiatives set in hand this year to improve our planning processes and refresh the product ranges have yielded immediate results, most notably through the introduction of the more premium Clarks Artisan category. We have seen a resurgence of Clarks women's business across many of the key accounts. Total third party shipments in women's grew by 16% to 6.7m pairs, whilst men's unit sales also strengthened by 19% from

a more modest base. This renewed success has re-established the Clarks wholesale category as the primary engine of growth for the business as a whole, boosting trading profits by some \$10m more than last year.

Without aspiring to transform our organisation by establishing a major retail presence, we perceive that there are significant opportunities in North America for us to increase our brand share and reinforce our market position by investing selectively in high grade retail locations. In line with that strategy and for a second successive year we opened 29 new stores, chiefly Clarks full-price stores and outlets, bringing the store count to 175 in total. The combined impact of new space coming on stream and capacity added in the previous year provided a powerful stimulus to growth on top of a 6.5% comparative sales uplift, the consequent aggregate net sales of \$163.9m being 19.6% higher than a year ago.

Retail expansion of course brought its problems and potential risks. We have found it necessary to strengthen the supporting infrastructure of the business in areas such as merchandising and planning, real estate services and financial analysis, with resultant additional cost, whilst store-level fixed overheads also rose by nearly a quarter. Managing channel conflicts became a priority, which we approached by maintaining a disciplined location selection model whilst striving to preserve the integrity of our wholesale business in the eyes of our retail customers. Although retail operations were on the whole well managed during a year of substantial change, profits were dampened by lower average prices due to the increased mix of women's product and the high level of clearance and promotional markdowns needed to move excess inventory, especially in Bostonian.

Our other brands experienced mixed fortunes. Sales and profits from our Bostonian business have plummeted, primarily due to not having the right product although a market trend toward casuals has also been a contributory factor. This has left us to clear large excess inventories through aggressive price strategies and promotions. Although total unit sales held up relatively well, average price fell by \$3 per pair and gross margins declined by more than four percentage points, leaving divisional profits down by two-thirds on last year. In contrast, the performance of our recently established Privo sub-brand

has been encouraging as the casual/athletic segment of the market has continued to strengthen. Indigo, a collection of contemporary women's fashion product, has not matched our expectations despite a strong showing in owned retail stores and with certain independent retailers. We remain committed to developing both Prlvo and Indigo as an offering that provides an opportunity to garner incremental brand share in important growing categories.

As our investment in retail expansion gathers pace, so capital invested in the business in the form of store fixtures and inventory naturally increases. The development of Prlvo and Indigo and the under performance of Bostonian have had similar effects of raising the underlying investment in working capital, as has the need to support the strong trading growth of the Clarks wholesale category. Capital employed in CCNA therefore rose strongly during the year and ended at \$187.8m, 8.6% higher than last year's closing position. Average capital employed rose by a rather more dramatic 20.6%, and caused the return on capital employed to fall from 27.6% to 24.7%. Overall this is still a healthy rate of return and is reinforced by the cash flow of CCNA, which was slightly cash positive for the year before intra-Group dividend payments.

International

I described last year the highly encouraging start we have made in re-modelling our International business and in positioning our brand overseas to deliver long-term growth. The current year has again seen many positive signs of progress. In Europe, although we encountered tough trading conditions in many of our mature wholesale markets, especially Germany and Benelux, we continued to develop the business with our key trading partners in Southern markets such as Spain and Italy. In addition we established a new office presence in Warsaw, which will form the centre for operations in the eastern and central European markets, where we believe there is considerable potential for us to build our existing representation. Our emphasis remained on the development of a coherent brand position in mid-price and more premium footwear categories across all our European markets, supported by an increased but targeted investment in marketing. As part of this strategy, we continued to roll out our new global shop fit design with third party retail partners in

major city locations as diverse as Milan and Athens. In Amsterdam we opened our first fully managed international flagship store in March and this store has already greatly exceeded our expectations, generating a fantastic increase of 18% above our sales target thus far. We are planning to extend our direct investment in flagship retailing in Europe with our next target being at least one further store, in Germany, during the course of 2006.

In Asia, we began to leverage our newly established sales and marketing infrastructure to build our brand position in the strategically critical Chinese market as well as our presence in other growth markets such as Malaysia, Singapore, Thailand and Korea. Whilst the Asian territories, excluding Japan, produced a pleasing trend of unit sales growth of around 20%, we did not achieve the very aggressive sales plan and underlying profits also fell short. In certain territories, most notably Malaysia and Singapore, the market response to our product was mixed and our offering too broad, with the result that our distributors became overstocked. Vigorous action has been initiated to resolve these problems and liquidate any slow-moving stocks, although this is likely to remain an issue well into 2006 and will inevitably act as a brake on sales growth. We remain determined to expand our presence in Asia by developing these emerging markets in a controlled way, concentrating on core product, an appropriate distribution consonant with the brand proposition and a consistent marketing execution. We are still very much learning about the dynamics of these markets and how best to address them commercially. Whilst the potential is certainly enormous, it is becoming clear that we will have to be patient and disciplined in our execution if we are to maximise the opportunity.

As a whole our International division sold 6% more pairs than a year ago, but average prices fell due to a combination of product and territory mix, and the impact of additional discounting, reducing net turnover by 1.8% compared with 2004/5. In contrast our investment in marketing and distribution costs, consistent with our brand ambitions, rose significantly and inevitably impacted the divisional trading profit which fell to £14.4m, some 17% below the standard set last year. Whilst we regard this as a small setback, the division remains a significant contributor to the Group's earnings and the return on sales is still a healthy 12.7%.

Project Fusion

As most shareholders will be aware Project Fusion is a long-term infrastructure investment programme, geared toward renewing the logistics and information technology systems used to support our UK and International businesses. We believe this investment is vital to enable our future growth plans to be achieved. I am delighted by the enormous progress which has been achieved over the past twelve months. The first major step was the introduction of SAP financial systems in March 2005, providing integrated transaction processing functionality and more consistent information. These systems were implemented with minimal disruption and have proven to be robust.

In June, our new Westway distribution centre opened for business. This start-up involved the complex knitting together of a new warehouse management system, radically changed operating processes and a physical environment characterised by much increased levels of mechanical automation. As the Chairman has previously reported, there were some initial teething troubles involving both software and mechanical handling equipment, whilst the learning curve has of course been extremely steep for our logistics team as a whole. However, over a period of some six months we have succeeded in migrating all of our men's and children's product and a proportion of our women's stock into the new facility. Whilst the transition has coincided with a difficult period for our trading operations in the UK and International, and has in some senses exacerbated the problems by causing bottlenecks which restricted the normal flow of stocks into stores and to third party customers, nonetheless I am very pleased with the way in which the logistics team and trading divisions have worked together to minimise any commercial consequences and to find constructive solutions. The Westway facility is at present reliably shipping around 450,000 pairs per week to our stores and customers, broadly in line with the demand from our combined trading operations. I would like to take this opportunity to congratulate Richard Forde, his team, and all our employees at Westway and Bullmead involved in making this key element of the Fusion project a success.

The third and perhaps most challenging component of Fusion relates to the implementation of new systems and processes to support planning, merchandising, sourcing and retail and wholesale selling operations. The software solution has been designed, configured and thoroughly tested over the past few months. The focus of this part of the project is now shifting from the creation and testing of the solution to business implementation, ensuring that our people in all affected parts of the organisation have a sufficient understanding of both systems and related processes to be able to cope with the new environment. Once again I must stress how impressed I am by the dedication and sheer hard work of the very large group of employees and professional contractors who have been responsible for such progress. This has been a mammoth effort on all their parts, and has kept us on track through all the ups and downs of the project. I would also like to congratulate Melissa Potter, the Managing Director of our UK business, and our IT Director Tim Fleming on their excellent leadership.

The go-live date for the supply chain systems is set for the end of April, and we remain reasonably confident that we will achieve that date. Once the new systems are introduced, however, we will inevitably face a period of disruption to our normal trading operations as we encounter teething problems with the systems and our employees become familiar with and confident in the changed systems and processes. A great deal of detailed attention is being given to mitigating these risks by means of training and contingency planning. As far as possible, for example, we will pre-position stocks of best-selling product lines in stores before the go-live date to minimise the impact of any disruption to our supply chain. Any residual problems, whilst regrettable, are unavoidable in an implementation of this scale and will be the cause of some lost sales for a period of time. I am satisfied that the quality of the thinking and execution within Fusion has been first class, and am cautiously optimistic that any ensuing period of instability will therefore last no longer than a few weeks.

Business Strategy

The key elements of our business strategy remain broadly consistent with those I have previously outlined. Our goal is to develop the Clarks brand as a truly global proposition, in general occupying a premium mid-market price position and with a core of common product surrounded by a more varied offering adapted to market differences. Our key objectives as a management team include the following:

- We will seek to support the brand proposition with a cohesive marketing execution, including a consistent approach to advertising across international markets and the continued roll out of our global shop fit design both in the UK and in selected 'flagship' locations overseas.
- We will aim continuously to improve and to standardise our business processes in supply chain management and sourcing.
- Vital to the successful realisation of our business strategy is to foster a renewed passion for product, putting shoes at the heart of what we do across the organisation.
- We must achieve a better understanding of our target consumer and of what he or she really wants and expects from our brand.
- We must improve our ability to deliver consistently against consumer expectations, building loyalty and trust in the brand.
- We need to invest more in product innovation whilst ensuring that new ideas can be accommodated to our commercial objectives.

All of these things will demand that we strongly develop our talent pool in product design and development as well as in range building. Some excellent work has been done already but much remains on the list. In particular, the challenge of rejuvenating our UK women's product line remains key to kick-starting renewed growth in the entire UK business. In North America our Boston-based product groups have achieved remarkable things but we are still finding the formula for success elusive in Bostonian and in certain areas of our Indigo and Prlvo offerings. Since the long-term success of our global business is crucially dependent on our ability to generate a constant stream of great products, enhancing our capabilities in the creative and technical arena of our shoe business will henceforth be recognised as a central priority.

Our distribution strategy will be adapted appropriately to the brand proposition. Where we have an existing major investment in retail distribution, as in the UK, we will of course concentrate on protecting our dominant market and brand shares and on growing them wherever possible in order to sustain our profitability. We recognise, at the same time, that we cannot necessarily pursue all avenues for profitable growth. We believe that it is vital to focus on exploiting our strengths as a footwear specialist and on building differentiation into our product ranges in order to reinforce the brand's identity and positioning. This means being very cautious in our stance toward the value argument, seeking to offer credible products at entry prices across our distribution channels, but doing so in a way which is consistent with the brand proposition rather than seeking to promote undifferentiated product intended to meet head-on the challenge posed by the value retailers. It also means being very disciplined in the manner in which we enter new and emerging markets and how we develop them, accepting that the scale of a market opportunity will often be bounded by the brand positioning. Our emphasis in all regards will be to build our business for the long-term and to protect the integrity of the Clarks brand, which after all is our single most valuable asset.

Trading Prospects

The coming year promises to be particularly challenging. In the UK, we believe retail trading conditions will continue to be tough and that the competitive scene will only intensify. Whilst we know that real sales growth will be difficult to come by we have set ourselves a set of demanding targets aimed at beginning to recoup some of the ground lost this year, especially in women's, where we must win back the loyalty of our heartland consumer for comfort casual product. In North America we will focus on the continued expansion of our retail portfolio and on reinforcing the powerful market position of Clarks women's product across our wholesale distribution in the face of increasing competitive threats such as the recent consolidation of May Company and Federated. As indicated in my introductory comments, we will carefully assess the risk of a general downturn in consumer spending in North America and manage its implications. Our International business will maintain its focus on developing the presence of our brand through a partnership strategy in our mature markets of Europe, Japan, the Middle East and South America, whilst consolidating our position in the emerging markets of South East Asia and Central Europe. The concentration here will remain on strategic wholesale distribution, supplemented by flagship stores and targeted marketing investment.

I have already stressed the vast concentration of resources and attention on successfully completing the last major phase of our Fusion infrastructure investment programme in the first half of 2006, and the strong likelihood of disruption to our normal trading operations for a short time. In addition, we are facing a very serious new risk to our business in the form of additional duty costs on products imported into the European Union from China and Vietnam. This follows an investigation launched last year by the European Commission into alleged dumping of leather upper footwear from those countries. At the time of writing, the Commission has made provisional proposals to impose additional duties on adult's footwear of up to 19.4%, the duty being phased in from April to September 2006. Final measures, which may differ from the provisional ones, will be subject to ratification by EC member states by October 2006. The provisional measures will have an immediate negative impact on our product costs and margins for the Autumn/Winter season. We are working with the UK Government and the European Commission to ensure the position at Clarks is understood, however any measures will inevitably reflect the pan-European political and commercial environment. We are working to mitigate the effects on Group profitability but the ability to restructure our supply chain in the short-term is limited. If the provisional measures were ratified unchanged, the effect would be to reduce annual operating profits by £10 - £15m. Clearly we hope that any final measures will maintain the proposed exemption for children's footwear and perhaps provide a more balanced approach to managing trade with Asia for adult's footwear.

UK high street trading in the first few weeks of the new financial year has been somewhat slow, but there are some encouraging early signs in key product areas for the Spring/Summer season. Our wholesale order books in both the UK and International look robust, with the possible exception of our Asian markets where we must work some of our excess stock out of the supply chain before we can drive further growth. In North America the initial order position in our wholesale business again looks strong, but the challenges reflected in owned stores in the latter months of 2005/6 have continued into early February. My overall expectations for 2006/7 are that we will achieve moderate growth in profits from

our main footwear divisions in face of a difficult external climate, but that the combined impact of trading disruption from the imminent Fusion transition and the impact of anti dumping duties on our margins will unfortunately result in a year of little or no growth in earnings at the Group level. We will continue to manage our balance sheet structure, gearing and cash flow in a conservative manner commensurate with the investment needs of the business and the dividend expectations of our shareholders.

Although the Company's results did not quite match the exceptional standard set in 2004/5, this is certainly no reflection on the efforts of our employees. I know that our people at all levels around the world have continued to be unstinting in their commitment, energy and determination to succeed. I would like to express my sincere gratitude to everyone who has contributed to the excellent progress which continues to be made every day in every corner of our business. This consistent drive to improve which I see around me gives me every confidence in the long-term prospects for the Company.

I cannot conclude my report this year without expressing my personal thanks to the outgoing Chairman of the Board, Roger Pedder. In his thirteen years in the chair Roger has overseen a remarkable transformation in the Company's fortunes and he hands it on in immeasurably better shape. On behalf of the entire executive team, I offer him our thanks for his support and guidance and our very best wishes for the future.

Peter Bolliger
Chief Executive
22nd March 2006

FINANCIAL REVIEW

Results for the Year

Group turnover from continuing operations increased to £920.6m from £906.8m, an increase of 1.5%. After including the effects of our discontinued Elefanten business group turnover declined by 3.5% to £921.4m.

Group profit before interest and exceptional items fell by 11.1% to £82.1m. Profit before tax fell by 10.6% to £71.9m. Profit after tax of £48.9m is 8.6% below last year's comparative. Pre-exceptional earnings per share after tax fell back to 84.4 pence per share from 98.0 pence in 2004/05. Post exceptional earnings per share after tax decreased to 79.0 pence per share from 86.5 pence last year.

A detailed review of trading performance for each business division is provided in the Chief Executive's report on pages 8 to 15.

