

PRITI MERCANTILE COMPANY LIMITED

ANNEXURE TO DIRECTORS' REPORT

Report on Corporate Governance

(Pursuant to Clause 49 of the Listing Agreement)

1. Philosophy on code of Corporate Governance:

The Fundamental objects of Corporate Governance is the enhancement of Shareholder value, keeping in view the interest of other stakeholders. It refers to a blend of law, regulations and voluntary practices, which enable the Company to harness financial and human capital, perform efficiently and expediently, and thereby perpetuate it into generating long term association and economic value for its Shareholders, while respecting interests of other stakeholders and the society at large.

It aims to align interests of the Company with its Shareholders and other key stakeholders. The principal Characteristics of Corporate Governance are Transparency, Independence, Accountability, Responsibility and Social Responsibility.

To sum, Corporate Governance focuses on equitable treatment of all shareholders and reinforces that it is "Your Company" as it belongs to you, the Shareholders.

The Chairman and the Board of Directors are your fiduciaries and trustees pushing the business towards maximizing value for its shareholders.

2. Board of Directors

The Board of Directors comprises of optimum combination of Executive Directors and Non- Executive Directors, each with an expertise in their field of operation. The Composition of Board of Directors is as under:-

Executive	1 No.
Non-Executive	1 No.
Independent	3 Nos.
	<u>5 Nos.</u>

During the year 2010 - 11, the Board met 6 (Six) times (as against the minimum requirement of four meetings) on the following dates, namely:-

April 30, 2010, July 31, 2010, August 30, 2010, October 30, 2010, January 19, 2011, and March 26, 2011.

The following table gives details of directors, attendance of directors at the board meetings and at the last Annual General Meeting :-

Sl. No.	Name	Category Membership	Attendance Particulars	
			Board Meeting	Last AGM
01.	Sh. R. K. Modi	Director (Executive)	6	Yes
02.	Mrs. Rekha Modi	Director (Non-Executive)	6	Yes
03.	Sh. D. K. Gupta	Director (Independent)	6	Yes
04.	Sh. Pramod Gupta	Director (Independent)	6	Yes
05.	Sh. V. B. Aggarwal	Director (Independent)	6	Yes

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Particulars of Directors:

Directors seeking re-appointment :

Mrs. Rekha Modi : Mrs. Rekha Modi has over 11 years of experience in Legal Matters relating to financial & capital markets.

Mr. D. K. Gupta : Mr. D.K. Gupta has over 10 years of experience in Marketing in field of financial sector and capital markets.

Name of the Directors	Mrs. Rekha Modi	Mr. D. K. Gupta
Date of Birth	7th Feb. 1970	1st Apr. 1970
Age	41 years	41 Years
Date of Appointment	17.12.2009	27.01.2003
Experience in Specified Functional area	Experience in Legal Matters	Experience in Capital Market & Financial Products
No. of Shares Held in the Co.	160000 Equity Shares	21600 Equity Shares
Qualification	B.A, LL.B.	B.Com
List of other companies in which associated as director	- RRP Management Services Pvt. Ltd. - Prabhat Management Services Pvt. Ltd.	NIL
Chairman Membership of the Committee of the Board of other Companies in which associated as Director.	NIL	NIL

3. Compliance Report

The Board periodically reviews compliance report of all laws applicable to the company, prepared by the company as well as steps taken by the company to rectify instances of non-compliances, if any.

4. Code of Conduct

Pursuant to the provisions of Clause 49 of the Listing Agreement, the Board has laid down a Code of Conduct for all Board Members and Senior Management Team.

All Board Members and Senior Management Team have affirmed compliance of code of conduct as on 31.03.2011 and a declaration to that effect signed by Director is attached and forms part of this report.

5. Risk Management

Your Company is aware of the risks associated with its business in the present day business scenario and volatile economic environment.

It has started analysing various risks involved and has initiated corrective action for mitigating/managing the same. The company has also laid down procedures to inform the Board members about the risk assessment and procedures for minimising the same.

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6. Audit Committee

A) Composition and Meeting of the Audit Committee:

The Audit Committee acts as a link between the Management, the Statutory Auditors and the Board of Directors. The current composition of the Audit Committee is as under:

During the financial year 2010-11, meetings of the Audit Committee were held 5 (Five) times i.e. on April 30, 2010, July 31, 2010, August 30, 2010, October 30, 2010 and January 19, 2011.

Name of Chairman/ Member	Meetings held	Meeting Attended
Sh. D. K. Gupta	5	5
Sh. V. B. Aggarwal	5	5
Sh. Pramod Gupta	5	5

B) Powers of Audit Committee

The audit committee of the company is vested with the following powers:

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other professional advice.
4. To secure attendance of outsiders with relevant expertise, if it considers necessary.

