In motion

for the best results

Annual Report

2006

I N T R O D U C T I O N

Desarrolladora Homex, S.A.B. de C.V. (Homex, or the Company) is a vertically-integrated home developer company focused on affordable entry-level and middle-income housing in Mexico.

The Company is one of the most geographically diver se homebuilders in the country and has a leading position in the top four markets in Mexico: Mexico City Metropolitan Area, Guadalajara, Monterrey and Tijuana. The Company has been the fastest growing of the major publicly listed home developers in Mexico based on the percentage increase each year in number of homes sold and revenues since 2001.

Founded in Culiacan, the state capital of Sinaloa, in 1989, Homex started operations developing commercial areas, gradually focusing on design, construction and commercialization of homes. By late 1996, Homex had operations in four cities in northwest Mexico, increasing to 10 by the end of 1997, strengthening its presence in the region. As of December 31, 2006, Homex had operations in 28 cities located in 18 Mexican states. During 2005 the Company settled US$250 million of 7.50% Senior Guaranteed Notes, Homex was the first homebuilder in Mexico to complete this type of offering. In 2006 the Company focused on embracing higher standards of corporate governance and best practices. One of its initiatives was to expand the senior management team, appointing David Sánchez-Tembleque as Chief Executive Officer who was instrumental in engineering a strong strategic plan by his deep experience in the Mexican housing market and also for enhancing our management team. At the beginning of 2007 Homex strengthened its financial management with the addition of two senior executives as well as key additions in Sales, Marketing and Operations. In June 2007, the Company's board of directors named Gerardo de Nicolás Gutierrez Chief Executive Officer, who previously was appointed Chief Strategy Officer and Chairman of the Board's of Exexutive Committee. Homex continues expanding its operations across Mexico to be leader in the most attractive housing markets in Mexico.

1989 Homex is founded in Culiacan, Sinaloa

1991 Company expands into the affordable entry-level housing segment

1992 Initiates expansion into other states

1993 Intensifies planning and geographical expansion. Starts development of proprietary information system

1997 Establishes presence in 10th City

1999 ZN Mexico Funds acquires a minority stake

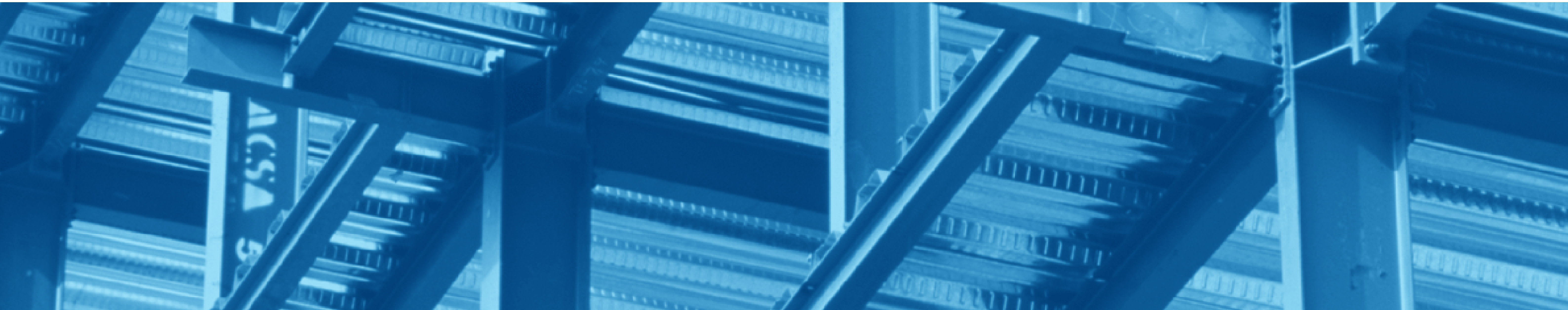
2002 Equity International Properties acquires a minority stake

2003 Homex expands into middle-income housing developments

2004 Completes dual listing of shares on the New York Stock Exchange and Mexican Bolsa

2005 US$250 Senior Guaranteed Notes emission and Beta acquisition

2006 Institutionalization of the Company: New additions to management team



Actual Coverage

73% of Mexico's population

83.3 % of the footprint includes both, affordable entry level and middle income level

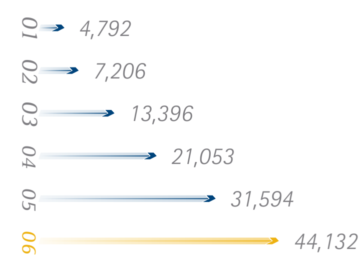
28 cities / 18 states

1 Acapulco	11 Leon	21 Pto. Vallarta
2 Atizapan	12 Los Cabos	22 Puebla
3 Calimaya	13 Mazatlan	23 Tapachula
4 Cd. de Mexico	14 Metepec	24 Tijuana
5 Cd. Juarez	15 Mexicali	25 Tuxtepec
6 Cd. Obregon	16 Monterrey	26 Tuxtla Gutierrez
7 Culiacan	17 Morelia	27 Veracruz
8 Guadalajara	18 Nuevo Laredo	28 Xalapa
9 Hermosillo	19 Oaxaca	
10 La Paz	20 Pachuca	

FINANCIAL AND OPERATING HIGHLIGTHS TWELVE-MONTHS

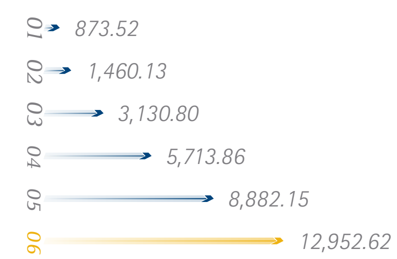
Thousands of constant pesos as of December 31, 2006, unless otherwise indicated	2006	2005	% Chg.
Volume (Homes)	44,132	31,594	39.7%
Revenues	$ 12,952,625	$ 8,882,159	45.8%
Gross profit	$ 4,094,597	$ 2,696,127	51.9%
Operating income	$ 2,784,690	$ 1,816,045	53.3%
Other income	$ 46,003	$ 24,393	88.6%
Net Interest Expense	$ 545,289	$ 375,442	45.2%
Net Income	$ 1,387,406	$ 912,075	52.1%
EBITDA	$ 3,058,162	$ 2,073,272	47.5%
Gross Margin	31.6%	30.4%	
Operating Margin	21.5%	20.4%	
Net Income Margin	10.7%	10.3%	
EBITDA Margin	23.6%	23.3%	
Earnings per share	3.99	2.83	
EBITDA / Net Interest	5.6	4.2	
Accounts receivable (days) period-end	157	206	
Inventory turnover (days) period-end	368	293	
Inventory (w/o land) turnover (days) period-end	165	108	
Payables turnover (days)	220	170	
Net Debt / EBITDA	0.38x	1.02x	

Volume



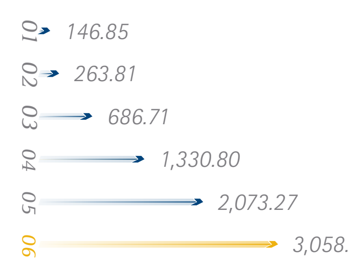
Revenues

(Millions of Pesos As of December 31, 2006)

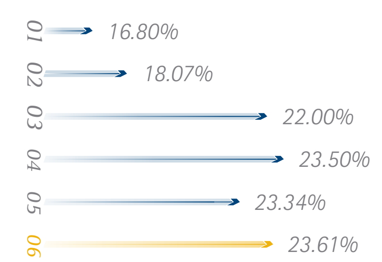


EBITDA

(Millions of Pesos As of December 31, 2006)



EBITDA Margin



TO OUR SHAREHOLDERS:

2006 was an exciting year of record achievements for Homex as we expanded on our position as the largest home builder in Mexico. We met and exceeded expectations, reported superior financial performance and continued to position Homex to realize the outstanding future growth opportunities in the market.