Accounting Policies

During the year the Group has adopted FRS 21 "Events after the balance sheet date". Under this standard dividends declared and paid after the balance sheet date can no longer be recognised as a liability on the balance sheet or as an appropriation of profit in the preceding period. The comparatives for the year ended 31st January 2005 have been restated accordingly. Dividends are now recognised in the period in which they are paid and are not disclosed on the face of the profit and loss account but in the reconciliation of movements in shareholders' equity and the dividend note.

During the year the Group has adopted FRS 17 (Retirement Benefits) in full with effect from 1st February 2005. The effect of adopting FRS 17 is to change the accounting treatment of our defined benefit pension schemes. Under FRS 17 we are required to include the assets and liabilities of these schemes on the Group balance sheet. Current service cost, curtailment and settlement gains and losses, and net financial returns are included on the profit and loss account in the period to which they relate. Actuarial gains and losses are included in the statement of total recognised gains and losses.

In my report last year I stated our provisional intention to implement International Financial Reporting Standards (IFRS) for the year ending 31st January 2007. I also explained that as a private limited company we have no statutory requirement to report under IFRS. Having evaluated the benefits of adoption versus the costs involved in transitioning, the Board has decided that it would not be in the best interests of the shareholders to adopt IFRS in the coming year. This decision will be reviewed on an ongoing basis.

Presentation of Results

In line with previous years, we have adopted a columnar format for the Group profit and loss account in order to distinguish as clearly as possible between the core footwear operations and the impact of exceptional expenditure and income.

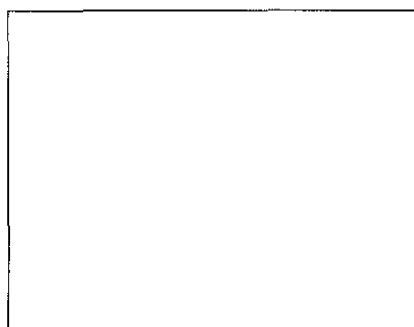
We have again chosen to report on the face of the Group profit and loss account the costs of providing long-term incentive schemes to executive directors and senior management as a separate item charged in arriving at operating profit.

Exceptional Items

As we continue to drive the business forward and secure long-term growth we have this year made further changes to the business. Exceptional items (on continuing and discontinued operations) of £3.0m (2004/05 - £3.6m) shown as part of operating profit are offset by profits on disposal of fixed assets of £1.6m (2004/05 - £2.6m) and further increased by the final costs of truing up the closure provisions of Elefanten of £2.5m (2004/05 - £6.5m). Disposal profits comprise a number of relatively small items, only one of which exceeded £0.4m being the part disposal of a long leasehold property in New Bond Street, London. Disposal profits are shown below operating profit in accordance with FRS 3 (Reporting Financial Performance), Paragraph 20(c). The net closure costs of Elefanten are also shown below operating profit in accordance with FRS 3, Paragraph 20(a). The net exceptional charge before taxation is £3.9m (2004/05 - £7.5m).

The majority of the exceptional charge of £3.0m shown as part of operating profit relates to commissioning costs in respect of our new Westway distribution centre in Street.

FINANCIAL REVIEW
ROBIN BEACHAM



Financing Costs

Financing costs of £6.3m comprise bank interest charges of £3.0m (2004/05 - £2.4m) which reflect the impact of higher average borrowings throughout the year due primarily to the cash burden of infrastructure spending, and net pension interest costs of £3.3m (2004/05 - £2.1m). As a result of implementing FRS 17 (Retirement Benefits) the net interest cost, being the difference between the interest charge on the Group's pension liabilities and the expected return on the pension assets, is shown within financing costs.

Taxation

The effective rate of tax on earnings before exceptional charges is 31.1%, the same as last year. The tax charge on current year profits, which excluding prior year adjustments, is an indicator of the likely future Group tax rate, being 33.6%. This underlying Group tax rate is increasing as a greater proportion of the Group's profit is derived from North America where tax rates are higher, at around 40%, and are likely to increase in future periods. The other major factor causing the Group tax rate to exceed the standard UK tax rate of 30% is that tax relief is not obtained for significant elements of our expenditure on commercial buildings such as store refits and the construction of the new distribution centre. The UK Government after consulting on proposals to modernise the tax rules for such expenditure on commercial buildings has disappointingly decided not to make any changes.

The future sustainable tax rate of the Group is now estimated at between 33.0% and 33.5%. This rate being particularly sensitive to the proportion of earnings from North America and the dollar rate of exchange applied to those earnings. However the upwards pressure on the tax rate from that part of the world may to some extent be mitigated by increasing earnings from the emerging markets in the Far East and Eastern Europe where tax rates are generally lower.

The post-exceptional tax rate of 32.0% (2005 - 33.3%) is higher than the pre-exceptional rate, as no tax relief is obtained for losses arising during the closure of the Elefanten business.

Balance Sheet

Capital employed has increased by £48.1m to £337.8m at 31st January 2006 due primarily to an increase in our fixed asset base as a result of additions in relation to our infrastructure projects. There has also been a small increase in working capital offset by a lower level of provisions and a lower taxation creditor at the balance sheet date when compared to the previous year end.

Group working capital has increased by £16.7m or 11.0% to £168.0m. Working capital remains tightly controlled; the increase being, in the main, the result of negative exchange rate movements depressing the comparative figures. In the US stock levels have increased due to the 29 new store openings in the year. In the UK stock levels have increased slightly, in response to starting to accelerate stock into the business as a contingency in preparation for the switch over to new supply chain systems in April. International stock levels have increased at the year end primarily due to a buy-back of stock following some overstocking issues in South East Asia referenced in Peter's report.

Operating Capital has increased by £38.1m due primarily to the capital expenditure associated with Project Fusion, the title for our two core infrastructure projects. Our capital expenditure during the year for the Systems Replacement Programme was £12.9m (2004/05 - £11.3m) and for the Westway distribution centre was £4.8m, as expected well down on the £28.7m incurred in 2004/05 as we came to the end of the build and fit out for the building. Over and above these two projects our capital expenditure amounted to £25.6m (2004/05 - £27.0m) during the year. We have relocated and opened 15 new stores in the UK at a cost of £4.7m (previous year being 12 stores at a cost of £3.1m) and refitted a further 25 stores at a cost of £5.8m (previous year being 31 stores at a cost of £4.3m). In addition we have relocated 4 and opened 29 new stores in the US at a cost of \$10.5m (previous year 29 new stores at a cost of \$7.7m) and refitted a further 12 stores at a cost of \$4.0m (previous year 4 stores at a cost of \$1.0m).

Provisions of £6.1m compare favourably with a prior year comparative of £21.7m. At 31st January 2006 significantly lower provisions for long-term incentives and the costs associated with the closure of Elefanten were held than at 31st January 2005.

Net borrowings are £7.5m higher than last year at £25.6m. Cash flow generated from operating activities of £71.4m was £28.2m lower than last year's £99.6m due to the lower levels of trading profits this year. Offsetting the lower cash from operations, cash outflows from investing activities of £37.5m were £22.3m lower than 2005's level of £59.8m driven by the reduction in expenditure relating to Project Fusion.

The resultant year end gearing remains low at 12.7% (2004/05 - 10.8%) and illustrates again the strongly cash generative nature of our business.

As a result of implementing FRS 17 we are required to include within the balance sheet the current pension liability of £96.3m. This has the effect of reducing shareholders funds which now stand at £201.3m, £34.0m higher than the restated prior year comparative.

Pensions

The Group's trading results have this year reflected an increased pension cost resulting from a substantial deficit in the Company's pension schemes of £96.3m. The cost of all Group pension schemes is shown in note 20 to the financial statements.

Actuarial gains and losses are shown in the Statement of Total Recognised Gains and Losses on page 47.

Prudent mortality assumptions and further falls in bond yields have negated significant improvements in the market value of scheme assets. As reported last year the Group began to make periodic contributions into the main UK fund by way of deficit funding. During the year contributions into the main UK fund by way of deficit funding amounted to £8.5m.

Treasury Operations

The Group's funding, liquidity, currency and interest rate risks are managed by a Treasury Committee working within a framework of policies authorised by the Board. The policies are reviewed and updated annually where necessary. The funding and liquidity position is reported to the Board monthly and currency risks are reported on a regular basis.

Funding and Liquidity

The Group's borrowing facilities comprise a Revolving Credit Facility with a syndicate of five major banks and a total facility amount of £150.0m. The Facility expiry date is February 2010. The Group also has UK and other overseas short-term facilities amounting to £56.3m (2004/05 - £58.3m).

Interest Rate Risk

The Group is exposed to interest rate risk principally in relation to borrowings and deposits denominated in Sterling, US Dollar and the Euro.

Currency Risk

The Treasury Committee manages currency exposure relating to the Group's trading operations by entering into a combination of fixed-dated forward and forward extra exchange contracts, at key points throughout each season based on detailed forecasts of future transaction flows. The main currencies in order of transactional value are US Dollar, Euro and Japanese Yen. The US Dollar is used primarily for sourcing footwear from outside the USA, examples being Brazil and the Far East. Contracts are placed competitively with relationship banks. Income and expenditure flows in the same currency are offset as far as possible through natural hedging and as a result sales and purchasing activity within the Euro zone is consolidated.

At the balance sheet date, the Group's estimated currency exposure for the Autumn/Winter 2006 season was in line with Board Policy as implemented by the Treasury Committee. The total value of fixed-dated sale and purchase currency contracts at the balance sheet date was £106.4m (2004/05 - £156.7m).

Share Market

In accordance with the Articles, share valuations are prepared twice a year by an independent firm of chartered accountants. In May 2005, 435,816 Ordinary Shares were offered for sale at £6.60 and 128,997 shares were purchased at that price. In October 2005, 480,846 Ordinary Shares were offered for sale at £6.50 and 28,472 shares were purchased at that price.

On 30th June 2005, 676 Ordinary Shares were released to the Southern Ireland participants of the C&J Clark Group 1999 Employee Share Scheme.

On 30th June 2005 91,478 Ordinary Shares were appropriated for participants in the C&J Clark Limited All Employee Share Incentive Plan.

Robin Beacham

Finance Director
22nd March 2006

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CORPORATE GOVERNANCE

The Group is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Group applies the principles identified in the Combined Code on Corporate Governance. As a private limited company the Group is not required to adhere to the Combined Code but does so on a voluntary basis. The Combined Code was revised in July 2003 to incorporate the Smith Guidance on audit committees and the Higgs Guidance on the role and effectiveness of non-executive directors. Formal guidance on how to implement the Combined Code in respect of the requirement for the directors to review and report on internal controls and risk management was issued by the ICAEW in September 1999 in the form of the Turnbull Report. The Group has complied with the Turnbull requirements throughout the year ended 31st January 2006. The directors believe that the Group complies with the majority of the provisions set out in Section 1 of the revised Combined Code and that it has complied with these throughout the year. Where the Group has not complied with the provisions the directors have disclosed the fact and their reasons for believing that these omissions do not compromise the high standards of corporate governance. In furtherance of the principles of good corporate governance, the Board and Board Committees operate in the following ways:

The Board of Directors

The Board currently consists of the non-executive Chairman, four other non-executive directors and three executive directors. The directors bring strong independent judgement and considerable knowledge and experience to the Board's deliberations. The revised Code stipulates that at least half of the Board, excluding the Chairman, should comprise independent non-executive directors. The Code defines independent non-executive directors as those who do not represent a significant shareholding or have a material business with the Company. At the Balance Sheet date, under this definition only Thomas J O'Neill and Peter Davies would be considered as independent non-executive directors. It also feels that it is in the interests of the shareholders as a whole that there are two representatives of the Family Shareholder Council on the Board.

The Board meets regularly throughout the year and on additional occasions as required. The number of meetings and the attendance of the directors at these meetings is disclosed in the table opposite. The Board has a schedule of matters specifically reserved to itself for decision, such as the approval of Annual and Interim Report and Accounts and the declaration of dividends. The Board is committed to ensuring that proper standards of corporate governance are maintained throughout the Group.

The revised Code advocates the appointment of a separate Nominations Committee comprising a majority of independent non-executive directors. Currently the Board assembles Nominations Committees to deal with specific nominations as necessary. Members of the Board and recruitment consultants, who are also used to assist the process, suggest possible new non-executive directors. Candidates are considered by all directors and the Company Secretary. Whenever a new director is appointed to the Board, he or she is provided with access to appropriate training if necessary.

The revised Combined Code recommends that non-executive directors should serve two three-year terms. However, in accordance with the Articles of Association, non-executive directors (excluding the non-executive Chairman) can serve until the conclusion of the next Annual General Meeting after they have completed nine years of service, or reached 65 years of age. Given the current structure and the Shareholder Family Council representation on the Board, this is considered appropriate. Executive directors normally retire after reaching 60 years of age. At the first Annual General Meeting following their appointment, directors must retire and seek re-election. In addition, directors retire by rotation, and are eligible for re-election, at least every three years.

There is an agreed procedure for directors to take independent professional advice, if necessary, at the Group's expense. This is in addition to the access which every director has to the Company Secretary. The Company Secretary is charged by the Board with ensuring that Board procedures are followed. Any concerns relating to the executive management of the Group, or the performance of the other non-executive directors can be raised with the Board representatives of the Family Shareholder Council, Harriet Hall and Hugh Clark, if for any reason it is inappropriate to raise them with the Chairman.

MEMBERSHIP OF BOARD AND SUB-COMMITTEES

	Main Board		Audit Committee		Appointments and Remuneration Committee		Share Valuation Committee		Board Pensions Committee	
	Member	Attendance	Member	Attendance	Member	Attendance	Member	Attendance	Member	Attendance
Number of meetings		7		2		5		2		2
Executive directors										
Peter Bolliger	yes	7		2*			1*		yes	2
Robin Beacham	yes	7		2*			2*		yes	2
Bob Infantino	yes	7					1*			
Non-executive directors										
Roger Pedder	Chair	7	yes	2	yes	5	yes	2	Chair	2
Peter Davies ^o	yes	3	yes	1	yes	2	yes	1		
Harriet Hall*	yes	7	yes	2	Chair	5	yes	2		
Hugh Clark**	yes	5	yes	1	yes	3	yes	1		
Andrew Higginson*	yes	4	Chair	2	yes	1	Chair	2		
Benjamin Lovell ^o	yes	2	yes	1	yes	2	yes	1		
Thomas J O'Neill	yes	6	yes	2	yes	4	yes	2		

*Representatives of the Family Shareholder Council

^oAttended the meeting at the invitation of the Committee.

^oPeter Davies was appointed to the Board as Chairman designate on 1st September 2005. Since then he has attended all meetings of the main Board and its sub-committees that he has been eligible to attend.

*Hugh Clark was appointed to the Board on 9th May 2005. Since then he has attended all meetings of the main Board and its sub-committees that he has been eligible to attend.

*Andrew Higginson retired from the Board on 23rd September 2005. Since the year end Nigel Hall has been appointed to the Board as a non-executive director and will chair the Audit and Share Valuation Committees which were previously chaired by Andrew.

^oBenjamin Lovell retired from the Board on 6th May 2005.