C) Role of Audit committee

The Terms of reference/role stipulated by the Board for the Audit Committee, as contained under Clause 49 of the Listing Agreement are as follows:

1. Oversight of the company's financial reporting process and disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditors and the fixation of audit fee.
3. Approval of payment to statutory auditors for any other services rendered by them.
4. Reviewing with management the annual financial statements before submission to the Board for approval, with particular reference to:
 - a. Matters require to be included in the Director's Responsibility Statement in the Board's Report in terms of clause (2AA) of Section 217 of the Companies Act, 1956.
 - b. Changes, if any, in accounting policies, practices and the reasons for the same.
 - c. Significant adjustments made in the financial statement arising out of audit findings.
 - d. Compliance with the listing and other legal requirements relating to the financial statements.
 - e. Disclosure of any related part transactions.
 - f. Qualifications in the draft audit report.
5. Reviewing, with the management, the quarterly financial statements before submission to the Board for approval.
6. Reviewing with the management, performance of statutory and internal auditors and adequacy of internal control systems.
7. Discussions with external auditors before the audit commences, nature and scope of audit as well as have post audit discussions to ascertain any area of concern.
8. To look into reasons for substantial defaults in the payment to the shareholders (in case of non payment of declared dividends).

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D) Review of information by Audit Committee

The audit committee reviews the following information:

1. Management Discussion and analysis of financial condition and results of operations.
2. Statement of significant related party transactions (as defined by the audit committee), submitted by the management.
3. Management letters/letters of internal control weaknesses issued by the Statutory Auditors.

7. Remuneration Committee:

No remuneration is paid to executive and Non-executive Directors except sitting fees for attending the meeting of Board of Directors and committee thereof. The fees paid for the year ended 31st March 2011 to the Directors are as follows:

Sl. No.	Name of the Directors	Amount in Rs.
1.	Sh. R. K. Modi	30000.00
2.	Sh. D. K. Gupta	46000.00
3.	Sh. V. B. Agarwal	46000.00
4.	Sh. Pramod Gupta	46000.00
5.	Mrs. Rekha Modi	30000.00

8. Secretarial Audit

A qualified practicing Company Secretary carry out quarterly secretarial audit to reconcile the total admitted capital with National Securities Depository Limited (NSDL) and Central Depository Services (India) Ltd. (CDSL) certify the total issued and listed capital. The secretarial audit report confirms that the total issued and paid up capital is in agreement with the total number of shares in physical form and the total number of shares held in dematerialised form with NSDL/CDSL.

9. Shareholders Grievance Committee

The working of the Shareholders Grievance Committee of your Company and its composition and other details are given below:

During the financial year 2010-11, meetings of the Shareholders Grievance Committee were held 2 (Two) times i.e. on August 30, 2010 and March 26, 2011.

Name of Chairman/ Member	Meetings held	Meeting Attended
Sh. D. K. Gupta	2	2
Sh. V. B. Aggarwal	2	2
Sh. Pramod Gupta	2	2

No complaint were pending at the end of the year.

10. General Body Meetings

Details of location, time and date of last three AGMs/EGM are given below:-

Financial year	Date	Time	Place
2007-2008 (AGM)	27.09.2008	11.30 A.M.	B/10, VIP Colony, Civil Lines, Rampur (U.P.)
2008-2009 (AGM)	25.09.2009	10.00 A.M.	Same as above
2009-2010 (EGM)	03.11.2009	12.00 P.M.	Same as above
2009-2010 (AGM)	30.08.2010	10.30 A.M.	Same as above

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Special Resolutions passed at the last 4 (Four) AGMs/EGM :

Financial year	Items
2007-2008	Nil
2008-2009	Two
2009-2010 (EGM)	One
2009-2010	One

Special Resolutions Passed at the General Meetings

- A special resolution for approval of the members of the company to issue, offer and allot 39,00,000 convertible warrants to the Non promoters at a price of Rs. 40/- each in accordance with SEBI (Issue of Capital and Disclosure Requirements) Regulations 2009 was passed in the A.G.M held on 25.09.2009.
- Authorisation to the company for listing of equity shares with The Calcutta Stock Exchange was passed in the A.G.M held on 25.09.2009.
- To appoint Mr. R. K. Modi as Managing Director and fix remuneration, if any, was passed in the E.G.M held on 03.11.2009.
- Authorisation to the company for listing of equity shares with The Bombay Stock Exchange Ltd. was passed in the A.G.M held on 30.08.2010.