Homex once again demonstrated through our focus on building successful communities, excellence in construction, financial management and by embracing the best corporate practices, we can continue creating value for our shareholders while improving the quality of life for Mexican families and our employees.

Eustaquio de Nicolás Gutiérrez
CHAIRMAN OF THE BOARD

DELIVERING CONSISTENT GROWTH

Homex's focused business model and strong internal controls, supported by our integrated IT platform, led us to record levels in 2006. We sold 44,132 homes during the year, more than any other home builder in Mexico, and up 39.7% from 31,594 homes we sold in 2005. This growth came from both the affordable entry-level and middle-income segments and helped us to achieve a 45.8% increase in revenues to Ps.12.9 billion.

We continued our focus on driving efficiencies and productivity in the business, ranging from improving our construction processes and use of construction materials to working capital management and financial controls. As a result, EBITDA was up 47.5% in 2006 to a record Ps.3 billion and our EBITDA margin increased 27 basis points to 23.6%.

Through our enhanced financial management Homex also generated significant free cash flow. For the twelve months ended December 31, 2006, we generated Ps.968.3 million in free cash flow, net of land purchases and capital expenditures. Homex was the highest free cash flow generator in the industry, giving us the strength to continue to pursue future opportunities.

STRONG MARKET OPPORTUNITIES

The housing market in Mexico continued its strong growth in 2006 and the outlook is very positive. Demand for new homes remains very high, supported by a strong economy and the growing mortgage market. For the year, a total of more than 640,000 mortgages for new homes were granted, up approximately 14% from 2005.

With the support of the Government housing policy, positive trends are continuing to shape the mortgage market. The mortgage agencies have been very successful in modernizing, bringing additional resources through the commercial banks and other institutions into the market. Among the developments supporting the growth in the mortgage market was the announcement by the leading commercial banks in Mexico that they would become active providers of mortgages for the lower income segments.

One of Homex's strengths continues to be its ability to work with all of the providers to match customers with available mortgages. In 2006 we worked extensively with the Mexican Workers' Housing Fund (INFONAVIT), as it increased its supply of mortgages targeted at the affordable entry-level segment of the market. Our customers also obtained mortgages from the five largest Sofoles, five commercial banks and the Social Security and Services Institute Public Sector Workers' Housing Fund (FOVISSSTE). We also took steps to expand the mortgage supply, including an exclusive agreement with one of the largest commercial banks in Mexico targeted at lower priced middle-income homes. This program allows middle-income families that pass the bank's preapproval process to buy a new Homex house without relying on personal savings.

2006 was also significant in that it was a presidential election year in Mexico. Since taking office, President Felipe Calderon Hinojosa has been outspoken in his support of the housing industry. He foresees continued strength in this sector during his Presidency. Further, he reappointed the General Directors of the major mortgage agencies providing stability and continuity to the market.

The Mexican Government and the major mortgage agencies have articulated a long-term plan for the continued growth of the housing market. The goal is to finance approximately six million homes in Mexico during the next six years. With our ability to identify, respond and adapt quickly to opportunities in the market, our strong systems and management, we feel that we are very well positioned to benefit from this favorable outlook.

PREPARING HOMEX FOR THE FUTURE

During the year, we continued with our efforts to embrace higher standards of corporate governance and best practices to further strengthen the Company and prepare for the future. We expanded our senior management team; particularly we enhanced our financial management with the addition of two senior executives as well as key additions in Sales, Marketing and Operations.

We strengthened our Board of Directors with the addition of Rafael Matute as a new independent director. Mr. Matute is the Executive Vice-President and Chief Financial Officer of Wal-Mart de Mexico and is a member of Wal-Mart de Mexico's Board of Directors. Mr. Matute brings broad business and financial markets expertise, as well as counsel judgment to our Board.

Following business best practices that recommend periodic rotation of a company's independent auditors, we also changed our independent auditors.

These and other efforts were evidenced by the recognition granted to Homex when we received the first annual "Garrigues-Affinitas Latin American Corporate Governance Award" for maintaining the highest corporate governance standards. The award was presented by Affinitas (international alliance for Ibero-American law firms) and the independent law firm Garrigues. We were especially honored to receive the award from Trinidad Jiménez, the Spanish Government's State Secretary for Latin America, during a ceremony at the 8th Annual Latibex Forum in Madrid.

In another demonstration of our culture, in 2007 we were honored for the fourth year in a row by CEMEFI (Mexican Philanthropic Institute) as a "Socially Responsible Corporation". We received this recognition for incorporating a social mission into our business initiatives, including our Education Program in which more than 4,000 Homex employees are enrolled and produced more than 1,000 graduates from elementary or middle school.

OUTLOOK FOR 2007

The new Mexican government's initiatives and the macroeconomic stability anticipate a bright future for the housing sector in Mexico.

We are confident that Homex can continue to grow to realize the opportunities in the market. We have taken steps to ensure our position including expanding our land bank, strengthening our management, further standardizing our construction processes and continuing to open new and larger communities as well as new phases of existing developments. All of these actions support our goal to become the leader in the most attractive housing markets in Mexico.

We will gradually and carefully expand our exposure to the middle-income and other markets to take advantage of trends and growth coming from this segment. In the fourth quarter of 2006, the middle-income segment reached 33% of the Company's revenues, up from 29% in the fourth quarter of 2005. Nevertheless, our core business will remain the affordable entry-level segment. For both segments, we are well positioned to leverage our strengths to realize further growth opportunities.

In 2007, we currently anticipate revenues increasing in the range of 17% to 20% in real terms, while maintaining an efficient and profitable operation. We are targeting an EBITDA margin of approximately 24% in 2007 and we expect to continue reporting neutral to positive cash flow after CapEx and land acquisitions.

The year ahead brings new challenges and big opportunities for Homex. We look forward to continuing to manage our company to take full advantage of these opportunities and we appreciate your support. We would like to thank our customers for allowing us be a part of their lives, providing them with such an important asset, a home, our employees for their continued hard work and dedication and our business partners, suppliers and stockholders for their contributions and support. We look forward to an exciting year together.

Sincerely,

Eustaquio de Nicolás
Chairman of the Board of Directors

What moves us is

Flexibility

The dynamic nature of Homex allows us to identify, respond and adapt to opportunities in the market. This dynamism is reflected in all aspects of our business; from the way we identify the markets in which we compete, to having the right systems and best people that allow us to realize these opportunities.

MARKET STRATEGY

With a clear vision of building successful communities, we have the flexibility to deploy resources to those markets where we see the greatest opportunities. Today, Homex operates in 28 cities and 18 states. We have a clear strategy of maintaining a geographically diverse base of projects in medium sized cities while strengthening our presence in major metropolitan areas.

We already are one of the market leaders in Mexico's four main housing markets: the State of Mexico, Guadalajara, Monterrey and Tijuana. The first three markets represent around 26% of the country's population and around 27% of GDP. Tijuana, in conjunction with the surrounding cities of Rosarito, Santa Anita and Tecate, forms the fastest growing housing market in the country. The dynamic growth of these areas offers us opportunities for continued expansion in the affordable entry-level and middle-income segments.

In 2006, we opened two new cities: Puebla, the fifth largest city in Mexico and the largest without Homex presence, and Mexicali, the state capital of Baja California Norte. We also opened new phases or expansion projects including Tuxtla Gutierrez, Ciudad Juarez, Atizapan, Tijuana, Acapulco, Veraccruz, Puerto Vallarta and Hermosillo. In total, we opened 7 new communities and commenced 24 new phases in current communities nationwide.