To enable the Board to function effectively and allow directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters. The performance of the Board and its individual members is assessed periodically through a questionnaire and discussion involving all Board members. The most recent review concluded that the Board is effective and contains the right blend of experience and skills. The performance is continually monitored by the Chairman together with the Family Shareholder Council. Full details of directors' remuneration and a statement of the Group's remuneration policy is set out in the Remuneration Report on pages 28 to 33. Except for the Chairman, the non-executive directors receive a fee, but do not participate in any bonus or incentive schemes or qualify for pension benefits. The Chairman receives a salary and pension benefits but does not participate in any bonus or incentive schemes.

Board Committees

The Board has appointed the following committees to deal with specific aspects of the Group's affairs. A table showing attendees and chairs of each committee is shown above. The revised Code advises that no single non-executive director should sit concurrently on all three of the principal Board committees, Audit, Nominations and Remuneration. Due to the size of the Board, the Group does not believe that this would be feasible or beneficial to the Group.

Audit Committee

The Committee has formal terms of reference covering all the points recommended by the Combined Code. It meets at least twice a year and its duties include the review of internal controls throughout the Group, approving the Group's accounting policies and reviewing the Annual and Interim Report and Accounts, before submission to the Board. The independence and objectivity of the external auditors is also considered. The split between audit and non-audit fees for the year under review appears on page 52. The Finance Director, other executive directors, external auditors and company managers are invited to attend the meetings of the Committee as appropriate.

Appointments and Remuneration Committee

The Committee meets at least twice a year and its responsibilities are to approve the appointment of new directors, and the remuneration and other benefits of the executive directors. The Committee also receives reports on the terms and conditions of other senior executives.

Share Valuation Committee

The Committee meets twice a year with representatives of the valuers of the Company's shares, together with other advisers, to review the general trading background and other appropriate information to assist in valuing the shares.

Board Pensions Committee

The Committee reviews and agrees any proposal for changes to pension schemes for employees. All significant changes are recommended to the Board for approval.

Family Shareholders' Council

Family shareholders holding some 81% of the Ordinary Shares of the Company have formed a council to aid communication between shareholders and the Board. The Council assists in the implementation of corporate governance policies and works with the Board in matters affecting the marketability of shares. The Council may nominate two persons for appointment as non-executive directors of the Group.

Communication

The Group places a great deal of importance on communication with its shareholders and employees. The full Annual and Interim Report and Accounts are available to all shareholders. All shareholders have the opportunity to put questions at the Company's Annual General Meeting and at the meeting the Chief Executive highlights the key business developments during the financial year. Both the Chairman of the Audit Committee and the Chair of the Appointments and Remuneration Committee are available for questions at the Annual General Meeting.

Audit and Internal Control

The Board has ultimate responsibility for the system of internal controls maintained by the Group. It also has responsibility for carrying out a review of the status of those internal controls on an annual basis and reporting that it has done so. This system provides reasonable, but not absolute, assurance against material loss and includes the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation and mitigation of business risks. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. Key elements of the Group's system of internal control are as follows:

- The directors have put in place an organisation structure with clearly defined lines of responsibility and delegation of authority.

- The Group has a comprehensive system of financial reporting.
- The annual budget of each operating unit is approved by the executive directors and the Board approves the overall Group budget.
- Performance against budget is reviewed by the Board each month and any significant variances are examined. Detailed performance reviews are carried out by management.
- There are clearly defined policies for capital expenditure approval including appropriate authorisation levels. Large capital projects and company acquisitions require Board approval.
- A number of functions, which operate within policies and delegated authority limits established by the Board, report to the Board periodically. These include treasury operations, corporate taxation, pension fund and risk management.
- Operating units are required to certify annually their compliance with internal control objectives.
- Group and operational management are responsible for the identification and evaluation of key risks applicable to their areas of the business.

These risks may be associated with a variety of internal or external events including control breakdowns, regulatory requirements and natural catastrophe. Each operating unit is responsible for establishing and operating the required detailed control procedures to manage these risks.

The systems detailed above have been in place for the year under review and up to the date of approval of the financial statements. They are regularly reviewed by the directors and accord with Turnbull guidance. There are two Internal Control Committees; one in the UK and one in the US, which are responsible for controlling and reviewing the risk management systems within the Group on behalf of the Audit Committee. A business-wide review of internal controls is carried out every year and reviewed by the Audit Committee on behalf of the Board. The review indicates areas in which the system of internal control could be further improved. Detailed reviews of the most significant of these areas are conducted during the following year and the results reported to the Audit Committee. The Audit Committee have reviewed the need for an internal audit function and consider that the current systems provide adequate assurance at this time. This decision will continue to be regularly reviewed.

HEALTH & SAFETY SUMMARY

2005/6 was an encouraging year in many ways but it was not entirely problem-free. On the plus side there were fewer accidents of all types with a reduction of 17% over last year and there were no enforcement actions taken against the business anywhere in the UK.

We continue to have a positive relationship with our Lead Authority with whom we hold regular progress meetings, enabling us to standardise the various different approaches and views of the local enforcement agencies around the country. During 2006 we will be working together to agree a policy that will address the issues arising out of stress in the workplace.

A very positive and pro-active step taken during the year was the creation of a lead group, chaired by Robin Beacham, which will steer and direct the various arms of the business towards common goals. The Safety Committees for Logistics, Retail and HQ will be guided and monitored by this group which has set targets and objectives for health and safety specific to each part of the business.

The business is working on its plans to deal with Avian Influenza should a human-to-human mutation occur and a pandemic result. It is clearly not possible to prevent this, or any other virus, from affecting the Group and steps can only be taken that will limit the spread of the virus within the workforce as far as possible, and thereby mitigate the overall effect.

Towards the end of the year an accident in the Westway Distribution Centre resulted in some negative publicity in the local press. The accident is currently under investigation by the enforcement agency and though this may take many months to be completed no criticism of the Group has been implied.

Abuse and threats of violence in our stores are sadly on the increase (up by 48% on 2004/5) in line with the national trend but fortunately none of our staff have been seriously injured. Of all the different types of incidents that are recorded and measured this is the only category where the graph is going in the wrong direction. The challenge to the business is to buck the national trend without compromising the customer-friendly ambience of the stores.

Management training has been identified as an area that would benefit from attention and a programme of focused, relevant training will be taking place during 2006. At Street managers will be carrying out and recording regular Health and Safety inspections of their departments to ensure the expected standards are achieved and maintained.

An action plan for the new year has been drawn up focusing on training, accountability and the rationalisation of the existing systems and procedures.

CORPORATE SOCIAL RESPONSIBILITY SUMMARY

Corporate Social Responsibility (CSR) Supplier Auditing

All full shoe suppliers to Clarks and Clarks Companies North America are audited using The Clarks Responsible Trading Programme audit protocol. This covers the ethical treatment of employees, the environmental and the health and safety performance of the factories.

China and Vietnam

For the UK and North America, Bureau Veritas have now audited our 37 full shoe suppliers in China and 16 suppliers in Vietnam.

We now have an internal team of five CSR specialists operating in the Far East who follow up the findings of the Bureau Veritas reports, working with the factories to create a Corrective Action Plan (CAP) which we then monitor against an agreed timetable of improvement.

Dermot Smowton (UK Resourcing Director) and Roberto Grasso (Clarks Companies North America Senior Vice President of Manufacturing and Resourcing) are currently consolidating the Far East supply base.

India

The 4 key suppliers in India have been verified by Bureau Veritas as being compliant to the Clarks Code of Practice, and a further 4 suppliers are at various stages of their Corrective Action Plans.

Europe

Suppliers are audited by Promex, our Italian based sourcing agent, using the Responsible Trading Programme audit protocol.

Brazil

We have trained our Brazilian management team in CSR assessment and they are auditing all of their suppliers using the Responsible Trading Programme audit protocol.

SOS Occupational Health Project

To help improve the health and wellbeing of people involved in the manufacture of our shoes, we are sponsoring an Occupational Health Services programme with SOS International (a leading provider of medical assistance and international healthcare) in ten of our supplier factories in Vietnam.

A team of doctors have assessed all aspects of each factory's health management, and identified areas in which the training modules could have the greatest benefit.

The programme will be completed by the end of 2006 when the Clarks team will evaluate the benefits.

In addition to this project we have sponsored SOS International seminars on Bird Flu Awareness to all of our suppliers in Vietnam and China.

'Soul of Africa'

Lance Clark helped set up Soul of Africa, which was designed as a self-sustaining way of helping orphans in South Africa.

Previously unemployed women are trained to make simple hand stitched shoes. They benefit from the income and from learning a skill.

All profits from sales of the shoes go to a charity set up initially to support Aids orphans, but now helping other children's causes in South Africa, where there are also many children with Aids, or with parents unable to care for them.

We are the largest purchaser of the Soul of Africa shoes, which will shortly be sold in our top 100 stores. The net margin earned is paid back to the charity.

Marleston Factory Site (Adelaide, Australia)

Although this site was sold in 1999 we remain responsible for the land remediation, as the soil has been contaminated by leaking underground toluene and MEK tanks, that were installed in the 1970's and removed in 2000.

As advised by our consultants we have provided A\$0.5m for the next phase of the removal of the contaminants.

Banned and Restricted Substances

The Clarks Banned and Restricted Substance Manual enables a full shoe supplier to select the relevant chemical information for each component. If each component complies with the legislation and the components are assembled by the shoe manufacturer without using banned and restricted substances in their process the finished shoes will be compliant to the legislation.

The pilot group of shoe suppliers have been working with their component supply base to control the presence of banned and restricted substances and create the relevant documentary evidence.

BLC Tannery Environmental Auditing Project

The BLC Leather Technology Centre Limited has initiated a project to create an environmental audit protocol for tanneries, which aims to set the "global" standard acceptable to all leather purchasers.

The Company is working with seven other shoe companies and six tanneries.

The initial audit protocol has been agreed and trialled by a BLC auditor in two of the tanneries.

A review meeting is scheduled to discuss the findings and decide the next phase of the project.

Water Based Adhesives

The appropriate tests and trials are being organised as we prepare to extend the range of products that we produce using water based adhesives to include children's footwear.

Recycling from Retail Stores

We have appointed Materials Recovery Limited (MRL) to manage the waste collection from all of our high street stores (stores in malls and shopping complexes have their waste managed by the site).

The second phase of the work with MRL is to introduce recycling to our stores. Nineteen stores in London recycle cardboard. We are now organising the introduction of this to the remainder of our high street stores.

One Environment Team

A small group has been formed to:

- (i) Invigorate current environmental initiatives, and think of additional opportunities to improve the environmental effect of Headquarters.
- (ii) Stimulate interest throughout Headquarters towards the environment and how each individual can contribute towards improving it.

Some of the areas the team have initiated or supported are:

- Recycling in Headquarters.
- Commuting and Travel Investigation.
- Switching off computers when not in use, efficient use of paper and ink cartridges.

Annual Review

The Group's Corporate Social Responsibility performance is reviewed annually by the board.

REMUNERATION REPORT

Appointments and Remuneration Committee (The Committee)

The Committee comprises all of the non-executive directors and is chaired by Harriet Hall. Roger Pedder also attends, except when the Committee considers his remuneration. The Committee is responsible for the appointment of executive directors to the Board and for approving an appropriate level of remuneration within the principles the Committee has determined. The Committee keeps itself fully informed of all relevant developments and best practice in the field of remuneration and seeks advice where appropriate from external advisers and from the Central HR Manager and the Company Secretary. During the year the Monks Partnership was consulted on benchmarking Peter Bolliger and Robin Beacham's salaries.

Remuneration Policy

It is the policy of the Committee to consider and approve remuneration packages and other contractual terms that attract, retain and motivate managers of the calibre required to successfully manage an international group of the size and complexity of C&J Clark Limited. In doing so the Committee aims to ensure that such packages are balanced, but not excessive, and that incentive schemes are structured so that they reflect the levels generally paid to such executives.

The Combined Code

The Board considers that they have complied with the Combined Code provisions relating to directors' remuneration and have followed the provisions of Schedule A to the Combined Code.

Information Subject to Audit

The auditors are required to report on the information in the following sections of the report:

- Directors' remuneration, including descriptions of the long-term incentives schemes.
- Defined benefit pension schemes.
- Directors' pension entitlements.

Directors' Remuneration

Emoluments and compensation in respect of qualifying services of each person who served as a director during the year are listed opposite.

Directors' Service Contracts

It is the policy of C&J Clark Limited to issue all new executive directors with 12 month rolling service contracts. Roger Pedder is retiring after the Annual General Meeting to be held on 5th May 2006, at which point his contract will cease. There are no provisions in directors' service contracts for compensation in respect of early termination of a contract. There is however an obligation to pay for any notice period waived by the Company. All executive directors' service contracts require the Company to give 12 months' notice to terminate the contracts until the age of 60, when no notice period is required.

Dates of serving directors' service contracts are as follows:

- Peter Bolliger 1st August 1994.
- Robin Beacham 1st July 2001.
- Bob Infantino 26th October 1992.

Salaries and Benefits

Salaries and benefits for executive directors are reviewed annually and external advice taken as appropriate. Directors' remuneration packages are benchmarked against companies of a similar size and complexity.

Performance Related Bonuses

The Chief Executive and the Finance Director participate in an annual bonus scheme dependent on the financial performance of the Group compared with budget. Awards are made on a sliding scale up to 50% of salary, based on footwear profits less 15% notional interest on a notional debt amount of 40% of average operating capital. For achievement of 90% of budgeted footwear profits less notional interest, a bonus of 12.5% of salary is payable. No bonus is payable if the result is lower. The bonus payable increases by 1 percentage point for every additional £819,000 by which the actual result exceeds the minimum performance target. For achievement of the budgeted footwear profits less notional interest, a bonus of 25% of salary is payable. Thereafter, a 1% increase in bonus award is payable for every additional £614,000 increase in the profit after notional interest up to the maximum 50% of salary at a result 15% above budget. The budget is derived from the published budget of the Group for the year. This method has been in use for nine years and was chosen as the most consistent measure of underlying trading growth in the business including the effect of changes in operating capital employed within the Group.

DIRECTORS' REMUNERATION REPORT

	Fees or salaries £'000	Performance related bonuses £'000	Benefits £'000	Long-term incentive scheme gains/(losses) in the year £'000	Total 2006 £'000	Total 2005 £'000
Executive directors						
Peter Bolliger*	797	–	33	(872)+	(42)	2,521
Robin Beacham	317	75°	13	(330)+	75	1,199
Bob Infantino	410	78	13	62	563	501
Non-executive directors						
Roger Pedder	204	–	23	–	227	217
Peter Davies (from 1st September 2005)	31	–	–	–	31	–
Hugh Clark (from 9th May 2005)	24	–	–	–	24	–
Harriet Hall	39	–	1	–	40	39
Andrew Higginson (to 23rd September 2005)	29	–	–	–	29	42
Benjamin Lovell (to 6th May 2005)	9	–	–	–	9	32
Thomas J O'Neill	33	–	–	–	33	23

Benefits arising from employment by the Company relate mainly to the provision of company cars and life assurance.

*Peter Bolliger's salary includes the equivalent value of pension contributions forsaken (see page 32). The amounts paid during the year under this arrangement totalled £249,996 (2005: £248,310).

°Robin Beacham was awarded a discretionary bonus of £75,000 by the Appointments and Remuneration Committee in recognition of his leadership of the Fusion Programme.

+Previously accrued provisions for long-term incentives have been released as a result of the downturn in trading performance.