Note: No Postal ballots were used/invited for voting at these meetings in respect of special resolutions passed as there were no requirements for compliance at that time.

11. Means of Communication

The Company communicates with the shareholders at large through its Annual report and financial results published therein.

The quarterly results are published in the newspaper and are not being sent to the shareholders.

12. Outstanding GDRs/ADRs/Warrants or any convertible instruments.

The Company has not issued GDRs/ADRs etc. There was no outstanding warrants as on 31-03-2011.

13. Management discussion and analysis

A statement of Management Discussion and Analysis is appearing elsewhere in this Annual Report in terms of the requirement of the Code of Corporate Governance.

14. Market price Data

There has been no trading in the U. P. Stock Exchange Ltd., Kanpur, during the year 2010-11.

15. Disclosures

The related party transactions have been disclosed in Notes of Account forming part of the Statement of Accounts for the financial year ended 31st March, 2011 and since the necessary disclosures were made in respect of the said transactions to the respective Board of Directors meeting, no transaction is considered to be in potential conflict with the interests of the company at large.

There has not been any non-compliance, penalties or strictures imposed on the company by the stock exchange (s), Securities and Exchange Board of India or any other statutory authority, on any matter relating to the capital markets, during the last three years.

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16. GENERAL SHAREHOLDER INFORMATION

16.1 Annual General Meeting	
Date and Time	June 30, 2011 at 10.30 A.M.
Venue	B/10, VIP Colony, Civil Lines, Rampur (U.P.)
16.2 Financial Year (2011-12)	
Annual General Meeting For the next year ending 31st March, 2012	Before September 30, 2012
16.3 Book Closure date	20.06.11 to 30.06.11
16.4 Dividend Payment date	29.07.2011
16.5 Listing of Equity Shares on Stock Exchange at	U. P. Stock Exchange Ltd., Kanpur
16.6 Stock Code	
ISIN Number (NSDL/CDSL)	Equity Shares INE 793G01019
16.7 Registrar and Share Transfer Agent	INDUS PORTFOLIO PVT. LIMITED G-65, Bali Nagar, New Delhi-110015

16.8 Share Transfer Systems:

Share transfers are presently registered within a maximum period of 15 (fifteen) days from the date of receipt provided the documents are complete in all respects. The Board of Directors has authorised the Registrar to approve all share transfers. The Registrar on receipt of Share transfer request, after confirming all details transfer the shares as per law and directly dispatches the same to the transferee.

16.9 Categories of Shareholders as on 31st March, 2011

Shareholding Pattern

Category	No. of shares	% of Paid up capital
A Promoters' Holding		
1. Promoters		
a) Indian Promoters		
- Individual	3,03,300	3.401
- Corporate Bodies	11,31,500	12.688
b) Foreign Promoters	—	—
2. Persons acting in concert	—	—
Sub Total (A)	14,34,800	16.089
B Non-Promoters Holding		
3. Institutional Investors		
a. Mutual Funds and Unit Trust of India	—	—
b. Banks, Financial Institutions, Insurance Companies (Central/State Govt. Institutions/Non-Govt. Institutions)	—	—
c. Foreign Institutional Investor	—	—
4. Others		
a. Private Corporate Bodies	39,05,000	43.789
b. Indian Public	35,78,000	40.122
c. Non Resident Indians/Overseas	—	—
Sub Total (B)	74,83,000	83.911
G.TOTAL (A+B)	89,17,800	100.000

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16.10 Distribution of shareholding as on 31st March, 2011

Distribution	No .of Share holders	% of Shareholders	No of Shares	% of Shareholding
Upto 100	170	33.73	17000	0.19
101 - 500	150	29.76	40000	0.45
501 - 1000	0	0.00	0	0.00
1001 - 5000	39	7.74	183100	2.05
5001 - 10000	61	12.10	572000	6.41
10001 - 20000	36	7.14	670000	7.51
20001 - 30000	17	3.37	463100	5.19
30001 - 40000	7	1.39	270100	3.03
40001 - 50000	8	1.59	361000	4.05
50001 - 100000	5	0.99	355000	3.98
100001 - 500000	9	1.79	3386500	37.97
above 500000	2	0.40	2600000	29.16
	504	100.00	8917800	100.00

16.11 Dematerialisation of shares and liquidity

The ISIN of the Company's shares is INE 793G01019. After dematerialisation of shares the shareholders must contact their DPs for any information/ instructions in respect of their shareholdings.