We are committed to continue implementing our strategy of developing a leading presence in the most attractive housing markets in Mexico. This will result in Homex expanding its footprint, closing offices in small cities and opening more attractive ones, while increasing our market share in existing cities. In 2007, we expect to open six new cities.

The housing market in Mexico remains strong and, with the commitment to further development, offers significant opportunities for growth going forward. In December 2006, President Calderon announced an exciting vision of building as many houses in Mexico in the period to 2030 as were built in the entire 20th century. Over the period 2007-2012, more than six million mortgages are expected to be granted under the Administration's housing financing program.

Homex, with its focus on affordable entry-level homes which are, and will remain, the core of our business is well positioned to continue capturing a larger share of this growth.

We also see significant opportunities in expanding our exposure to the middle-income segment. We have approached this market in a careful way, starting from lower priced homes and moving up. Indeed, we have been strengthening our capabilities and our standardized construction processes are now being successfully used on properties that appeal to the fast growing middle-income segment. We successfully grew our middle-income business in 2006, accounting for 21.5% of total revenues. Our target is for middle-income to account for around 30% of revenues by 2010.

We also see potential in other market segments, although these will be approached cautiously.

We took steps in this direction in 2006 with the announcement of our first vacation home development in Acapulco. In addition, we entered into agreements with major real estate brokers to promote the sale of Homex homes to non-residents.

FLEXIBLE SYSTEMS

Our ability to capture these market opportunities depends on having the right systems and people in place. Since 1993 we have been developing our IT system and made significant investments in technology. Our integrated IT platform drives our ability to adapt to changing market conditions.

Homex information systems control our unique tasks-based construction and sales process, providing us with speed, predictability, accuracy as we have real time information, and control over the building and selling processes. In addition, our diverse construction methods, that use replicable, standardized tasks, provide us with flexibility and efficiency. The Beta acquisition added further depth to our construction techniques and we have integrated their building methods in our affordable entry-level segment.

Rubén Izabal González

VICE PRESIDENT - CONSTRUCTION

MANAGEMENT STRENGTH

During 2006 we further enhanced our management team with additions that provided an expansion of roles, as well as adding experience needed to continue managing our future growth.

Expansion of the senior team has continued in 2007. To better support our growth, the Company made the strategic decision to split the accounting and administrative duties from the corporate finance and treasury function. Accordingly, Alan Castellanos Carmona was appointed Vice President of Finance and Planning and Chief Financial Officer and Ángel Garcia Vázquez was appointed Chief Accounting Officer. Both appointments bring their strong skills and experience to Homex. Mr. Castellanos, with extensive experience in working capital management joined Homex from NAFIN, Mexico's development bank. Mr. Garcia was previously with the U.S. consulting business of PriceWaterhouseCoopers.

Other significant initiatives included the appointment of Daniel Leal as Vice President of Marketing and Sales. Mr. Leal joins Homex from Hipotecaria Nacional, the largest private mortgage lender in Mexico, where he served as Deputy General Director of Sales and Marketing. He was also President of the mortgage chapter in the Mexican Association of Banks until February 2007.

We also continue to focus on developing the next generation of management; expanding the regional manager development program which identifies and trains highly talented individuals who can be deployed to the fast growing regional offices.

Continued growth in the Mexican housing industry offers us significant opportunities. Our ability to adapt to this dynamic environment positions us well to capture an increasing share of this growth.

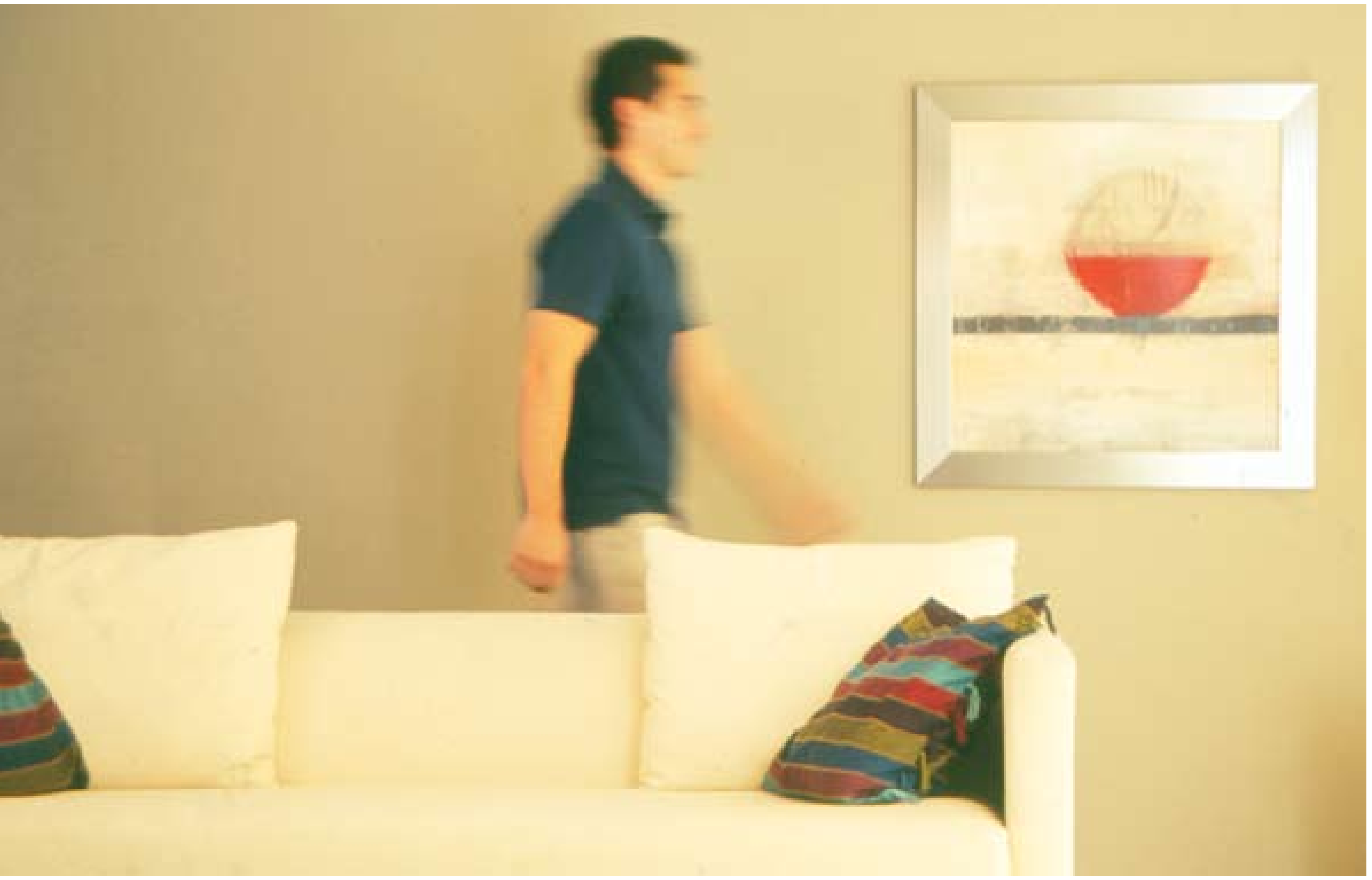
What moves us is

Well-being

Homex is built on a spirit of social commitment that positively impacts the families who live in the communities we build. The Homex spirit also flows into the way we treat our employees and their families, respect for our shareholders and into our responsibility to the broader society.

HOME AND COMMUNITY

Building communities is at the core of what we do at Homex. Through our focus on building attractive homes for the affordable and middle-income sectors in well-designed communities, and delivering innovative financing programs, we have brought home ownership to thousands of Mexican families.