North America Annual Management Bonus Programme

Provision is made for bonus awards to Bob Infantino contingent on the financial performance of CCNA compared with budget. Awards are made on a sliding scale. For the achievement of a minimum performance target, a bonus of 10% of salary is payable. No bonus is payable if the result is lower. The minimum target is calculated at 90% of targeted trading profits less notional interest on average capital employed. Notional interest is calculated at an effective rate of 6%. The bonus rate increases anywhere from 10% to 15% for each 10% improvement in actual versus targeted trading profit. The maximum bonus rate is 50% of salary payable at a result of 20% above budget. The target is derived from the published budget of the division for the year.

Executive Share Plan

The plan closed during the year with Peter Bolliger, the only participant, redeeming all of his units. The plan was designed to provide a long-term incentive for the most senior executives in the Group. In each year the participants were awarded share entitlements up to the value of 75% of their basic salary, dependent upon the improved performance of the Group's key performance indicators.

The key performance indicators were:

- Profit before tax.
- Profit after tax.
- Earnings per share.
- Return on capital employed.

The shares vested in the participant when they had been held in trust for at least three years. The participant could elect to receive a cash alternative equivalent to the value of the shares on the exercise of his entitlements.

At the AGM on 7th May 1999, it was agreed to introduce a cash bonus arrangement to the Plan. The arrangement provided a cash sum to the executive if he exercised an award before flotation of the Company. This sum was based on the difference between the internal share price prevailing immediately before the exercise and a notional share price. This was calculated on the assumption that the Company was a listed company by calculating an average Price/Earnings (P/E) value based on a basket of companies listed on the London and New York Stock Exchanges and applying this to the pre-exceptional earnings per share of the Group.

Companies could be added to or excluded from the comparator group at the discretion of the Committee.

The basket of companies for this financial year comprised:

The Body Shop International plc*
 French Connection plc*
 Jones Apparel Group Inc†
 Kenneth Cole Productions Inc†
 Marks and Spencer Group plc*
 Next plc*
 Reebok International Ltd†
 The Stride Rite Corp†
 The Timberland Company†
 Wolverine World Wide Inc†

*London Stock Exchange listing.

†New York Stock Exchange listing.

During the year the entitlements exercised under the scheme by Peter Bolliger were as follows:

	Units	£
At 1st February 2005	87,881	1,627,938
Share price uplift		-
Entitlements exercised during the year	(87,881)	(1,627,938)
At 31st January 2006	-	-

The entitlements exercised during the year relate to the performance of the Group between 1st February 2001 and 31st January 2005 and were charged to the profit and loss account over that period. Consequently these amounts have been disclosed as long-term incentive plan earnings in previous years.

Executive Performance Plan

Peter Bolliger and Robin Beacham are the only participants in this element of the scheme. The plan provides a benefit of up to a maximum of 3.5 times annual salary based on the increased earnings per share (EPS) from Group footwear trading activities above RPI, over a three year period. The maximum award is payable if the growth in footwear EPS exceeds the growth in RPI by 75 percentage points over the three year performance period. No award is payable if the rise in footwear earnings per share is less than RPI. Non-footwear items are excluded from the calculation to give a more accurate representation of the underlying continuing trading activities of the Group.

The scheme awards are on the following basis:

- For increases of 0-30 percentage points above RPI there will be awards from 0-1.03 times annual salary.
- For the Group target increase of 33 percentage points above RPI there will be an award of 1.20 times annual salary.
- For increases achieved of 35-74 percentage points above RPI there will be awards from 1.31-3.50 times annual salary.

Performance periods, each of a three year duration, have commenced annually on 1st February since 2002. The first performance period came to an end on 31st January 2005 and the maximum awards were made to Peter Bolliger and Robin Beacham in respect of that period during the year as follows:

	£
Peter Bolliger	1,540,000
Robin Beacham	770,000
Total paid	2,310,000

These amounts relate to the performance of the Group over the three year period from 1st February 2002 to 31st January 2005 and were charged to the Group over that period. Consequently these amounts have been disclosed as long-term incentive plan earnings in previous years.

At the beginning of the last financial year senior managers and selected managers of the UK and International Divisions were invited to join a new element of the scheme. The scheme operates in the same way as that of the executive directors but the maximum multiple of salary payable is 2.5 times for senior managers and 1.5 times for managers. The sliding scale is adjusted accordingly. The first three year performance period for these participants began on 1st February 2004 with a second period commencing on 1st February 2005 and a third period beginning on 1st February 2006.

CCNA Incentive Plan

This plan operates on a similar basis to the Executive Performance Plan but assesses the performance of the CCNA division. The plan provides a benefit of up to a maximum of 3.5 times annual salary based on the increased earnings per share (EPS) from CCNA footwear trading activities above CPI, over a three year period commencing 1st February 2004. CPI was used as a comparator in order to exclude growth attributable to general inflation. The maximum award is payable if the growth in footwear EPS exceeds the growth in CPI by 74 percentage points over the three year performance period. No award is payable if the rise in footwear earnings per share is less than CPI. Non-footwear items are excluded from the calculation to give a more accurate representation of the underlying continuing trading activities of the division.

The scheme awards are on the following basis:

- For increases of 0-30 percentage points above RPI there will be awards from 0-1.29 times annual salary.
- For the Group target increase of 33 percentage points above RPI there will be an award of 1.50 times annual salary.
- For increases achieved of 35-74 percentage points above RPI there will be awards from 1.64-3.50 times annual salary.

A second three year performance period commenced on 1st February 2005 and a third on 1st February 2006. Bob Infantino is the only executive director who is a participant of the scheme, although senior managers and selected managers of CCNA are also members of the scheme. The maximum multiple of salary payable to senior managers is 2.5 times and for managers 1.5 times, with the sliding scale being adjusted accordingly.

Senior Managers' Long-Term Incentive Scheme

This scheme was for UK senior executives and was designed to mirror a share option scheme. All remaining units within the scheme were redeemed during the year and the scheme has now closed.

Subject to approval by the Committee, units were issued to senior managers at the discretion of the executive directors, excluding Robin Beacham when his allocation was under discussion. All remaining units in the scheme had to be exercised before 31st July 2005. The exercise price was derived by taking the audited pre-exceptional profits after tax and minority interests and applying a notional P/E ratio of 9.25. A consistent P/E was used to eliminate the effects of macro-economic factors which were beyond the senior managers' control. The effects of capital restructuring, such as the share buy-back made in September 2002, were also excluded. Robin Beacham was a member of this scheme and his entitlements under the scheme during the year were as follows:

	Units	£
At 1st February 2005	85,919	183,867
Share price uplift		105,680
Entitlements exercised during the year	(85,919)	(289,547)
At 31st January 2006	-	-

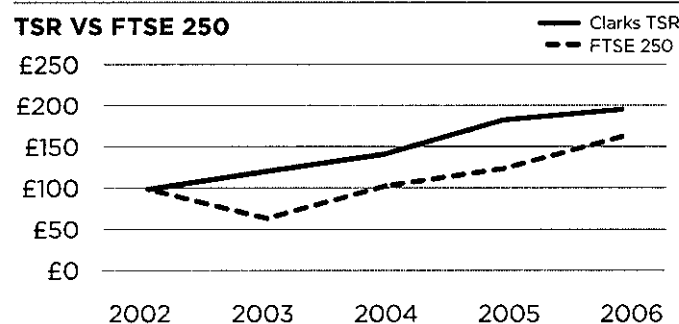
The entitlements exercised during the year relate to the performance of the Group for the three year period from 1st February 2002 to 31st January 2005 and were charged to the Group over that period. As a result these amounts have been disclosed as long-term incentive plan earnings in previous years.

Share Incentive Plan

During the year the Group operated a Share Incentive Plan. Under the plan, eligible employees may save up to 1% of their gross earnings which will be used to purchase Ordinary Shares in the Company. One matching (free) share will be allocated for every partnership share purchased by an employee. These shares rank for dividend and are held in trust for a minimum of three years before being eligible to be transferred to the employee.

Total Shareholder Return

Total Shareholder Return (TSR) is a performance measure based on the market value of an investment in shares of a company over a given period, in this case, five years. TSR assumes that all dividends are re-invested and any rights issues taken up. It is assumed that the buy-back proceeds were also re-invested in shares. The TSR below is based on an initial purchase of 100 shares in C&J Clark Limited on 1st February 2002. Comparison shown is against the movements in the FTSE 250 share index as the market capitalisation, based on the share price calculated bi-annually by PricewaterhouseCoopers, would make C&J Clark Limited a FTSE 250 company.



The comparison shows C&J Clark Limited outperforming the market trend from 2002 to 2003, with the FTSE 250 performing poorly whilst the Group's TSR steadily improved. A market recovery began in 2003 and the market regained some of its deficit to the C&J Clark Limited's performance. The market return continued to improve through 2004 and 2005 whilst the C&J Clark Limited TSR rate of increase slowed, although at 31st January 2006 the TSR over the previous five years is still significantly better than the return given by the FTSE 250. If £100 had been invested in C&J Clark Limited shares in 2002 it would now be worth £197, whereas the same amount invested in FTSE 250 companies over the same period would now, on average, be worth £164.

DEFINED BENEFIT PENSION SCHEMES

	Age at 31st January 2006 Years	Pensionable service to 31st January 2006 Years	Accrued benefits at 1st February 2005 £'000	Increase in accrued benefits £'000	Accrued benefits at 31st January 2006 £'000	Transfer value at 1st February 2005 £'000	Transfer value at 31st January 2006 £'000	Increase in transfer value less directors' contributions £'000
Peter Bolliger	61	11	36	3	39	658	765	107
Robin Beacham*	46	16	50	5	55	593	772	171
Bob Infantino	56	13	19	3	22	131	168	17
Roger Pedder	65	11	34	5	39	563	670	107

*Individuals' benefits under the Group's UK Pension Fund are subject to an Earnings Cap (£105,600 at 31st January 2006) and a separate arrangement (FURBS) has been set up to broadly compensate for the effect of the Earnings Cap.

TSR is a performance measure used predominantly for publicly traded companies and thus may not be an entirely reliable measure for a private company like C&J Clark Limited. The external share valuation conducted by PricewaterhouseCoopers assumes a willing buyer and seller, is based on a minimal volume of transactions, and does not fully take account of external market forces.

Directors' Pension Entitlements

The Chairman and the executive directors, excluding Bob Infantino, all participate in the Group's UK Pension Fund. The fund is contributory and is governed by an independent trust. Normal retirement age under the scheme is 60, and the normal pension accrual is at the rate of one fortieth of pensionable pay for each year of pensionable service. Early retirement with company consent, is permitted at the age of 50 onwards, subject to an actuarial reduction to the accrued pension of up to 23%. However, as shown in the notes on page 32, certain individuals' pension accruals under the fund are restricted by the Earnings Cap introduced under the 1989 Finance Act and applicable to members joining Inland Revenue approved schemes on or after 1st June 1989. The Group has set up a separate pension arrangement known as a Funded Unapproved Retirement Benefit Scheme (FURBS) for Robin Beacham and contributions to this money purchase scheme are shown in the table opposite. Peter Bolliger opted out of these arrangements in July 2002 and receives an equivalent value as additional salary (see page 29). These are money purchase schemes which are designed to provide a fund on leaving/retirement which is broadly equivalent in value to the shortfall in the target benefit payable under the Group's UK Pension Fund arising from the application of the Earnings Cap. The target benefit is one thirty-fifth of annual basic salary for each year of service completed after 1st March 2001, and one fortieth for service prior to that date.

Defined Benefit Pension Schemes

For death before retirement, a capital sum equal to four times salary is payable. A spouse's pension is also payable and this is limited by the Inland Revenue Earnings Cap restriction. For death in retirement, a spouse's pension of 50% of the member's pre commutation pension is payable. In the event of death after leaving service but prior to commencement of pension, a spouse's pension of 50% of the accrued preserved pension is payable. In all circumstances, children's allowances are also payable up to the age of 18. Substantial protection is also offered in the event of serious ill health. Post-retirement pension increases are guaranteed at the rate of price inflation subject to a limit of 8.5% per annum, compound between the date of retirement and each annual pension review.

During the year the Committee extended the pension arrangements for Peter Bolliger as follows:

- The additional salary referred to on page 32 will continue past age 60.
- The pension benefit from the C&J Clark Pension Fund, calculated at age 60, will be increased to take account of the period during which payment of the benefit is deferred from age 60 to 65.
- In respect of service past age 60, Peter Bolliger will be entitled to an additional taxable retirement pension according to an agreed formula with a maximum of £20,000 per annum payable in the case of retirement at age 65.

Money purchase pension schemes

The Group made the following contributions to money purchase schemes during the year:

	2006 £'000	2005 £'000
Robin Beacham	63	46
Bob Infantino	59	56

At the request of Peter Bolliger, the Committee agreed in July 2002 to suspend contributions into his FURBS and pay the equivalent value as additional salary.

Bob Infantino participates in the US defined benefit pension plan, which is non-contributory and based on years of service. Normal retirement age under the scheme is 65, with benefits payable at 1% of salary, capped at \$205,000. This benefit is reduced for early retirement by 3.33% for each year the pension age is between 60 and 65 and 6.67% for each year the pension age is between 55 and 59, with a minimum retirement age of 55. A capital sum of one year's salary together with a spouse's pension is payable on death before retirement. Post retirement pension increases are discretionary. He is also a participant in two defined contribution schemes. Contributions to these schemes are designed to compensate for the effect of the salary cap.

The Committee agreed, on his appointment, that Roger Pedder will have a pension entitlement of two-thirds of the Earnings Cap at age 60, less the value of his own personal pension plans. The benefit calculated at age 60 will now be increased to take account of the period during which payment of the benefit is deferred from age 60 to 65. In 2001, the Committee agreed, in consultation with the Family Shareholder Council, that Roger Pedder will be entitled to an additional taxable retirement lump sum based on £90,000 for each year of service from age 60 to 65.

Non-executive directors

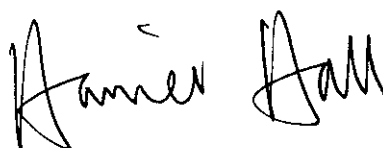
The remuneration of the Chairman is determined by the Committee. The executive directors determine remuneration of the other non-executive directors of the Company. Remuneration consists of fees for their services in connection with Board and Board committee meetings. They do not have contracts of service and, with the exception of the Chairman, must retire after nine years' service. With the exception of the Chairman, they are not eligible for pension scheme membership. They do not participate in the Group's bonus scheme or other incentive schemes.

This report will be laid before the shareholders for approval at the Annual General Meeting to be held on 5th May 2006.