As on 31.03.2011, the status of dematerialisation of equity shares of the Company was as under:

S.No. Particulars	Shareholders		Shareholding	
	(In Nos.)	(In %)	(In Nos.)	(In %)
1. NSDL	128	25.40%	7598500	85.20%
2. CDSL	14	2.78%	290500	3.26%
3. Physical	362	71.82%	1028800	11.54%
Total	504	100.00%	8917800	100.00%

16.12 Address for Correspondence:

Share Transfer and Demat

INDUS PORTFOLIO PVT. LIMITED
G-65, Bali Nagar,
New Delhi-110015
Phones : +91-11-47671214

Note: Shareholders holding shares in electronic mode should address all correspondence to their respective depository participants.

Any query on Annual Report:

Secretarial Department
PRITI MERCANTILE COMPANY LIMITED
15/76, IInd Floor, Old Rajinder Nagar,
New Delhi-110060
Phone : +91-11-42436846,47, 49
E-mail : pritimercantile@gmail.com

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17. Non-mandatory Requirements:

The non mandatory requirements have been adopted to the extent and in the manner as stated under the appropriate headings detailed below:

1. Remuneration Committee:

Your Company has a Remuneration Committee to recommend appointment /re-appointment and to recommend / review remuneration of the Managing Director / Whole Time Director / Executive Director.

2. Shareholders Right:

The quarterly, half yearly and annual results of your Company with necessary report there on are published in newspapers.

3. Audit Qualifications:

There are no qualifications in the Auditor's Report on the financial statements to the shareholders of the Company.

4. Training of Board Members:

There is no formal policy at present for training of the Board member of the Company as the members of the Board are eminent and experienced professional persons.

5. Whistle Blower policy:

The Company has not established whistle blower policy.

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DECLARATION

To,
The Members of
Priti Mercantile Company Ltd.

Sub :- Declaration under Clause 49 of the listing Agreement.

I hereby declare that all the Directors and the designated personnel in the senior Mangement of the Company have affirmed compliance with their respective codes for the financial year ended 31st March, 2011.

For Priti Mercantile Company Ltd.

Place : New Delhi
Date : 23.05.2011

R. K. Modi
Managing Director

To,
The Members of
Priti Mercantile Company Ltd.

Re: Financial Statements for the year ended 31st March, 2011 - Certification by Managing Director

I, R. K. Modi, Managing Director of the Company, to the best of my knowledge and belief, certify that:

1. I have reviewed the financial statements and cash flow statement for the year 31st March, 2011 and that to the best of my knowledge and belief:
 - (a) these statement do not contain any materially untrue statement or omit any Material fact or contain statements that might be misleading.
 - (b) these statement together present a true and faire view of the company's affairs and are in compliance with existing accounting standards applicable laws & regulations.
2. There are to the best of my knowledge and belief, no transaction entered into by the during the year which are fraudulent illegal or violative of the Company's code of conduct.
3. I accept responsibility for establishing and maintain internal controls for financial reporting and that I have evaluated the effectiveness of the internal control system of the company pertaining to financial reporting and I have disclosed to the auditors and the audit committee deficiencies in the design or operation of such internal control, if any of which I am aware and the steps I have taken or propose to take rectify theses deficiencies.
4. I have indicate to the Auditors and the Audit Committee :
 - (a) Significant changes in the internal control over financial reporting during the year under review.
 - (b) Significant changes in accounting policies during the year.
5. I further declare that all board members and senior managerial personnel have affirmed compliance with the code of conduct under Clause 49 of the Listing Agreement, for the current year.

Place : New Delhi
Date : 23.05.2011

R. K. Modi
Managing Director

PRITI MERCANTILE COMPANY LIMITED

AUDITORS' CERTIFICATE ON COMPLIANCE WITH CONDITIONS OF CORPORATE GOVERNANCE AS STIPULATED IN CLAUSE 49 OF THE LISTING AGREEMENT

To,

The Members

Priti Mercantile Company Ltd.

1. We have examined the compliance of the conditions of Corporate Governance by Priti Mercantile Company Ltd. For the year ended 31st, March, 2011 as stipulated in clause 49 of the listing agreement of the said company with Stock Exchanges in India.
2. The Compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was carried out in accordance with guidance not on certification of Corporate Governance (as stipulated in Clause 49 of the Listing Agreement) issued by the Institute of the Chartered Accountants of India and was limited to the procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of the opinion on the financial statement of the company.
3. In our opinion and to the best of our information and explanation given to us and the representation made by the Directors and the management we certify that the company has complied in all material respects with the conditions of corporate governance as stipulated in the above mentioned Listing Agreement.
4. We Further report that such compliance is neither an assurance as to future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For M. M. GOYAL & CO.
Chartered Accountants

Place : New Delhi
Dated: 23.05.2011

(MANMOHAN GOYAL)
Partner
M.No. 86085