In 2006 we continued with the "Mas Vivienda" program with the aim of bringing home ownership to some of those typically excluded from this opportunity. Under the terms of the program, members of the Social Interest Segment (those with no verifiable income source) can open a savings account with the Sofol Mas Fondos and, if they build a regular payment history over a six-month period, qualify for a mortgage.

We are also constantly looking to enhance the attractiveness of the Homex product. For example, together with IMEVI, an organization of Mexican furniture and appliance makers, and Mabe, a leader in the home appliance industry, we launched new programs this year aimed at improving our customers' quality of life. These partnerships make high quality furniture and appliances available to our homebuyers at factory prices and support hundreds of small and mid-sized furniture companies around the country.

During the year, we also launched the Digital Home Project under which all our homes will be equipped with an Internet-ready desk computer, allowing Mexican families to access new forms of education, communication and entertainment. Through programs such as these, we reaffirm our commitment to building successful communities.

As part of our efforts to foster community spirit, we build schools, day-care centers, churches and parks to enhance the quality of life for our residents. Through these efforts, we aim to ensure that the families who live in Homex communities have access to facilities and services that allow them to make connections and build the relationships that make our communities great places for them and their families to live.

EMPLOYEES AND FAMILIES

The quality of life and well-being of our employees and their families is also important to us. By building and implementing programs that provide them with new opportunities, we invest in the future not only of the Company but also of our country. We strongly believe that education is a vital cornerstone to grasping these opportunities. We encourage our employees and their families to enroll in our Homex Education Program to ensure they benefit from elementary and secondary education. In 2006, more than 4,000 Homex employees were enrolled in the program and of these, more than 1,000 graduated from elementary or middle school.

SHAREHOLDERS

We believe in treating our shareholders with respect and are committed to acting in their best interests and communicating openly and consistently.

During the first quarter of 2006, we improved the liquidity of our stock and delivered value to our shareholders by completing a secondary offering of shares that increased the free float from 36% to 42%. Homex has also implemented procedures to ensure con-

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sistent and timely disclosure of financial information to all shareholders and members of the financial community. This dedication was recognized when Homex was awarded first place for Best Investor Relations Website and Best Earnings Release and Disclosure Process in Mexico by IR Global Rankings.

We continue to embrace higher standards of corporate governance and best practices. We are committed to best practices in our home market and adhere to the Mexican Code of Corporate Best Practice. As the only Mexican homebuilder listed on the New York Stock Exchange (NYSE), we aim to achieve global best practices. We also aim for a strong independent presence on the board and bolstered that during the year with the appointment of an additional independent director.

SOCIETY

Homex has long believed that a strong housing sector, providing quality homes and communities, has a positive impact on Mexican society. We also believe that the Company has a responsibility to contribute to society in ways that go beyond an internal set of guidelines. We have developed programs and practices, focused on health, education, sport, art and culture and the environment that are integrated into every corporate activity and every decision making process, and are fully supported by leaders within the Company.

During May 2006, Paul Wolfowitz, the World Bank President, visited one of the largest Homex community projects in Monterrey. The World Bank President recognized the Company for the positive impact its efforts and social programs are having on the quality of life of its clients and employees.

We also reach out to Mexicans in need. When Hurricane Lane severely damaged communities on the Pacific Coast of Mexico in September, Homex joined the local and national authorities and other companies to support the relief and reconstruction efforts.

We are proud of the contribution that Homex is making to the lives of thousands of Mexican families. From building quality homes and communities to helping those in need, the Homex spirit of social commitment remains strong.

What moves us is

Success

Homebuilding in Mexico remains a fragmented industry in which the five publicly traded homebuilding companies collectively only control 20% of the market. This structure provides plenty of opportunities for continued growth in market share through further consolidation of the industry.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes included elsewhere in this report. The consolidated financial statements have been prepared in accordance with Mexican GAAP and, unless otherwise specified, along with the other financial information included in this report, reported figures are restated in constant pesos as of December 31, 2006. Mexican GAAP financial figures differ in certain respects from U.S. GAAP as described in Note 26 to our consolidated financial statements.

Homebuilding in Mexico remains a fragmented industry in which the five publicly traded homebuilding companies collectively only control 20% of the market. This structure provides plenty of opportunities for continued growth in market share through further consolidation of the industry. To take advantage of these opportunities and prepare for the future, Homex made important additions to its management team during 2006. These additions strengthened management capabilities and added experience needed to continue gaining market share in both the affordable entry-level and middle-income level segments. We remain committed to our mission of building successful communities with the best service to our customers as well as continuing to deliver solid quarterly and yearly results.

As a result of the increased availability of mortgage financing in Mexico and the aggressive strategies of commercial banks, driven by macroeconomic stability and the outlook for further declines in interest rates, as well as low inflation levels, approximately 640,000 mortgages for new homes were allocated in Mexico during 2006. Of these mortgages, approximately 115,000 were granted by commercial banks, compared to approximately 33,000 in 2005.

For the full year 2006, Homex sold 44,132 homes, a 39.7% increase from the 31,594 homes sold during 2005.

In 2006, the Company's customers obtained mortgages from the Mexican Workers' Housing Fund (INFONAVIT), the five largest Sofoles, five commercial banks and the Social Security and Services Institute Public Sector Workers' Housing Fund (FOVISSSTE). The Company's affordable entry-level customers primarily obtained mortgages provided by INFONAVIT, which represented 74.8% of the total mortgages granted to Homex customers during the twelve-month period ended December 31, 2006.

Homex is one of the leading homebuilders in Mexico's top four markets: Mexico City Metropolitan Area, Guadalajara, Monterrey and Tijuana and continues to have one of the leading positions in the additional 24 cities where the Company operates.

RESULTS OF OPERATIONS:

The following table sets forth selected data for the periods indicated and are restated in constant pesos as of December 31, 2006 and comparisons are also expressed as a percentage of our total revenues.

DESARROLLADORA HOMEX CONSOLIDATED INCOME STATEMENT COMPARISON OF TWELVE MONTHS 2006 WITH TWELVE MONTHS 2005

(Figures in thousands of constant December 31, 2006 pesos)	2006		2005		Change 2006 /2005
Revenues	12,952,625		8,882,159		45.8%
Costs	8,858,028	68.4%	6,186,032	69.6%	43.2%
Gross Profit	4,094,597	31.6%	2,696,127	30.4%	51.9%
Selling and Administrative Expenses	1,309,907	10.1%	880,082	9.9%	48.8%
Operating Income	2,784,690	21.5%	1,816,045	20.4%	53.3%
Other Income	46,003	0.4%	24,393	0.3%	88.6%
Net Comprehensive Financing Cost (1)	762,314	5.9%	476,107	5.4%	60.1%
Income tax Expense	645,576	5.0%	442,277	5.0%	46.0%
Net Income	1,387,406	10.7%	912,075	10.3%	52.1%
Earnings per share	3.99	-	2.83	-	-
EBITDA	3,058,162	23.6%	2,073,272	23.3%	47.5%

(1) Represents interest income, interest expense, monetary position and losses, and foreign exchange gains and losses.

MORTGAGE FINANCING BY SEGMENT

Number of Mortgages Yeard End

Financing Source	2006	% of Total	2005	% of Total
SHF & Banks	7,061	16.0%	9,873	31.2%
INFONAVIT	33,011	74.8%	19,203	60.8%
FOVISSSTE	4,060	9.2%	2,518	8.0%
Total	44,132	100.0%	31,594	100.0%

Geographic Expansion. Diversification among medium-sized cities and building its presence in the major metropolitan areas in Mexico are key drivers for Homex's future growth. The Company consolidated its operations in its existing cities and launched 24 new phases or expansion projects during 2006 including Tuxtla Gutierrez, Ciudad Juarez, Atizapan, Tijuana, Acapulco, Veracruz, Puerto Vallarta and Hermosillo.