On behalf of the Board

Harriet Hall

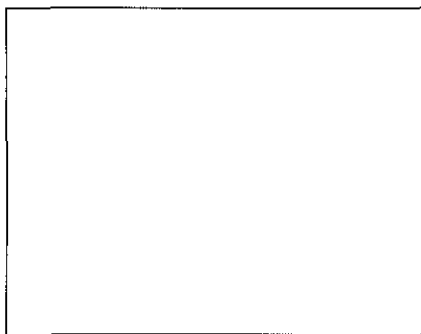
Chair of the Appointments and
Remuneration Committee
22nd March 2006



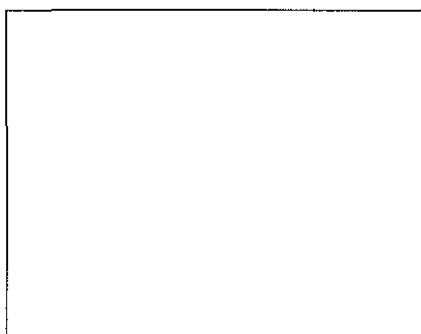
THE BOARD

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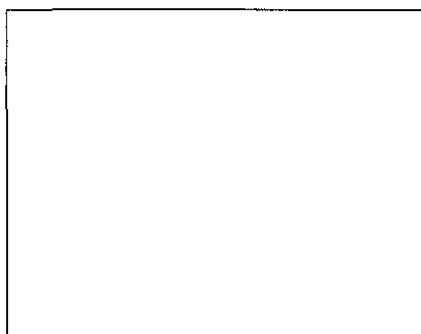
BOARD OF DIRECTORS



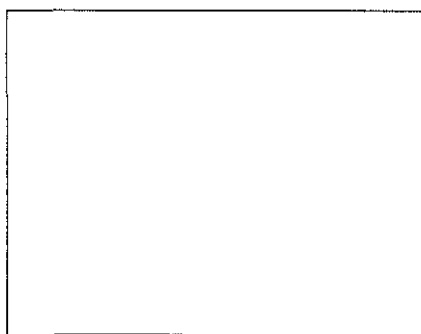
Roger Pedder, 65, was appointed a non-executive director in 1988 and became non-executive Chairman in October 1993. His main role is with the Group, however, he is also Chairman of Ethel Austin Ltd and Bargain Booze Ltd, as well as being a Director of Nelson Holdings Ltd and Serve Investments Ltd.



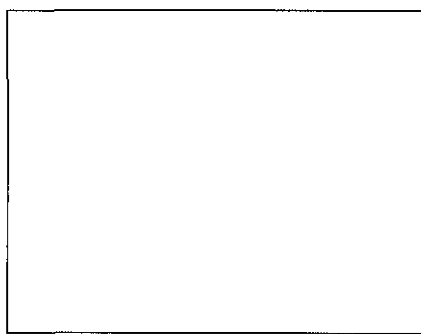
Peter Davies, 56, was appointed a non-executive director in September 2005 and will become non-executive Chairman in May 2006. He has more than 20 years experience in UK and International retail most recently as Chief Executive of Rubicon Retail Ltd. Whilst Clarks will be his main role, Peter is also non-executive Chairman of INCA Creative.



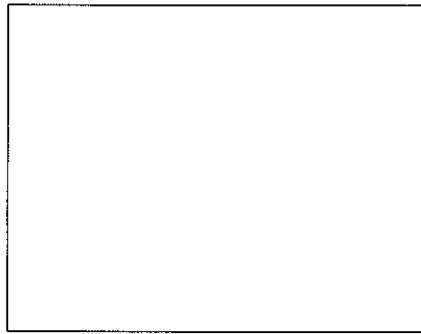
Harriet Hall, 57, was appointed as an independent non-executive director and Chair of the Appointments and Remuneration Committee on 7th May 1999. She was Chair of the Family Shareholder Council from 1993 to 1998. She is a solicitor and also on the consumer panel of the Financial Services Authority and a non-executive director of the South London and Maudsley Mental Health Trust.



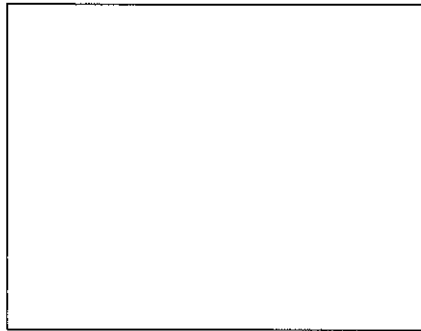
Hugh Clark, 43, was appointed as an independent non-executive director in May 2005. He was a member of the Family Shareholder Council from its inception in 1993 until joining the board. He joined Clarks as a graduate in 1985 and spent eleven years in the business before joining Rohan in 1996. He has been Managing Director of Rohan since 2001.



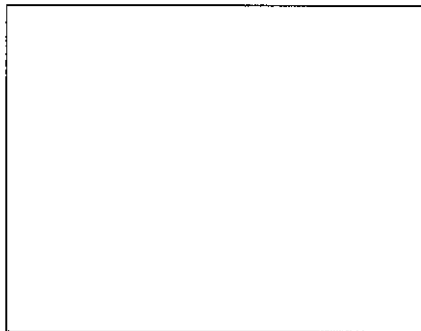
Thomas J O'Neill, 53, was appointed to the Board as an independent non-executive director on 10th May 2004. He has been the CEO and Director of Harry Winston since July 2004 and has concurrently held the position of President and Director of Aber Diamond Company, the majority owner of Harry Winston.



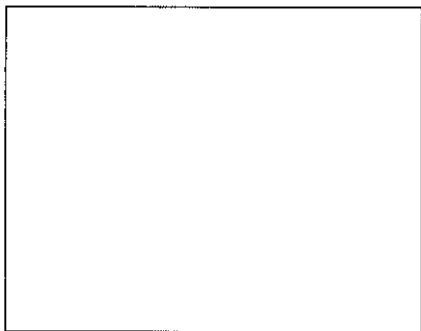
Peter Bolliger, 61, worked in the shoe business from 1968-90 before joining Harrods as Managing Director for the period 1990-94. He joined the Group in 1994 and was appointed to the Board on 23rd February 1996. He was appointed Chief Executive on 16th August 2002. He is also a non-executive director of Brazz plc.



Robin Beacham, 46, joined the Group in 1990 from Arthur Andersen and carried out a number of financial management roles before becoming Financial Controller in 1996. He was appointed to the Board as Finance Director on 28th June 2001.



Bob Infantino, 56, has over 35 years' experience in the footwear industry and was Senior Vice President of Product Development, Merchandising and Marketing at The Rockport Company before joining Clarks in 1992. He is President of The Clarks Companies North America and was appointed to the Board on 25th September 2002.



Judith Derbyshire, 49, joined the Group in 1989 and she was appointed as Company Secretary in 1991. She is a solicitor, as well as being a non-executive director of Rugged Logic Ltd and a Governor of Millfield School.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31st January 2006.

Business Review

The principal activities of the Company and its related subsidiaries are worldwide shoe retailing and wholesaling, and related trades. Further details of the operations and the trading results are set out on pages 6 to 19. The profit of the Group for the year was £48.9m. A list of the major overseas subsidiaries of the Company may be found on page 67.

Directors

The current directors of the Company are listed on pages 36 and 37. Roger Pedder will retire as non-executive Chairman at the forthcoming Annual General Meeting when Peter Davies, who was appointed as a non-executive director on 1st September 2005, will replace him as non-executive Chairman. Andrew Higginson retired as a non-executive director on 23rd September 2005 and Hugh Clark was appointed as a non-executive director on 9th May 2005. Nigel Hall was appointed as a non-executive after the year end on 1st March 2006.

In accordance with the Company's Memorandum and Articles, Peter Bolliger, Harriet Hall and Bob Infantino retire by rotation at the forthcoming Annual General Meeting. All three seek re-election. Hugh Clark, Peter Davies and Nigel Hall, who have all been appointed since the last Annual General Meeting, also retire and seek re-election. Details of the directors' service contracts are given in the Remuneration Report on pages 28 to 33.

Fixed Assets

In the opinion of the directors, the market value of land, on an existing use basis, is not significantly different to book value.

Employees

The Board believes that the principle of equality of treatment and opportunity is of fundamental importance. Its long held aim is to provide just and fair treatment for all employees. In accordance with this policy, the only personal attributes which will be taken into account in making decisions about employees are those which relate directly to actual or potential performance. Throughout the Group, procedures for consultation with, and the involvement of, employees are in operation, as appropriate to the circumstances of the individual businesses. Information on matters of concern to employees is given through a variety of presentations, briefings, bulletins and reports.

The Environment

The Group recognises that care and concern for the environment and the community are a fundamental part of the Group's strategy. It is the Group's intention to strive continuously to minimise any adverse environmental impact of business activities, to comply with all relevant environmental legislation and to promote a caring attitude to the environment amongst its employees. A statement of commitment from the Group Environmental Policy is shown on pages 26 to 27.

Directors' Interests

The interests of the directors in the share capital of the Company are shown in the table opposite. A list of transactions with related parties is given in note 22 to the financial statements. There were no changes in directors' share interests between the end of the year and 11th March (being one month before the date of the notice of the Annual General Meeting).

Donations

Donations for charitable purposes made by the Group during the year amounted to £296,000 (2005 - £459,000). No donations were made for political purposes.

Creditor Payment Policy

The Group's policy is to use standard payment terms, payment being at the end of the month following the invoice date, except for goods for resale which are generally 30 days. For all trade creditors it is the Group's policy to:

- Settle terms of payment with suppliers.
- Ensure that suppliers are aware of the terms of payment.
- Make every effort to meet agreed payment dates provided that the agreed terms and conditions have been met by the suppliers.

DIRECTORS' INTERESTS

	At 31st January 2006		At 31st January 2005	
	Ordinary Shares*	Executive Share Trust**	Ordinary Shares*	Executive Share Trust**
Robin Beacham	1,026	133,425	1,026	80,552
Peter Bolliger	6,218	133,425	6,218	168,433
Hugh Clark (appointed 9th May 2005)	295,911	-	-	-
Peter Davies (appointed 1st September 2005)	-	-	-	-
Harriet Hall	3,529,693	-	3,529,693	-
Andrew Higginson (retired 23rd September 2005)	-	-	-	-
Bob Infantino	7,107	133,425	7,107	80,552
Benjamin Lovell (retired 6th May 2005)	-	-	1,945,516	-
Thomas J O'Neill	-	-	-	-
Roger Pedder	1,948,529	-	1,937,529	-

*The shareholdings shown do not, in every case, represent the beneficial interests held.

**The executive directors, as potential beneficiaries under the Company's share schemes, are deemed to be interested in the 133,425 (2005 - 80,552) unallocated C&J Clark Limited Ordinary Shares held by the C&J Clark Executive Share Trust. These do not represent beneficial interests.

Corporate Governance

The Group remains committed to the highest standards of corporate governance. A report is set out on pages 22 to 24.

Going Concern

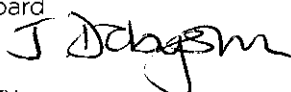
After making enquiries, the directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Judith Derbyshire
Company Secretary
22nd March 2006



STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period.

In preparing those financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

**STATEMENT
OF DIRECTORS'
RESPONSIBILITIES**

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements on pages 44 to 66. In addition to our audit of the financial statements, the directors have engaged us to audit the information in the directors' remuneration report that is described as having been audited, which the directors have decided to prepare (in addition to that required to be prepared) as if the Company were required to comply with the requirements under Schedule 7A to the Companies Act 1985. This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 and the terms of our engagement. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in our auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described in the Statement of directors' responsibilities on page 40, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance. We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed. In addition to our audit of the financial statements, the directors have engaged us to review their corporate governance statement as if the Company were required to comply with the Listing Rules of the Financial Services Authority in relation to these matters. We review whether the statement on pages 22 to 24 reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by those rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures. We read

the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- The financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st January 2006 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.
- The part of the directors' remuneration report which we were engaged to audit has been properly prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985, as if the Company were required to comply with the requirements of that Schedule.

KPMG LLP
Chartered Accountants
Registered Auditor
Bristol
22nd March 2006

INDEPENDENT AUDITORS'
REPORT TO THE MEMBERS
OF C&J CLARK LIMITED

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GROUP PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST JANUARY 2006

	Notes	Before exceptional items 2006 £m	Exceptional items 2006 £m	Total 2006 £m	Before exceptional items 2005 (restated) £m	Exceptional items 2005 (restated) £m	Total 2005 (restated) £m
Turnover							
Continuing operations		920.6	-	920.6	906.8	-	906.8
Discontinued operations		0.8	-	0.8	48.0	-	48.0
	1(b)	921.4	-	921.4	954.8	-	954.8
Costs less other income							
Continuing operations	2(a)	(838.5)	(3.0)	(841.5)	(812.8)	(3.6)	(816.4)
Discontinued operations	2(h)	(1.1)	-	(1.1)	(44.2)	-	(44.2)
Long-term incentive schemes relating to continuing operations	2(a)	0.3	-	0.3	(5.4)	-	(5.4)
Operating profit							
Continuing operations	2(a)	82.4	(3.0)	79.4	88.6	(3.6)	85.0
Discontinued operations	2(a)	(0.3)	-	(0.3)	3.8	-	3.8
	2	82.1	(3.0)	79.1	92.4	(3.6)	88.8
Profit on disposal of fixed assets in continuing operations	3	-	1.6	1.6	-	2.6	2.6
Net closure cost of discontinued operations	2(h)	-	(2.5)	(2.5)	-	(6.5)	(6.5)
Profit before interest		82.1	(3.9)	78.2	92.4	(7.5)	84.9
Other net finance costs	4	(6.3)	-	(6.3)	(4.5)	-	(4.5)
Profit before taxation		75.8	(3.9)	71.9	87.9	(7.5)	80.4
Taxation	5	(23.6)	0.6	(23.0)	(27.3)	0.4	(26.9)
Profit for the financial year		52.2	(3.3)	48.9	60.6	(7.1)	53.5
Basic earnings per Ordinary Share		84.4p	(5.4p)	79.0p	98.0p	(11.5p)	86.5p
Diluted earnings per Ordinary Share		84.2p	(5.4p)	78.8p	97.7p	(11.5p)	86.2p

The notes on pages 48 to 66 form part of these financial statements.

The prior year figures have been restated to reflect the adoption of FRS 17 "Retirement Benefits" and FRS 21 "Events after the balance sheet date". The net effect has been to reduce profit for the financial year by £2.8m, from the £56.3m previously reported to £53.5m. For full details please refer to Accounting Policies (page 48).

BALANCE SHEETS

AS AT 31ST JANUARY 2006

	Notes	Group 2006 £m	Group 2005 (restated) £m	Company 2006 £m	Company 2005 (restated) £m
Fixed assets					
Tangible assets	8(a)	176.8	155.4	-	-
Investments	9	1.8	1.3	77.3	77.7
		178.6	156.7	77.3	77.7
Current assets					
Stock	10	191.6	176.2	-	-
Debtors	11	96.5	106.1	136.2	210.1
Cash at bank and in hand		48.2	44.2	-	-
		336.3	326.5	136.2	210.1
Creditors – amounts falling due within one year	12	(156.9)	(188.6)	(3.9)	(125.6)
Net current assets		179.4	137.9	132.3	84.5
Total assets less current liabilities		358.0	294.6	209.6	162.2
Creditors – amounts falling due after more than one year	13	(39.7)	(1.3)	(34.9)	-
Provisions for liabilities and charges	14	(20.7)	(33.0)	-	-
Net assets excluding pension liability		297.6	260.3	174.7	162.2
Pension liability	20	(96.3)	(93.0)	-	-
Net assets including pension liability		201.3	167.3	174.7	162.2
Capital and reserves					
Called-up share capital	16	62.0	62.0	62.0	62.0
Share premium account	17	0.4	0.4	0.4	0.4
Capital redemption reserve	17	15.5	15.5	15.5	15.5
Merger reserve	17	15.1	15.1	-	-
Profit and loss account	17	108.3	74.3	96.8	84.3
Equity shareholders' funds		201.3	167.3	174.7	162.2

The notes on pages 48 to 66 form part of these financial statements.

Equity shareholders' funds as at 31st January 2005 have been restated to reflect the adoption of FRS 17 "Retirement Benefits" and FRS 21 "Events after the balance sheet date". The net effect has been to reduce Equity shareholders' funds by £104.5m. For full details please refer to Accounting Policies (page 48).

Approved by the Board of Directors and signed on their behalf on 22nd March 2006.

Roger Pedder

RAPedder

Robin Beacham

Beacham

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST JANUARY 2006

	Notes	2006 £m	2005 £m
Cash flow from operating activities	23	71.4	99.6
Returns on investments and servicing of finance	24(a)	(2.8)	(2.3)
Taxation		(24.2)	(20.4)
Capital expenditure and financial investment	24(b)	(37.5)	(59.8)
Acquisitions and disposals		-	(3.1)
		6.9	14.0
Equity dividends paid		(14.9)	(12.8)
Net cash inflow before financing		(8.0)	1.2
Financing	24(c)	(4.9)	0.7
(Decrease)/increase in cash in the year		(12.9)	1.9

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET BORROWINGS

FOR THE YEAR ENDED 31ST JANUARY 2006

	Notes	2006 £m	2005 £m
(Decrease)/increase in cash in the year		(12.9)	1.9
Cash flow from increase/(decrease) in debt	24(c)	4.9	(0.7)
Change in net borrowings resulting from cash flows		(8.0)	1.2
Currency translation adjustments		0.5	(0.2)
(Increase)/decrease in net borrowings in the year		(7.5)	1.0
Opening net borrowings		(18.1)	(19.1)
Closing net borrowings	25	(25.6)	(18.1)

The notes on pages 48 to 66 form part of these financial statements.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31ST JANUARY 2006

	2006 £m	2005 (restated) £m
Profit for the financial year	48.9	53.5
Currency translation adjustments	5.9	(2.4)
UK Corporation Tax on currency translation adjustments	(0.2)	0.2
Actuarial loss on pension schemes (net of deferred taxation)	(5.7)	(8.0)
Total recognised gains and losses arising during the financial period	48.9	43.3
Prior year adjustment (see Accounting Policies page 48)	(104.5)	-
Total recognised gains and losses since the last annual report	(55.6)	43.3

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31ST JANUARY 2006

	Group 2006 £m	Group 2005 (restated) £m	Company 2006 £m	Company 2005 (restated) £m
Total recognised gains and losses arising during the financial year	48.9	43.3	27.4	(1.0)
Dividends paid	(14.9)	(12.8)	(14.9)	(12.8)
	34.0	30.5	12.5	(13.8)
Addition of shares in relation to employee share schemes	(0.3)	(0.3)	-	-
Disposal of shares in relation to employee share schemes	0.3	0.3	-	-
Net increase/(decrease) in equity shareholders' funds during the financial period	34.0	30.5	12.5	(13.8)
Opening equity shareholders' funds	167.3	136.8	162.2	176.0
Closing equity shareholders' funds	201.3	167.3	174.7	162.2

Opening equity shareholders' funds have been restated following the full adoption of FRS 17 "Retirement Benefits" and FRS 21 "Events after the balance sheet date". The effect has been to reduce opening equity shareholders' funds by £104.5m. For full details please refer to Accounting Policies (page 48).

GROUP NOTE OF HISTORICAL COST PROFITS AND LOSSES

FOR THE YEAR ENDED 31ST JANUARY 2006

	2006 £m	2005 (restated) £m
Profit on ordinary activities before taxation	71.9	80.4
Realised gains on revalued properties	-	0.1
Difference between historical cost depreciation charge and actual depreciation charge for the year	0.2	0.2
Historical cost profit on ordinary activities before taxation	72.1	80.7
Historical cost profit for the year retained after taxation	49.1	53.8

The notes on pages 48 to 66 form part of these financial statements.

ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention as modified to include the revaluation of freehold and long leasehold land and buildings and in accordance with applicable accounting standards.

The financial statements for the Company and all material subsidiaries are drawn up to the nearest Saturday to the 31st January, in line with retail industry practice. The year to 31st January 2006 comprises 52 weeks (2005 – 52 weeks).

CHANGES IN ACCOUNTING POLICIES

Pension accounting – The Group has fully adopted FRS 17 “Retirement Benefits”. The major feature of this change is that the net liabilities of the defined benefit schemes operated by the Group are now recognised on the balance sheet. As at 31st January 2006 this liability was £96.3m. The comparatives for the year ended 31st January 2005 have been restated accordingly. The impact of the adoption of FRS 17 is shown in the table opposite.

Dividends – During the year the Group has adopted FRS 21 “Events after the balance sheet date”. Under this standard dividends declared and paid after the balance sheet date can no longer be recognised as a liability in the preceding period. The comparatives for the year ended 31st January 2005 have been restated accordingly. The impact of the adoption of FRS 21 is shown in the table opposite.

The following accounting policies have been applied consistently throughout the year. Other than detailed above there have been no changes in accounting policies since last year.

BASIS OF CONSOLIDATION

The Group financial statements comprise a consolidation of the financial statements of the parent company and all of its subsidiaries. The principal subsidiaries are listed on page 67.

INVESTMENTS IN SUBSIDIARY COMPANIES

Investments in subsidiary companies are stated at cost less provisions for any impairment in value.

REVENUE RECOGNITION

Sales during the normal course of business are recognised on legal transfer of title, and are accounted for net of sales discounts, sales taxes and returned goods.

Profits on sales of property are recognised on completion, unless the exchange of contracts is unconditional in which case the profit is recognised at that stage. Rental income is accounted for on a receivable basis.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date. Profit and losses of overseas subsidiaries are translated into Sterling at average rates of exchange.

Exchange differences arising on the retranslation of the opening net assets of overseas subsidiaries, less exchange differences arising on related foreign currency borrowings, are taken to reserves and disclosed in the statement of total recognised gains and losses on page 47, together with any related tax charges or credits. All other exchange differences are recognised in the profit and loss account.

FINANCIAL INSTRUMENTS

The Group uses financial instruments to manage its exposure to fluctuations in foreign currency exchange rates. Currently the only instruments used are forward currency contracts and currency option contracts. Gains and losses on forward contracts and options, entered into as hedges of future purchases and sales denominated in foreign currency, are carried forward and taken to the profit and loss account on maturity to match the underlying transactions. The Group has taken advantage of the exemption available for short-term debtors and creditors.

FIXED ASSETS AND DEPRECIATION

Depreciation is provided on all tangible fixed assets, excepting freehold land and assets in the course of construction, in order to write off the original cost, less estimated residual value, evenly over the average expected useful life of the asset as follows:

Freehold and long leasehold buildings	50 years
Short leasehold property	lower of 14 years or the life of the lease
Plant, machinery and fixtures	8 years
Motor vehicles	4 years
Computer hardware	3 years

IMPACT OF ADOPTION OF FRS 17 "RETIREMENT BENEFITS" AND FRS 21 "EVENTS AFTER THE BALANCE SHEET DATE"

Group profit and loss account

	Profit on ordinary activities before interest £m	Net interest payable £m	Tax charge £m	Profit for the financial period £m	Retained profit for the period £m
Year ended 31st January 2005					
As previously stated	94.2	(2.4)	(28.1)	56.3	41.4
Effect of adopting FRS 17	(1.8)	(2.1)	1.2	(2.8)	(2.8)
Effect of adopting FRS 21	-	-	-	-	10.2
As restated	92.4	(4.5)	(26.9)	53.5	48.8

Group balance sheet

	Pension asset held under SSAP 24 £m	Associated deferred tax liability £m	Net pension liability £m	Dividend creditor £m	Profit and loss reserve £m
As at 31st January 2005					
As previously stated	31.8	(10.1)	-	(10.2)	178.8
Effect of adopting FRS 17	(31.8)	10.1	(93.0)	-	(114.7)
Effect of adopting FRS 21	-	-	-	10.2	10.2
As restated	-	-	(93.0)	-	74.3

The key ratios shown in the Group financial record on page 68 have been restated, where appropriate, to reflect the adoption of FRS 17 and FRS 21.

CAPITALISATION OF SOFTWARE COSTS

Software costs are capitalised and amortised over three years. Where appropriate these costs include elements of fees paid to external consultants.

LEASED ASSETS

Fixed assets held under finance leases have been capitalised and depreciated over their expected useful lives. The related lease obligations have been included in creditors. The finance charges have been charged to the profit and loss account over the primary period of the lease. Operating lease rentals have been charged to the profit and loss account as incurred.

LEASE INCENTIVES

Where the Group receives an incentive to take on a property lease by way of a capital contribution or a discounted or free rental period, the benefit is spread over the life of the lease as a reduction in rental costs.

RESEARCH AND DEVELOPMENT

All expenditure on research and development is written off in the year in which it is incurred.

STOCK

Stock has been stated at the lower of cost and net realisable value. The cost of manufactured stock, including work in progress, includes all direct expenditure together with an appropriate proportion of overheads.

DEFERRED TAXATION

Full provision is made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. Deferred tax is not recognised on permanent differences such as revaluation gains, gains rolled over into new assets, and unremitted overseas earnings.

PENSION COSTS

The cost of providing pension benefits has been charged to the profit and loss account in accordance with the requirements of FRS 17 "Retirement Benefits".

COMPANY PROFIT AND LOSS ACCOUNT

In accordance with Section 230 of the Companies Act 1985, a separate profit and loss account has not been published for the Company.

NOTES TO THE FINANCIAL STATEMENTS

In these notes to the financial statements, the headings '2006' refer to the year ended 31st January 2006 or the balance sheet as at 31st January 2006 and the headings '2005' refer to the year ended 31st January 2005 or the balance sheet as at 31st January 2005.

1) ANALYSIS OF TURNOVER, PROFIT AND CAPITAL EMPLOYED

The turnover and profits of the Group derive from its activities in the shoe trade.

a) Analysis of profit/(loss) by geographical area of origin:

	Profit before exceptional items 2006 £m	Profit before exceptional items 2005 (restated) £m	Exceptional items 2006 £m	Exceptional items 2005 (restated) £m	Profit/(loss) before interest and taxation 2006 £m	Profit/(loss) before interest and taxation 2005 (restated) £m
UK	62.8	67.4	(1.4)	(1.3)	61.4	66.1
North America	18.1	18.0	-	-	18.1	18.0
Europe	0.7	5.8	(2.5)	(6.2)	(1.8)	(0.4)
Rest of the World	0.5	1.2	-	-	0.5	1.2
	82.1	92.4	(3.9)	(7.5)	78.2	84.9

b) Analysis of turnover and capital employed:

	Turnover by geographical area of origin 2006 £m	Turnover by geographical area of origin 2005 £m	Turnover by ultimate geographical market 2006 £m	Turnover by ultimate geographical market 2005 £m	Capital employed by geographical area 2006 £m	Capital employed by geographical area 2005 (restated) £m
UK	612.4	634.0	551.1	576.9	235.8	211.6
North America	256.9	222.2	256.9	217.2	99.3	82.5
Europe	33.0	81.2	69.4	121.0	4.8	14.8
Rest of the World	19.1	17.4	44.0	39.7	3.0	1.1
Total footwear	921.4	954.8	921.4	954.8	342.9	310.0
Unallocated items	-	-	-	-	(5.1)	(20.3)
	921.4	954.8	921.4	954.8	337.8	289.7

c) Reconciliation of capital employed and net assets:

	2006 £m	2005 (restated) £m
Capital employed (see note 1(b))	337.8	289.7
Net borrowings (see note 25)	(25.6)	(18.1)
Deferred taxation (see note 15)	(14.6)	(11.3)
Pension liability (see note 20)	(96.3)	(93.0)
Net assets	201.3	167.3

2) OPERATING PROFIT AND COSTS

a) Costs less other income:

	Before exceptional items 2006	Exceptional items 2006	Total 2006	Before exceptional item 2005 (restated)	Exceptional items 2005 (restated)	Total 2005 (restated)
	£m	£m	£m	£m	£m	£m
Turnover	921.4	-	921.4	954.8	-	954.8
Cost of sales	(457.6)	(0.1)	(457.7)	(472.3)	(2.5)	(474.8)
Gross profit	463.8	(0.1)	463.7	482.5	(2.5)	480.0
Distribution costs	(242.4)	(2.5)	(244.9)	(228.8)	(1.1)	(229.9)
Administrative costs	(139.3)	(0.4)	(139.7)	(161.3)	-	(161.3)
Operating profit	82.1	(3.0)	79.1	92.4	(3.6)	88.8

	Continuing operations 2006	Discontinued operations 2006	Total 2006	Continuing operations 2005 (restated)	Discontinued operations 2005	Total 2005 (restated)
	£m	£m	£m	£m	£m	£m
Before exceptional items						
Turnover	920.6	0.8	921.4	906.8	48.0	954.8
Cost of sales	(456.8)	(0.8)	(457.6)	(441.0)	(31.3)	(472.3)
Gross profit	463.8	-	463.8	465.8	16.7	482.5
Distribution costs	(242.3)	(0.1)	(242.4)	(220.9)	(7.9)	(228.8)
Administrative costs	(139.1)	(0.2)	(139.3)	(156.3)	(5.0)	(161.3)
Operating profit	82.4	(0.3)	82.1	88.6	3.8	92.4

Administrative expenses include the cost of long-term incentive schemes as follows:

	2006 £m	2005 £m
Executive Share Plan	-	0.3
Clarks Incentive Plan	(2.2)	2.9
CCNA Incentive Plan	0.3	0.3
Senior Managers' Scheme	1.6	1.9
	(0.3)	5.4

These schemes are detailed in the Remuneration Report on pages 28 to 33.

b) Exceptional items charged in arriving at operating profit are:

	Cost of sales £m	Distribution costs £m	Administrative expenses £m	Total 2006 £m
Closure and restructuring of factories	0.1	-	-	0.1
Cost of new UK Distribution Centre	-	2.5	-	2.5
Other restructuring costs	-	-	0.4	0.4
	0.1	2.5	0.4	3.0

NOTES TO THE FINANCIAL STATEMENTS

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2) OPERATING PROFIT AND COSTS (CONTINUED)

c) Other costs charged in arriving at operating profit include:

	2006 £m	2005 £m
Depreciation and impairments of owned assets	19.2	18.4
Auditors' remuneration		
Audit fees	0.4	0.5
Other assurance work	0.5	0.3
Operating lease rentals		
Land and buildings	78.3	73.3
Plant and equipment	2.4	2.9
Operating lease rental income		
Land and buildings	(6.9)	(7.9)
Parent company audit fees were £nil (2005 - £nil)		

d) Average number of full-time and part-time employees:

	2006 Number	2005 Number
Production	170	625
Sales and distribution	11,252	11,714
Administration	935	817
	12,357	13,156

The average number of employees has been calculated on a monthly weighted average. The total number of employees at the year end was 12,021 (2005 - 12,723).

e) Employment costs in respect of the foregoing:

	2006 £m	2005 (restated) £m
Wages and salaries	138.8	139.8
Social security costs	14.4	13.9
Pension current service costs (see note 20)	9.4	8.1
Long-term incentive schemes (see note 2(a))	(0.3)	5.4
	162.3	167.2

2) OPERATING PROFIT AND COSTS (CONTINUED)

f) Aggregate emoluments of the Directors:

	2006 £m	2005 £m
Non-executive directors' fees and benefits	0.4	0.4
Executive directors' services		
Salaries and benefits	1.7	1.9
Long-term incentives	(1.1)	2.4
	1.0	4.7
Pension contributions - FURBS	0.1	0.1
	1.1	4.8

More detailed information concerning directors' share entitlements and emoluments, including long-term incentive schemes, is shown in the Remuneration Report on pages 28 to 33.

g) Executive Directors' share scheme

The C&J Clark Executive Share Trust holds shares in the expectation of future grants being made to executives. Dividends have not been waived on these shares and the income and financing expenses of this trust have been included in the consolidated profit and loss account. At 31st January 2006 this trust held 133,425 (2005 - 168,433). The shares held by this trust are included at cost as a deduction against distributable reserves in line with UITF 38 "Accounting for ESOP Trusts". The overdraft of the trust is included within borrowings. More detailed information on the Executive Share Plan is given in the Remuneration Report on pages 28 to 33. The latest published share price is £6.50 per share (2005 - £6.25 per share).

h) Discontinued operations

Operating results disclosed as discontinued operations relate entirely to the Elefanten group of companies which entered into voluntary liquidation on 30th July 2004. The current year closure costs of £2.5m are disclosed as an exceptional item in line with FRS 3 "Reporting financial information".