The Company also opened two new cities: Puebla, the fifth largest city in Mexico and the largest without Homex presence, and Mexicali, the state capital of Baja California Norte. In 2007 management expects to open six new cities throughout Mexico.

Revenues. For the full year 2006, revenues increased 45.8% to Ps.12,953 million from Ps.8,882 million in 2005. Total housing revenues in 2006 increased 47.6%, driven by higher sales volume and average prices. Affordable entry-level represented 76.8% of total revenues in 2006 compared to 75.2% in 2005. Middle-income represented 21.5% of total revenues in 2006 compared to 21.9% in 2005. In 2006, Homex reported other revenues of Ps.215 million compared to Ps.253 million in 2005. This decline was mainly driven by an extraordinary sale of ready mix concrete and concrete block in the third quarter of 2005 to a third party.

Gross Profit. Costs increased 43.2% in 2006 to Ps.8,858 million from Ps.6,186 million in 2005, due primarily to the incorporation of Beta into the Company's operations as well as the increased volume during the year. Gross profit increased 51.9% to Ps.4,095 million from Ps.2,696 million in 2005, including the non-cash charge impact registered in 2006 related to the amortization of the fair value of certain land purchases associated with the 2005 Beta acquisition. As a percentage of total revenues, gross profit increased to 31.6% in 2006 from 30.4% in 2005.

Selling and Administrative Expenses (SG&A). In 2006 Homex assigned a value to the "Casas Beta" brand to be amortized over five years according to the generally accepted accounting principles in Mexico. A portion equivalent to 12 months of the "Casas Beta" brand value was amortized during 2006 when the Company registered a non-cash impact in the SG&A line of approximately Ps.91million. The Company will amortize the remaining Ps.320 million over the next three and a half years.

For the year, total SG&A increased to Ps.1,310 million compared to Ps.880 million in 2005, affected by the "Casas Beta" brand non-cash charge. Without considering the Beta related non-cash charge, SG&A as a percentage of revenues remained stable year-over-year at 9.4%.

Operating Income. The non-cash items reflected in the cost of goods sold and the SG&A lines also affected the reported operating income. In 2006, operating income increased by 53.3% to Ps.2,785million compared to Ps.1,816 million 2005. Operating income as a percentage of revenues, including the non-cash items, was 21.5% in 2006. Without these non-cash items, the operating margin would have reached 22.4% in 2006, compared to 20.4% in 2005.

Other Income. For the year, other income increased 88.6% to Ps.46 million from Ps.24 million in 2005. Other income mainly reflects income from non-operating products, construction materials sold to third parties, and ongoing recoveries from urbanization works.

Net Comprehensive Financing Cost. increased by 60.1% to Ps.762 million in 2006 to Ps.476 million in 2005. Net comprehensive financing cost as a percentage of sales increased to 5.9% in 2006 from 5.4% in 2005.

Net interest expense increased by 45.2% to Ps.545 million in 2006 from Ps.375 million in 2005. This increase was primarily due to the payment of the interest of the Senior Guaranteed Notes due 2015. Interest income increased by 72.8% to Ps.105 million in 2006 from Ps.61 million in 2005 due to higher cash balances throughout the year.

The Company had a foreign exchange loss of Ps.143 million in 2006 as a result of a higher debt level exposure in U.S. dollar denominated debt impacted by the peso appreciation of approximately 1.89% against the U.S. dollar during 2006, compared to a foreign exchange loss of Ps.68 million in 2005.

Monetary position loss increased from Ps.32.6 million in 2005 to Ps.74 million in 2006 as a result of a decrease in our net monetary liability position.

Net income. The non-cash adjustments registered in 2006 at the operating line level also impacted net income reported for the year. Including these non-cash charges, 2006 net income reached Ps.1,387 million, representing a 52.1% increase over the Ps.912 million reported in 2005. Earnings per share for full year 2006 were Ps.3.99, as compared to Ps.2.83 in 2005.

EBITDA. For 2006 EBITDA rose to Ps.3,058 million, an increase of 47.5% from Ps.2,073 million recorded in 2005, mainly driven by higher sales and operating income. EBITDA margin for the year reached 23.6% in 2006, up from 23.3% in 2005.

Land Reserve. As of December 31, 2006, Homex's land reserve was 42.1 million square meters, which includes both the titled land and land in process of being titled. This is equivalent to 199,438 homes, of which 157,790 are focused on the affordable entry-level and 41,648 in the middle-income segment.

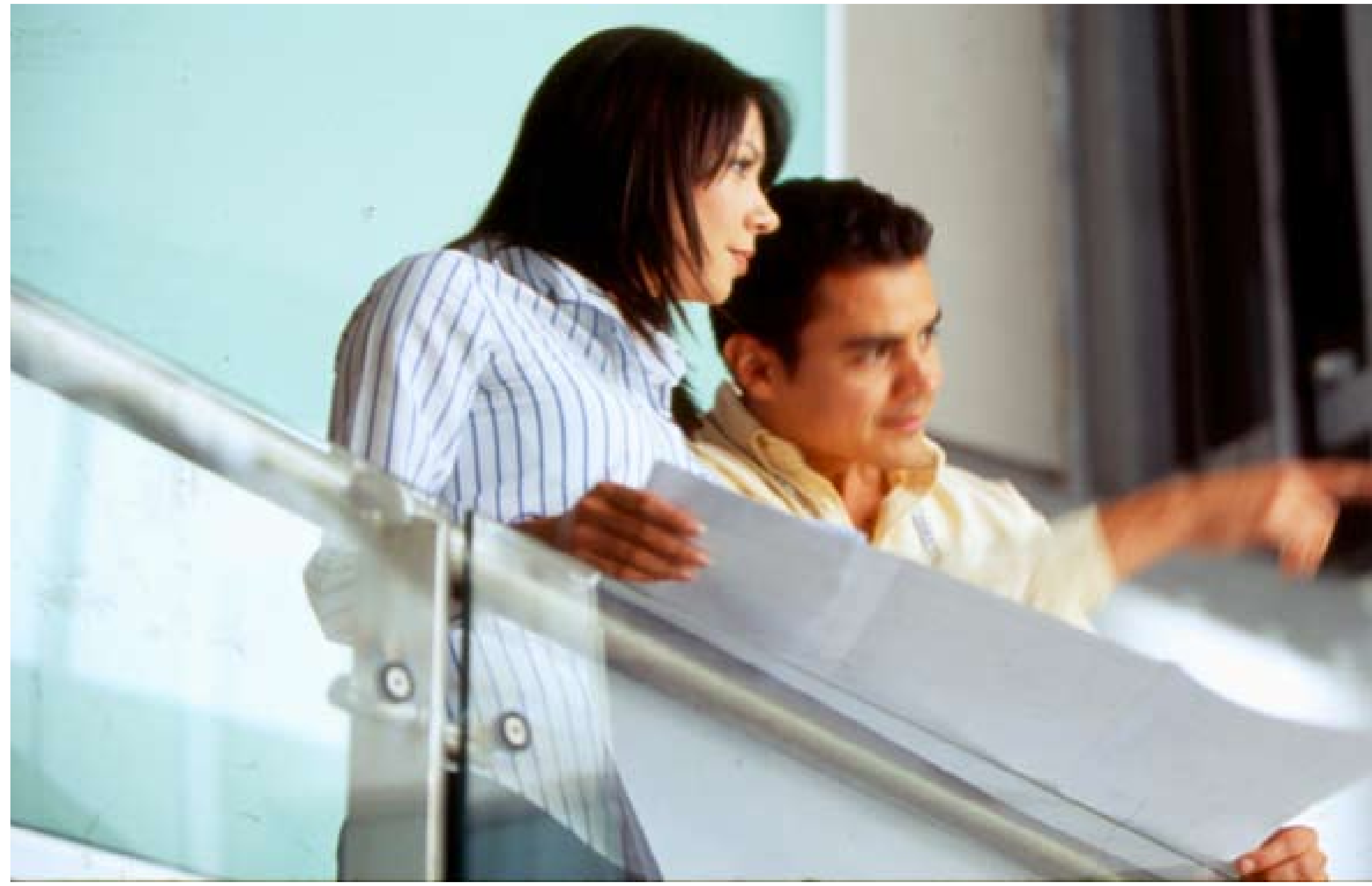
Homex has established a land reserve policy to maintain approximately three years of future sales of land bank on the balance sheet. Accordingly, at the end of 2006, the Company maintained sufficient land reserves for the construction of more than three years of anticipated sales. In addition, Homex maintains approximately three years of additional anticipated sales in optioned land.

Liquidity. Homex's average debt maturity is 8.2 years. The Company had net debt of Ps.1,164 million as of December 31, 2006. Homex's total debt to capital ratio improved to 32.3% while interest coverage was 5.6x. Homex funded its cash needs for 2006, including land acquisitions, capex, debt service and working capital requirements through a combination of cash flow from operations, and existing cash on hand.

- Net debt: Ps.1,164 million
- Net debt to EBITDA ratio: 0.38x
- Total debt to capitalization ratio: 32.3%
- Interest coverage 5.6x

Free Cash Flow. Homex's strong operating results translated into its first year of double digit growth and strong positive free cash flow of $968 million pesos net of resources from external financing and other land purchases and capital expenditures for the twelve months ended December 31, 2006.

Accounts Receivable. Homex reported total receivables of 43.5% of revenues for the twelve months ended December 31, 2006, representing an improvement over the 57.1% reported in the fourth quarter of 2005, calculated for the twelve months ended December 31, 2005.



The period-end days in accounts receivable, calculated as of December 31, 2006, were 157 days, an improvement over the 206 days as of December 31, 2005. The year-over-year improvement in the accounts receivable reflects the improvements in the collection and construction processes and the efficiencies of the integration of Beta achieved by the Company, despite the higher number of middle-income homes sold during the period, which take longer to construct.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

GOVERNANCE HIGHLIGHTS

- Strong board of directors - institutional and independent – The majority of the Board members are independent.
- The Audit, Compensation and Corporate Governance Committees are chaired by independent Directors.
- Full SEC registration and NYSE listing.
- International standards of accountability and transparency.
- Sarbanes Oxley compliance program, derivate from the company listing at NYSE.
- Compliance with the Best Practices Code recommended by the CNBV (the Mexican Securities and Banking Commission) and the BMV (the Mexican Stock Exchange).
- Founders own 32.9% of the shares.

BOARD OF DIRECTORS

Eustaquio de Nicolás Gutiérrez
CHAIRMAN OF THE BOARD

Gerardo de Nicolás Gutiérrez
HEAD OF THE EXECUTIVE COMMITTEE

Gary R. Garrabrant
VICE CHAIRMAN OF THE BOARD

Edward Lowenthal
DIRECTOR

José Ignacio de Nicolás Gutiérrez
DIRECTOR

Luis Alberto Harvey McKissack
DIRECTOR

Matthew M. Zell
DIRECTOR

Rafael Matute Labrador
DIRECTOR

Wilfrido Castillo Sánchez Mejorada
DIRECTOR

Z. Jamie Behar
DIRECTOR

Eustaquio Tomás de Nicolás Gutiérrez is Chairman of our Board of Directors. Before co-founding our predecessor in 1989, Mr. de Nicolás founded and managed DENIVE, a clothing manufacturing company. Mr. de Nicolás is a Board Member of the Mexican Stock Exchange since 2005, and has served as regional Chairman and regional Vice Chairman of the Mexican-Federation of Industrial Housing Promoters, or Provivac (Federacion Nacional de Promotores Industriales de la Vivienda), and as a member of the regional advisory board of financial institutions such as BBVA Bancomer and HSBC (formerly BITAL). Currently, Mr. de Nicolás oversees our main operations, focusing on land acquisition and developing new geographical markets.

Gerardo de Nicolás Gutiérrez is the Company's Chief Executive Officer. Mr. de Nicolás served as Chief Strategic Officer and head of the Executive Committee from October 2006 to June 5, 2007. Mr. de Nicolás also served as the CEO of the Company from 1997 to September 2006. Prior to his appointment as CEO, Mr. de Nicolás served as regional manager, systems manager, and construction manager supervisor. He holds an undergraduate degree in industrial engineering from Universidad Panamericana, in Mexico City and an MBA from Instituto Tecnologico y de Estudios Superiores de Monterrey in Guadalajara.

Gary R. Garrabrant is Chief Executive Officer and co-founder of Equity International. Mr. Garrabrant oversees all of the Company's activities and investment portfolio. He is also Executive Vice President of Equity Group Investments, LLC (EGI), the privately-held investment company founded and led by Sam Zell. Mr. Garrabrant joined EGI in 1996. Mr. Garrabrant has extensive real estate, investment management and banking experience. He led the acquisition of California Real Estate Investment Trust and the creation of Capital Trust where he served as Vice Chairman and Director. He was also involved in the consolidation of the four Zell/Merrill Lynch Opportunity Funds which led to the creation of Equity Office Properties Trust. Prior to joining EGI, Mr. Garrabrant co-founded and led Genesis Realty Capital Management, a real estate securities investment management firm based in New York. Mr. Garrabrant was a senior real estate investment banker with Chemical Bank followed by The Bankers Trust Company from 1981 to 1994. Mr. Garrabrant is Vice Chairman and Director of Homex, Chairman of Gafisa,and a Director of NH Hotels. He is also a member of the Kellogg Institute for International Studies Advisory Board at the University of Notre Dame and the Real Estate Advisory Board at Cambridge University. Mr. Garrabrant graduated from the University of Notre Dame with a B.B.A. in finance and completed the Dartmouth Institute at Dartmouth College.

Edward Lowenthal is President of Ackerman Management LLC, an investment management and advisory company with particular focus on real estate and other asset-based investments. Previously, Mr. Lowenthal founded and was President of Wellsford Real Properties, Inc., or WRP, a publicly-owned real estate merchant banking company. He also founded and was trustee and President of Wellsford Residential Property Trust, a publicly-owned multi-family real estate investment trust that was merged into Equity Residential Properties Trust. Mr. Lowenthal is a member of the Board of Directors of several companies, including WRP, Reis, Inc., a real estate market information and analytics provider, and Omega Healthcare Investors, Inc., a healthcare real estate investment trust, and American Campus Communities, a publicly traded Real Estate Investment Trust which focuses solely on student housing in the United States.

José Ignacio de Nicolás Gutiérrez is the Minister of Economic Developent for the State of Sinaloa, and founder and Chairman of the Board of Directors of Hipotecaria Credito y Casa, S.A. de C.V., a sofol that has become the third largest mortgage bank in Mexico. Mr. de Nicolás also co-founded our company and served as our CEO from 1989 to 1997. Mr. de Nicolás is a member of the regional advisory board of financial institutions such as Fianzas Monterrey, a contract and fidelity bonds company and NAFIN, a Mexican government-owned development bank. He has recently been appointed member of the Board of Directors of Afore Coppel, a retirement fund administrator. Mr. de Nicolás received a B.S. in Finance and Administration from Universidad Panamericana, in Mexico City.