3) PROFIT ON DISPOSAL OF FIXED ASSETS

	2006 £m	2005 £m
Property disposals: surplus over net book value	1.6	2.6

4) NET INTEREST PAYABLE

	2006 £m	2005 (restated) £m
Interest payable on bank loans and overdrafts	3.9	2.7
Interest receivable	(0.9)	(0.3)
Net return on assets and liabilities of pension scheme (see note 20)	3.3	2.1
	6.3	4.5

NOTES TO THE FINANCIAL STATEMENTS

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5) TAXATION ON PROFIT ON ORDINARY ACTIVITIES

a) Analysis of charge in the year:

	2006 £m	2005 (restated) £m
Current taxation:		
UK taxation:		
UK Corporation Tax at 30% (2005 - 30%)	12.8	14.3
Double taxation relief	(0.2)	(0.2)
Adjustments in respect of prior years	(0.8)	(0.5)
Total UK taxation	11.8	13.6
Overseas taxation:		
Current taxation on income for the year	8.3	7.5
Adjustments in respect of prior years	(0.8)	(0.3)
Total overseas taxation	7.5	7.2
Total current taxation	19.3	20.8
Movement in deferred taxation:		
Net pension liability origination and reversal of timing differences (see note 20)	0.9	2.3
Other origination and reversal of timing differences (see note 15)	2.8	3.8
Taxation on profit on ordinary activities	23.0	26.9

b) Factors affecting tax charge:

The taxation assessed for the year is higher than the standard rate of Corporation Tax in the UK which is 30% (2005 - 30%). The differences are explained below:

	2006 £m	2005 £m
Profit on ordinary activities before taxation	71.9	80.4
At standard rate of Corporation Tax in the UK	21.6	24.1
Higher taxation rates on overseas earnings	1.7	1.8
Depreciation on items not qualifying for Capital Allowances	0.7	0.8
Profit on disposal of assets not qualifying for Capital Allowances	-	(0.1)
Overseas taxation losses	(0.8)	0.3
Adjustments in respect of prior years	(1.6)	(0.5)
Other	1.4	0.5
	23.0	26.9
Movement in deferred taxation	(3.7)	(6.1)
Total current taxation (see note 5 (a))	19.3	20.8

6) DIVIDENDS PAID

	2006 £m	2005 (restated) £m
Equity dividends paid in the year:		
Final Ordinary Share dividend for the year ended 31st January 2005 of 16.5p (2005 - 13.0p)	10.2	8.1
Interim Ordinary Share dividend for the year ended 31st January 2006 of 7.5p (2005 - 7.5p)	4.7	4.7
	14.9	12.8

The final Ordinary Share dividend proposed for the year ended 31st January 2006 is 16.5p per share (2005 - 16.5p).

7) EARNINGS PER ORDINARY SHARE

Earnings per Ordinary Share have been calculated by dividing the profit after taxation of £48.9m (2005 - £53.5m restated) by the weighted average number of Ordinary Shares in issue during the year of 61,860,820 (2005 - 61,860,583) which excludes those held in the Executive Share Trust (see note 2(g)). The diluted earnings per share includes the dilutive effect of the shares held in this Trust.

8) FIXED ASSETS - TANGIBLE ASSETS

a) Summary:

	Land and Buildings Freehold £m	Land and Buildings Long Leasehold £m	Land and Buildings Short Leasehold £m	Plant and Equipment £m	Total £m
Cost or valuation					
At 1st February 2005	52.9	1.0	18.4	186.7	259.0
Reclassification	(7.5)	-	(5.6)	13.1	-
Exchange rate adjustments	0.3	0.1	0.9	1.5	2.8
Capital expenditure	0.8	-	7.2	34.0	42.0
Disposals	(1.2)	(0.1)	(1.3)	(11.3)	(13.9)
At 31st January 2006	45.3	1.0	19.6	224.0	289.9
Depreciation					
At 1st February 2005	3.3	0.1	10.4	89.8	103.6
Reclassification	0.2	-	(1.6)	1.4	-
Exchange rate adjustments	0.3	-	0.4	0.5	1.2
Charge for the year	1.3	-	1.3	16.5	19.1
Impairment	-	-	-	0.1	0.1
Disposals	(0.1)	-	(1.2)	(9.6)	(10.9)
At 31st January 2006	5.0	0.1	9.3	98.7	113.1
Net book value					
At 31st January 2006	40.3	0.9	10.3	125.3	176.8
At 1st February 2005	49.6	0.9	8.0	96.9	155.4

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

b) Valuation of Land and Buildings:

	Freehold £m	Long Leasehold £m	Short Leasehold £m	Total £m
Land and buildings are stated at:				
Valuation less depreciation	13.3	0.8	-	14.1
Cost less depreciation	27.0	0.1	10.3	37.4
	40.3	0.9	10.3	51.5
At historical cost, the comparable amounts would be:				
Cost	40.7	0.8	19.5	61.0
Depreciation	(3.8)	(0.1)	(9.2)	(13.1)
Net book value	36.9	0.7	10.3	47.9

In accordance with the transitional provisions of FRS 15, freehold and long leasehold land and buildings are shown at current valuations and will not be updated. The gross book value of freehold land and buildings includes £7.3m (2005 - £7.3m) of land which is not depreciated.

c) Leased assets

Plant and equipment includes leased assets with a net book value of £nil (2005 - £nil).

9) FIXED ASSETS - INVESTMENTS

a) Group:

	Listed investments £m	Unlisted investments £m	Total £m
Net book values at 1st February 2005	1.2	0.1	1.3
Exchange rate adjustments	0.1	-	0.1
Addition	0.4	-	0.4
Net book values at 31st January 2006	1.7	0.1	1.8

b) Company:

	Shares in subsidiary undertakings 2006 £m	Shares in subsidiary undertakings 2005 £m
Net book values at 1st February 2005	77.7	77.7
Disposals	(0.4)	-
Net book values at 31st January 2006	77.3	77.7

10) STOCK

	2006 £m	2005 £m
Raw materials and consumables	-	0.1
Work in progress	1.8	1.1
Finished goods and goods held for resale	188.4	170.7
Assets held for resale	1.4	4.3
	191.6	176.2

The figure for assets held for resale relates entirely to assets which are being sold as part of the liquidation of the Elefanten group.

11) DEBTORS

	Group 2006 £m	Group 2005 (restated) £m	Company 2006 £m	Company 2005 £m
Trade debtors	72.5	73.9	-	-
Amounts owed by Group undertakings	-	-	136.0	209.8
Other debtors	4.2	14.3	-	-
Prepayments and accrued income	19.6	17.6	0.2	0.3
Amounts falling due within one year	96.3	105.8	136.2	210.1
Other debtors falling due after one year	0.2	0.3	-	-
Amounts falling due after more than one year	0.2	0.3	-	-
	96.5	106.1	136.2	210.1

12) CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2006 £m	Group 2005 (restated) £m	Company 2006 £m	Company 2005 (restated) £m
Bank loans and overdrafts	38.9	62.3	-	34.9
Trade creditors	86.0	85.8	-	-
Amounts owed to other Group undertakings	-	-	3.6	90.6
Current taxation	4.3	9.1	-	-
Social security	2.5	2.5	-	-
Other creditors	8.6	10.4	-	-
Accruals and deferred income	16.6	18.5	0.3	0.1
	156.9	188.6	3.9	125.6

NOTES TO THE FINANCIAL STATEMENTS

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13) CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Long-term loans	34.9	-	34.9	-
Other	4.8	1.3	-	-
	39.7	1.3	34.9	-
Amounts falling due between:				
one and two years	34.9	-	34.9	-
two and five years	-	-	-	-
after five years	4.8	1.3	-	-
	39.7	1.3	34.9	-

14) PROVISIONS

	At 1st February 2005 (restated) £m	Exchange rate adjustment £m	Provided in year £m	Released in year £m	Utilised £m	At 31st January 2006 £m
Executive Share Plan	1.6	-	-	-	(1.6)	-
Clarks Incentive Plan	5.1	-	-	(2.2)	(2.6)	0.3
CCNA Incentive Plan	0.3	-	0.4	-	-	0.7
Senior Managers' Long-Term Incentive Scheme	3.9	-	1.6	-	(5.5)	-
Restructuring of factories and shops	6.8	-	1.1	-	(5.8)	2.1
Returns provision	0.8	-	0.5	-	(0.8)	0.5
Dilapidation provision	0.4	-	0.4	-	(0.1)	0.7
Onerous lease provision	0.9	-	0.3	-	(0.4)	0.8
Other	1.9	-	0.1	-	(1.0)	1.0
	21.7	-	4.4	(2.2)	(17.8)	6.1
Deferred taxation (see note 15)	11.3	0.5	2.8	-	-	14.6
	33.0	0.5	7.2	(2.2)	(17.8)	20.7

15) DEFERRED TAXATION

	Group 2006 £m	Group 2005 (restated) £m
Accelerated Capital Allowances	12.1	9.4
Holdover relief/capital gains taxation losses	0.1	0.9
Liquidation of LIFO inventory reserves in North America and Japan	3.3	6.3
Short-term timing differences	(0.9)	(5.3)
	14.6	11.3
		Group £m
Provision at 1st February 2005 (restated)		11.3
Exchange rate adjustment		0.5
Deferred taxation charge in the profit and loss account for the year (see note 5(a))		2.8
Provision at 31st January 2006		14.6

16) SHARE CAPITAL

	Authorised 2006 £m	Issued and fully paid 2006 £m	Authorised 2005 £m	Issued and fully paid 2005 £m
Ordinary Shares of £1 each	92.3	62.0	92.3	62.0

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17) RESERVES

	Share premium account Group £m	Capital redemption reserve Group £m	Merger reserve Group £m	Own shares held in trust Group £m	Profit and loss account Group £m	Profit and loss account Company £m
At 31st January 2005 as previously reported	0.4	15.5	15.1	(0.7)	179.5	74.1
Prior year restatement (see Accounting Policies (page 48))	-	-	-	-	(104.5)	10.2
Reclassification of shares held in trust	-	-	-	0.7	(0.7)	-
At 31st January 2005 as restated	0.4	15.5	15.1	-	74.3	84.3
Currency translation adjustments	-	-	-	-	5.9	-
UK Corporation Tax on currency translation adjustments	-	-	-	-	(0.2)	-
Purchase of shares in relation to employee share schemes	-	-	-	-	0.3	-
Disposal of shares in relation to employee share schemes	-	-	-	-	(0.3)	-
Retained profit for the year	-	-	-	-	48.9	27.4
Actuarial loss on pension scheme	-	-	-	-	(8.4)	-
Associated deferred tax on actuarial loss	-	-	-	-	2.7	-
Dividends paid	-	-	-	-	(14.9)	(14.9)
	0.4	15.5	15.1	-	108.3	96.8

The merger reserve of £15.1m (2005 - £15.1m) arises from the adoption of merger accounting in the year ended 31st January 1998 in relation to the Group reconstruction which followed the demerger of the Factory Outlet Centres. The capital redemption reserve was created in 2003 as a result of the Ordinary Share buy-back.

The profit for the year dealt with in the profit and loss account of the Company amounts to £12.5m (2005 - £15.9m loss). The cumulative total of goodwill written off against Group profit and loss account reserves in respect of acquisitions prior to the 1st February 1988, when FRS 10 'Goodwill and Intangible Assets' was adopted, amounts to £2.1m (2005 - £2.1m). This relates to acquisitions since 1st February 1985 as information prior to this date is not available.

Own shares held in trust, initially recognised in reserves in accordance with the adoption of UITF 38 "Accounting for ESOP trusts", have now been restated as a reduction of distributable reserves in line with accounting best practice.

18) FINANCIAL COMMITMENTS

Commitments by the Group for capital expenditure not provided in the financial statements are:

	2006 £m	2005 £m
Contracted but not provided for	13.2	12.6

Annual commitments by the Group in respect of non-cancellable operating leases are:

	Land and Buildings 2006 £m	Land and Buildings 2005 £m	Plant and Equipment 2006 £m	Plant and Equipment 2005 £m
Expiring within one year	4.3	3.4	0.5	0.6
Expiring between two and five years	17.2	16.0	2.3	2.0
Expiring after five years	55.4	47.7	-	-
	76.9	67.1	2.8	2.6

19) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's treasury management policies are outlined in the Financial Review on pages 16 to 19.

a) Currency profile and interest rates:

Currency	Gross borrowings 2006 £m	Cash at bank and in hand 2006 £m	Net borrowings 2006 £m	Gross borrowings 2005 £m	Cash at bank and in hand 2005 £m	Net borrowings 2005 £m
Sterling	3.6	(25.6)	(22.0)	26.1	(17.1)	9.0
US Dollar	9.4	(4.9)	4.5	5.0	(3.4)	1.6
Euro	25.0	(11.0)	14.0	28.4	(16.8)	11.6
Other	7.6	(6.7)	0.9	2.8	(6.9)	(4.1)
	45.6	(48.2)	(2.6)	62.3	(44.2)	18.1
Borrowings for hedging purposes						
US Dollar	28.2	-	28.2	-	-	-
	28.2	-	28.2	-	-	-
	73.8	(48.2)	25.6	62.3	(44.2)	18.1

The Group's cash deposits comprise deposits placed on money markets at call and overnight rates. The Group's entire borrowing facilities amounting to £206.3m (2005 - £208.3m) are available at floating rates. These include the Revolving Credit Facility of £150m (2005 - £150m) and overdraft facilities in the UK and overseas totalling £56.3m (2005 - £58.3m). Under the Revolving Credit Facility interest rates are based upon LIBOR, fixed depending on the operational purpose of the borrowing. The interest rates on overdraft facilities in the UK are based on the UK base rate for Sterling borrowings and the relevant central bank rate for currency borrowings. The interest rates on short-term facilities in the USA and Japan are based on local base rates. Bank borrowings are secured by a floating charge over the assets of the Group. Exchange gains on foreign currency borrowings less deposits were £0.5m (2005 - £0.2m loss) including a gain of £0.1m (2005 - £0.1m gain) relating to exchange movements on loans providing a hedge to offset currency movements arising on retranslation of overseas subsidiaries.