Luis Alberto Harvey McKissack is co-founding partner, President and Managing Principal of ZN Mexico Funds, Nexxus Capital Private Equity Fund III and co-founder of Nexxus Capital, S.C. He has over 19 years of experience in investment banking and private equity. Before founding Nexxus Capital, S.C., Mr. Harvey held positions at Fonlyser, Operadora de Bolsa, and Servicios Industriales Peñoles, S.A. de C.V. His experience includes several private and public equity transactions and also the initial public offering of several major Mexican corporations on the Mexican Stock Exchange and the international capital markets. Mr. Harvey sits on the Board of Directors of Desarrolladora Homex, S.A.B. de C.V., Industrias Innopack, S.A. de C.V., Aerobal, S.A. de C.V., Grupo Mágico Internacional, S.A. de C.V., Sociedad Financiera de Objeto Limitado, Grupo Sports World, S.A. de C.V., Producciones Infovisión, S.A. de C.V., Nexxus Capital, S.C. and is a member of the investment committee of ZN Mexico Trust and ZN Mexico II, L.P. and Nexxus Capital Private Equity Fund III. Mr. Harvey received a B.S. in Economics from Instituto Tecnológico Autónomo de México (ITAM) and an MBA with a concentration in Finance from the University of Texas at Austin.

Matthew M. Zell is Managing Director of EGI. Previously, he served as President of Prometheus Technologies, Inc., an information technology consulting firm. Mr. Zell is a member of the Board of Directors of Anixter Inc., a global distributor of wire, cable and communications connectivity products as well as the government sector. Mr. Zell is the son of Samuel Zell.

Rafael Matute Labrador is Executive Vice President and Chief Financial Officer of Walt-Mart de Mexico, S.A.B. de C.V and a member of the Board of Directors and of the Executive Committee for Wal-Mart de Mexico, S.A.B. de C.V. Mr. Matute is also a member of the Board of Directors of Desarrolladora Homex S.A.B. de C.V.

Wilfrido Castillo Sánchez-Mejorada is CFO of Qualitas Cía. de Seguros, S.A.B. de C.V., or Qualitas, a Mexican insurance company. Previously he served as CEO of Castillo Miranda, Contadores Públicos, a public accounting firm, and he has held senior positions in several brokerage firms. Mr. Castillo is a member of the Board of Directors of Qualitas, Unión de Esfuerzo para el Campo, Fundacion Mexicana de Psicoanálisis, I. A. P., and Industrias Innopack, S.A. de C.V., where he also serves as Chairman of the Audit Committee.

Z. Jamie Behar is Managing Director, Real Estate & Alternative Investments, for General Motors Investment Management Corporation, or GMIMCo. She manages GMIMCo clients' real estate investment portfolios, including both private market and publicly-traded security investments, as well as their alternative investment portfolios, totaling $10.5 billion. Ms. Behar is a member of the Board of Directors of Homex and Sunstone Hotel Investors, Inc., a publicly listed hotel company operating in the United States, and serves on the advisory boards of several domestic and international private real estate investment entities.

EXECUTIVE COMMITTEE

Our executive committee consists of Gerardo de Nicolás Gutiérrez, Eustaquio Tomás de Nicolás Gutiérrez, Luis Alberto Harvey McKissack, and Gary R. Garrabrant. Among other duties and responsibilities, the committee acts on general planning and financial matters not reserved exclusively for action by the board of directors, including appointing and removing, members of management, and any of our employees; entering into credit agreements on our behalf; and convening shareholders' meetings. In September 2006, Mr. Gerardo de Nicolás was appointed as head of the Executive Committee.

AUDIT COMMITTEE

Our audit committee consists of Wilfrido Castillo Sánchez-Mejorada (Chairman), Z. Jamie Behar, and Edward Lowenthal. Our audit committee was re-elected at the shareholders meeting on April 26, 2006. The members of the audit committee are independent in accordance with Sarbanes Oxley Act requirements. Additionally our board of directors has determined that Mr. Castillo has the attributes of an "audit committee financial expert" as defined by the SEC and that each member of the audit committee satisfies the financial literacy requirements of the New York Stock Exchange. Our statutory auditor may attend audit committee meetings, although he does not have the right to vote. Among other duties and responsibilities, the committee issues opinions to the board of directors regarding related party transactions; where it deems appropriate, recommends that independent experts be retained to render fairness opinions in connection with related party transactions and tender offers; reviews the critical accounting policies adopted by us and advises the board of directors on changes to such policies; assists the board of directors with planning and conducting internal audits; and prepares a yearly activity report for submission to the board of directors. The committee is also responsible for the appointment, retention, and oversight of any accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit review or attest services and for the establishment of procedures for the receipt, retention, and treatment of complaints received with respect to accounting, internal controls, or auditing matters and the confidential, anonymous submission by employees with regard to the same. For all the mentioned above, the Audit Committee always has a financial expert between its members.

COMPENSATION COMMITTEE

Our compensation committee consists of Edward Lowenthal, Luis Alberto Harvey McKissack, and Gary R. Garrabrant. Among other duties and responsibilities, the committee reviews and approves corporate goals and objectives relevant to CEO compensation; evaluates the CEO's performance in light of those goals and objectives; determines and approves the CEO's compensation level based on this evaluation; it also makes recommendations to the board with respect to non-CEO compensation, incentive-compensation plans and equity-based plans.

CORPORATE GOVERNANCE AND COMPENSATION COMMITTEE

Our corporate governance and compensation committee consists of Luis Alberto Harvey McKissack, Gary R. Garrabrant, and Edward Lowenthal. Among other duties and responsibilities, the committee identifies individuals qualified to become board members and makes recommendations to the board of directors and shareholders regarding director and executive nominees; develops and recommends to the board of directors a set of corporate governance principles applicable to us; oversees the evaluation of the board and management, and makes recommendations for compensation policies applicable to our executives and officers.

MANAGEMENT TEAM

Eustaquio de Nicolás Gutiérrez
CHAIRMAN OF THE BOARD

Gerardo de Nicolás Gutiérrez
CHIEF EXECUTIVE OFFICER

Alan Castellanos Carmona
VICE PRESIDENT OF FINANCE AND PLANNING AND CHIEF FINANCIAL OFFICER

Alberto Menchaca Valenzuela
VICE PRESIDENT – AFFORDABLE ENTRY LEVEL SEGMENT

Julian de Nicolás Gutiérrez
VICE PRESIDENT – MIDDLE INCOME LEVEL SEGMENT

Rubén Izabal González
VICE PRESIDENT - CONSTRUCTION

Daniel Leal Díaz - Conti
VICE PRESIDENT - SALES AND MARKETING

Ramón Lafarga Batiz
ADMINISTRATIVE AND ACCOUNTING OFFICER

2006

Consolidated Financial Statements

DESARROLLADORA HOMEX, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Financial Statements as of December 31, 2005 and 2006, and for each of the three years in the period ended December 31, 2006. And Report of Independent Registered Public Accounting firm dated April, 21, 2006

2006

Consolidated Financial Statements

DESARROLLADORA HOMEX, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Financial Statements as of December 31, 2005 and 2006, and for each of the three years in the period ended December 31, 2006. And Report of Independent Registered Public Accounting firm dated April, 21, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF DESARROLLADORA HOMEX, S.A.B. DE C.V. AND SUBSIDIARIES

We have audited the accompanying consolidated balance sheet of Desarrolladora Homex, S.A.B. de C.V. (previously Desarrolladora Homex, S.A. de C.V.) and subsidiaries (the "Company") as of December 31, 2005, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the years ended December 31, 2005 and 2004, all expressed in thousands of Mexican pesos of purchasing power of December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico and with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company was not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Desarrolladora Homex, S.A.B. de C.V. and subsidiaries as of December 31, 2005, and the results of their operations, changes in their stockholders' equity and changes in their financial position for the years ended December 31, 2005 and 2004 in conformity with Mexican Financial Reporting Standards.