The maturity of the Group's gross borrowings at 31st January was as follows:

	2006 £m	2005 £m
In one year or less or on demand	38.9	62.3
In more than one year but not more than two years	-	-
In more than two years but not more than five years	34.9	-
	73.8	62.3

At 31st January the Group had the following undrawn committed borrowings facilities available:

	2006 £m	2005 £m
Expiring in one year	17.4	30.9
Expiring in more than two years	115.1	115.1
	132.5	146.0

b) Currency exposures, fair values and hedges

The Group has used foreign currency contracts to cover the currency exposures on cash flows for Autumn/Winter 2006 and previous seasons. The Company does not engage in foreign currency speculation but covers its future trading requirements through forward exchange contracts and options. By necessity, this results in some forward currency commitments at the year end which have been entered into at exchange rates likely to be relevant at the contract date. Due to short-term fluctuations in exchange rates, the year end rates will always be different from contract rates. At 31st January 2006, the foreign currency forward contracts held a theoretical fair value loss of £0.4m (2005 - £0.5m). The fair value gain on options at 31st January 2006 was £0.2m (2005 - £nil).

Thirty-seven of the forty contracts held will mature during the year ended 31st January 2007. The Sterling value of the deals held is £106.4m (2005 - £156.7m). All but one of the contracts held at 31st January 2005 have matured and have been recognised in the profit and loss account.

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20) RETIREMENT BENEFITS

The Group has adopted FRS 17 "Retirement Benefits" in full with effect from 1st February 2005. The effect of adopting FRS 17 is to change the accounting treatment of our defined benefit pension schemes. Under FRS 17 we are required to include the assets and liabilities of these schemes on the Group balance sheet. Current service cost, curtailment and settlement gains and losses, and net financial returns are included in the profit and loss account in the period to which they relate. Actuarial gains and losses are included in the statement of total recognised gains and losses.

The Group operates two defined benefit schemes in the UK; the C&J Clark Pension Fund (the Fund) and the Clarks Flexible Pension Scheme (the Scheme). The Scheme commenced on 5th April 2005 and for the purposes of this disclosure the liabilities have been assumed to equal the assets of the Scheme. A full actuarial valuation of the Fund was carried out at 5th April 2005 and updated to 31st January 2006 by William M Mercer Ltd. The Group operates a single defined benefit scheme in the USA; the C&J Clark Company Pension Plan (the Plan). A full actuarial valuation of the Plan was carried out at 5th April 2005 and updated to 31st January 2006 by the Savitz Organization. The principal assumptions used to calculate scheme liabilities under FRS 17 are:

	2006 UK	2005 UK	2004 UK	2006 North America	2005 North America	2004 North America
Valuation method	Projected	Projected	Projected	Projected	Projected	Projected
	unit	unit	unit	unit	unit	unit
Discount rate	4.75%	5.25%	5.50%	5.75%	6.00%	6.50%
Inflation rate	2.75%	2.75%	2.75%	2.50%	2.50%	2.50%
Increase to pensions in payment	2.75%	2.75%	2.75%	N/A	N/A	N/A
Salary increases - Executives	4.75%	4.75%	4.75%	5.00%	5.00%	5.00%
- Non-executives	4.25%	4.25%	4.25%	5.00%	5.00%	5.00%

The assets in the scheme and the expected rates of return were:

	UK Long-term expected rate of return 2006 %	North America Long-term expected rate of return 2006 %	UK Value at 31st January 2006 £m	North America Value at 31st January 2006 £m	Total Value at 31st January 2006 £m
Equities	6.50%	9.10%	329.4	20.8	350.2
Bonds	3.70%	6.40%	207.7	10.3	218.0
Other	3.50%	-	6.2	-	6.2
Total market value of assets			543.3	31.1	574.4
Present value of scheme liabilities			(671.7)	(41.6)	(713.3)
Deficit in the scheme			(128.4)	(10.5)	(138.9)
Related deferred tax asset			38.5	4.1	42.6
Net pension liability			(89.9)	(6.4)	(96.3)

20) RETIREMENT BENEFITS (CONTINUED)

	UK Long-term expected rate of return 2005 %	North America Long-term expected rate of return 2005 %	UK Value at 31st January 2005 £m	North America Value at 31st January 2005 £m	Total Value at 31st January 2005 £m
Equities	7.10%	9.50%	274.3	16.9	291.2
Bonds	4.30%	6.60%	180.9	8.9	189.8
Other	4.25%	-	5.3	-	5.3
Total market value of assets			460.5	25.8	486.3
Present value of scheme liabilities			(586.7)	(33.4)	(620.1)
Deficit in the scheme			(126.2)	(7.6)	(133.8)
Related deferred tax asset			37.9	2.9	40.8
Net pension liability			(88.3)	(4.7)	(93.0)
Reconciliation of movements in the year				Group 2006 £m	Group 2005 £m
Pension deficit					
Opening deficit in the scheme				(133.8)	(125.5)
Current service costs				(9.4)	(8.1)
Contributions paid				16.6	15.3
Past service costs				(0.3)	(1.8)
Net return on assets				(3.2)	(2.1)
Actuarial (loss)/gain				(8.4)	(12.0)
Exchange rate adjustment on US scheme				(0.4)	0.4
Closing deficit in the scheme				(138.9)	(133.8)
Associated deferred tax asset					
Opening deferred tax asset				40.8	38.5
Movements in the year (see note 5a))				(0.9)	(1.5)
Movements on actuarial loss/(gain)				2.7	3.8
Closing deferred tax asset				42.6	40.8
Opening net pension liability				(93.0)	(87.0)
Closing pension liability				(96.3)	(93.0)

In addition, the value of the assets and liabilities held in the defined contribution section of the UK fund amounted to £19.4m as at 31st January 2006 (2005 - £18.0m). Defined contribution schemes in the US held assets of £16.3m as at 31st January 2006 (2005 - £13.3m).

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

20) RETIREMENT BENEFITS (CONTINUED)

	Group 2006 £m	Group 2005 £m
Analysis of amounts included in other finance costs		
Expected return on scheme assets	29.0	29.9
Interest on pension scheme liabilities	(32.3)	(32.0)
	(3.3)	(2.1)

	Group 2006 £m	Group 2005 £m	Group 2004 £m	Group 2003 £m
Analysis of amounts recognised in the statement of total recognised gains and losses				
Actual return less expected return on scheme assets	69.8	11.0	61.4	(136.5)
Percentage of year end scheme assets	12.2%	2.3%	13.4%	34.6%
Experience gains and losses arising on scheme liabilities	(2.2)	0.2	(6.3)	(5.7)
Percentage of present value of year end scheme liabilities	0.3%	-	1.1%	1.0%
Changes in assumptions underlying the present value of scheme liabilities	(76.0)	(23.2)	(22.6)	(26.2)
Percentage of present value of year end scheme liabilities	10.7%	3.7%	3.9%	4.8%
Actuarial loss recognised in the statement of total recognised gains and losses	(8.4)	(12.0)	32.5	(168.4)

Percentage of present value of year end scheme liabilities	1.2%	1.9%	5.5%	30.6%
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21) CONTINGENT LIABILITIES

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Guarantees of repayment of loans	-	-	-	-
Other guarantees and indemnities	1.3	2.1	-	-
	1.3	2.1	-	-

22) RELATED PARTY TRANSACTIONS

Control

The Group holding company is C&J Clark Limited. As indicated in the Corporate Governance statement on pages 22 to 24, family members hold some 81% of the Company's Ordinary Shares.

Transactions with directors and officers

At 31st January there were loans totalling £32,000 (2005 - £43,000) made by the Group to three (2005 - four) present and former senior employees, being amounts advanced in accordance with the terms of a share participation scheme which provides interest free loans to certain employees for the purchase of the Company's shares. Included in the total figure are loans to Peter Bolliger of £11,000 (2005 - £11,000) and to Bob Infantino of £6,000 (2005 - £8,000). These loans existed throughout the year.

Transactions with subsidiaries

The Group has taken advantage of the exemptions in FRS 8 "Related Party Transactions in respect of transactions with subsidiaries, agents, distributors and franchisees.

23) RECONCILIATION OF OPERATING PROFIT ITEMS TO OPERATING CASH FLOWS

	2006 £m	2005 (restated) £m
Operating profit before exceptional items	82.1	92.4
Exceptional costs	(5.5)	(10.1)
	76.6	82.3
Depreciation and impairments	19.2	19.8
(Increase)/decrease in stocks	(11.9)	3.8
Decrease/(increase) in debtors	12.0	(25.8)
(Decrease)/increase in creditors	(2.8)	15.8
(Decrease)/increase in provisions	(15.7)	7.7
Exchange (gains)/losses on currency bank accounts	(0.5)	0.3
Loss on sale of tangible fixed assets	1.5	1.2
Pension deficit funding	(8.5)	(2.0)
Difference between Pension charge and cash contributions	1.5	(3.5)
Net cash inflow from operating activities	71.4	99.6

24) ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE GROUP CASH FLOW STATEMENT

	2006 £m	2005 (restated) £m
a) Returns on investments and servicing of finance		
Interest received	0.9	0.3
Interest paid including finance lease charges	(3.7)	(2.6)
Net cash outflow for returns on investments and servicing of finance	(2.8)	(2.3)
b) Capital expenditure and financial investment		
Purchase of tangible fixed assets	(40.1)	(63.7)
Sale of tangible fixed assets	3.0	4.1
Additions to Investments (see note 9(a))	(0.4)	(0.2)
Net cash outflow for capital expenditure and financial investment	(37.5)	(59.8)
c) Financing		
(Decrease) in long-term bank loans	-	(22.2)
(Decrease)/increase in bank loans	(4.9)	22.9
Increase/(decrease) in debt	(4.9)	0.7
Purchase of own shares	(0.3)	(0.3)
Sale of own shares	0.3	0.3
Net cash (inflow)/outflow from financing	(4.9)	0.7

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

25) ANALYSIS OF NET BORROWINGS

	At 1st February 2005 £m	Cash flow £m	Translation differences £m	At 31st January 2006 £m
Cash at bank and in hand	44.2	3.9	0.1	48.2
Bank overdrafts	(22.4)	(16.8)	0.3	(38.9)
	21.8	(12.9)	0.4	9.3
Bank loans	(39.9)	4.9	0.1	(34.9)
Obligations under finance leases	-	-	-	-
Long-term loans	-	-	-	-
	(18.1)	(8.0)	0.5	(25.6)

C&J CLARK LIMITED AND SUBSIDIARIES

The following subsidiaries are those contributing most significantly to the profits and the assets of the Group.
All are wholly owned and are engaged in the shoe trade.

	Country of Incorporation	Ordinary Shares
Owned via subsidiary undertakings:		
C&J Clark International Limited trading as Clarks International (Clarks and Ravel)	England	£ each
Clarks Companies North America	USA	US\$ each
Clarks Shoes Vertriebs GmbH	Germany	€ each
Clarks Shoes Benelux BV	Holland	€ each
Clarks Japan Company Limited	Japan	¥ each

GROUP FINANCIAL RECORD

	Notes	2006 £m	2005 (restated) £m	2004 (restated) £m	2003 (restated) £m	2002 (restated) £m
Group trading results for the year ended 31st January						
Total Group turnover		921.4	954.8	943.1	932.7	925.9
Turnover from continuing operations	1	920.6	906.8	892.4	880.6	874.8
Profit before interest and exceptional items		82.1	92.4	76.5	62.6	44.6
Exceptional items before taxation		(3.9)	(7.5)	(12.9)	(16.3)	(8.8)
Profit before interest and after exceptional items		78.2	84.9	63.6	46.3	35.8
Net interest		(6.3)	(4.5)	(5.6)	6.6	5.7
Profit before tax and after exceptional items		71.9	80.4	58.0	52.9	41.5
Profit after tax and minority interest		48.9	53.5	34.4	34.8	27.3
Group financial position at 31st January						
Capital employed		337.8	289.7	251.0	260.5	311.8
Net borrowings		25.6	18.1	19.1	51.4	50.2
Equity shareholders' funds		201.3	167.3	136.6	97.0	262.6
Ratios						
Return on sales	2	8.9%	9.7%	8.1%	6.7%	4.8%
Return on capital employed	3	24.3%	31.9%	30.5%	24.0%	14.3%
Net assets per Ordinary Share	4	£3.25	£2.70	£2.20	£1.57	£4.24
Net borrowings/equity		12.7%	10.8%	14.0%	53.0%	19.1%
Basic earnings per Ordinary Share	5	79.0p	86.5p	55.4p	56.1p	44.1p
Basic earnings per Ordinary Share before exceptional items		84.4p	98.0p	77.8p	72.1p	51.2p
Dividends paid during the year per Ordinary Share	6	24.0p	20.5p	17.0p	12.5p	11.2p
Dividend cover	7	3.3	4.2	3.3	4.5	3.9
Interest cover	8	12.4	36.2	11.4	-	-

1 Turnover from continuing operations in all years excludes the turnover generated by the Elefanten group of companies which entered into voluntary liquidation on 30th July 2004.

2 Return on sales is the profit before interest and exceptional items expressed as a percentage of turnover.

3 Return on capital employed is the profit before interest and exceptional items expressed as a percentage of capital employed at the year end.

4 Net assets per Ordinary Share is the amount of the equity shareholders' funds divided by the number of Ordinary Shares in issue.

5 Basic earnings per Ordinary Share have been calculated as per note 7 in the notes to the financial statements.

6 Dividends paid during the year per Ordinary Share reflect the actual payments made during the year rather than dividend declared in respect of the year in accordance with FRS 21 "Events after the Balance Sheet date". For full details please refer to Accounting Policies (page 48).

7 Dividend cover is profit after tax and minority interests divided by dividends paid.

8 Interest cover is the profit before interest divided by net interest.

FACTS AT YOUR FINGERTIPS

	2006	2006	2006	2006	2006
	UK	America	Europe	Rest of the World	Group
Turnover (£millions)	612	257	33	19	921
Employees (number at year end)*	10,421	1,490	51	59	12,021
Factories (number at year end)	1	-	-	-	1
Pairs manufactured (millions)	0.9	-	-	-	0.9
Pairs resourced (millions)	26.5	12.9	1.3	0.6	41.3
Pairs sold (millions)	24.5	12.9	1.3	0.6	39.3
Shops					
Clarks	395	-	1	1	397
Concessions	65	-	-	-	65
Clearance outlets	32	61	-	-	93
Ravel	47	-	-	-	47
Bostonian/Hanover	-	56	-	-	56
Clarks of England	-	58	-	-	58
Elefanten	-	-	-	-	-
Total shops	539	175	1	1	716
	2005	2005	2005	2005	2005
	UK	America	Europe	Rest of the world	Group
Turnover (£millions)	635	222	81	17	955
Employees (number at year end)*	11,303	1,299	68	53	12,723
Factories (number at year end)	2	-	-	-	2
Pairs manufactured (millions)	1.9	-	1.7	-	3.6
Pairs resourced (millions)	23.0	11.9	3.4	0.3	38.6
Pairs sold (millions)	23.6	10.8	5.9	0.5	40.8
Shops					
Clarks	386	-	-	-	386
Concessions	68	-	-	-	68
Clearance outlets	32	56	-	-	88
Ravel	46	-	-	-	46
Bostonian/Hanover	-	62	-	-	62
Clarks of England	-	37	-	-	37
Elefanten	-	-	2	-	2
Total shops	532	155	2	-	689

*Including part-time employees

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Clarks