Effective January 1, 2005, the Company adopted the provisions of Bulletin B-7, "Business acquisitions". On July 1, 2005 a subsidiary was acquired utilizing the purchase method of accounting, under which the assets acquired and liabilities assumed are recorded at fair value, through the allocation of the acquisition cost of the subsidiary, and goodwill of Ps. 705,347 thousand Mexican pesos was recorded.

Mexican Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the Unites States of America. The application of the latter would have affected the determination of consolidated net income for the years ended December 31, 2005 and 2004, and the determination of consolidated stockholders' equity at December 31, 2005 and 2004 to the extent summarized in Note 27.

The translation of the financial statement amounts into U.S. dollars and the translation of the financial statements into English have been made solely for the convenience of readers in the United States of America.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu

C.P.C. Sergio Vargas Vargas
Mexico City, Mexico
April 21, 2006 (April 23, 2007 as to Notes 26 and 27)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Desarrolladora Homex, S.A.B. de C.V.

We have audited the accompanying consolidated balance sheet of Desarrolladora Homex, S.A.B. de C.V. and subsidiaries as of December 31, 2006, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Desarrolladora Homex, S.A.B. de C.V. and subsidiaries at December 31, 2006, and the consolidated results of their operations and changes in their financial position for the year then ended, in conformity with Mexican Financial Reporting Standards, which differ in certain respects from accounting principles generally accepted in the United States (See Notes 26, 27 and 28 to the consolidated financial statements).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness over the internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 9, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of internal control over financial reporting, and an adverse opinion on the effectiveness of internal control over financial reporting.

Mancera, S.C.
A Member Practice of
Ernst & Young Global

Carlos Rochín
Culiacan, Mexico
July 9, 2007

CONSOLIDATED BALANCE SHEETS

As of December 31, 2006 and 2005 (In thousands of Mexican pesos (Ps.) of purchasing power as of December 31, 2006)	2006 (Convenience translation; Note 2.a)	2006	2005
Assets			
Current assets:			
Cash and cash equivalents (Note 4)	$ 215,125	Ps. 2,331,639	Ps. 1,372,230
Restricted cash	-	-	324
Trade accounts receivable, net (Note 5)	520,058	5,636,652	5,782,448
Inventories (Note 6)	374,576	4,059,832	3,818,767
Other current assets, net (Note 7)	8,178	88,641	185,449
Total current assets	1,117,937	12,116,764	11,159,218
Land held for future development (Note 6)	460,663	4,992,897	1,857,397
Property and equipment, net (Note 8)	59,497	644,855	479,510
Goodwill (Note 2)	65,078	705,347	705,347
Other assets (Note 9)	41,463	449,392	639,347
Total	$ 1,744,638	Ps. 18,909,255	Ps. 14,840,819
Liabilities and stockholders' equity			
Current liabilities:			
Current portion of debt and leases (Note 10)	$ 8,127	Ps. 88,081	Ps. 96,207
Accounts payable (Note 13)	187,134	2,028,256	1,489,230
Land suppliers (Note 14)	311,392	3,375,026	1,810,680
Advances from customers	26,914	291,703	219,550
Accrued expenses and taxes other than income taxes	10,128	109,775	188,567
Income tax	9,410	101,991	103,071
Employee statutory profit sharing	3,526	38,216	20,980
Total current liabilities	556,631	6,033,048	3,928,285
Long-term debt (Note 10)	301,145	3,263,965	3,348,327
Swap payable (Note 11)	20,192	218,847	123,047
Employee retirement obligations (Note 12)	4,649	50,381	41,013
Deferred income tax (Note 22)	186,887	2,025,575	1,479,391
Total liabilities	1,069,504	11,591,816	8,920,063
Stockholders' equity (Note 15):			
Common stock	46,951	508,882	508,882
Additional paid-in capital	291,681	3,161,385	3,161,385
Retained earnings	297,720	3,226,834	1,885,957
Other stockholders' equity accounts	30,892	334,820	325,543
Majority stockholders' equity	667,244	7,231,921	5,881,767
Minority interest	7,890	85,518	38,989
Total stockholders' equity	675,134	7,317,439	5,920,756
Total liabilities and stockholders' equity	$ 1,744,638	Ps. 18,909,255	Ps. 14,840,819

See accompanying notes to consolidated financial statements

DESARROLLADORA HOMEX, S.A.B. DE C.V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2006, 2005 and 2004 (In thousands of Mexican pesos (Ps.) of purchasing power as of December 31, 2006, except earnings per share)	2006 (Convenience translation; Note 2.a	2006	2005	2004
Revenues	$ 1,195,057	Ps. 12,952,625	Ps. 8,882,159	Ps. 5,713,871
Costs	817,274	8,858,028	6,186,032	3,978,552
Gross profit	377,783	4,094,597	2,696,127	1,735,319
Administrative and selling expenses (Note 19)	120,857	1,309,907	880,082	466,055
Income from operations	256,926	2,784,690	1,816,045	1,269,264
Other income — net (Note 20)	4,244	46,003	24,393	46,276
Net comprehensive financing cost:				
Interest expense (Note 21)	59,984	650,140	436,115	142,171
Interest income	(9,674)	(104,851)	(60,673)	(50,308)
Exchange loss (gain)	13,196	143,021	68,114	(7,651)
Monetary position loss	6,828	74,004	32,551	87,422
	70,334	762,314	476,107	171,634
Income before income taxes and employee profit sharing	190,836	2,068,379	1,364,331	1,143,906
Income tax expense (Note 22)	59,563	645,576	442,277	365,170
Employee statutory profit sharing expense (Note 22)	3,266	35,397	9,979	9,163
Consolidated net income	$ 128,007	Ps. 1,387,406	Ps. 912,075	Ps. 769,573
Net income of majority stockholders	$ 123,714	Ps. 1,340,877	Ps. 919,063	Ps. 759,825
Net income (loss) of minority stockholders	4,293	46,529	(6,988)	9,748
Consolidated net income	$ 128,007	Ps. 1,387,406	Ps. 912,075	Ps. 769,573
Weighted average shares outstanding (in thousands)	335,869	335,869	324,953	281,997
Majority stockholders' basic earnings per share	$ 0.38	Ps. 3.99	Ps. 2.83	Ps. 2.69

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2006, 2005 and 2004 (In thousands of Mexican pesos (Ps.) of purchasing power as of December 31, 2006)

	Common stock	Additional paid-in capital	Retained earnings	Other Majority stockholders equity accounts	Minority interest in stockholders equity	Total consolidated subsidiaries	stockholders equity (Note 15)
Balances as of January 1, 2004	Ps. 186,328	Ps. 626,154	Ps. 272,236	Ps. 334,084	Ps. 1,418,802	Ps. 49,489	Ps. 1,468,291
Issuance of common stock	47,145	1,770,329	-	-	1,817,474	5,746	1,823,220
Comprehensive income	-	-	771,218	-	771,218	(1,645)	769,573
Balances as of December 31, 2004	Ps. 233,473	2,396,483	Ps. 1,043,454	334,084	4,007,494	53,590	4,061,084
Issuance of common stock	275,409	764,902	-	-	1,040,311	-	1,040,311
Minority dilution	-	-	-	-	-	(7,613)	(7,613)
Capital distribution from acquisition of minority interest	-	-	(76,560)	-	(76,560)	-	(76,560)
Comprehensive income	-	-	919,063	(8,541)	910,522	(6,988)	9.3,534
Balances as of December 31, 2005	Ps. 508,882	3,161,385	1,885,957	325,543	5,881,767	38,989	5,920,756
Comprehensive income	-	-	1,340,877	9,277	1,350,154	46,529	1,396,683
Balances as of December 31, 2006	Ps. 508,882	Ps. 3,161,385	Ps. 3,226,834	Ps. 334,820	Ps. 7,231,921	Ps. 85,518	Ps. 7,317,439

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 2006, 2005 and 2004 (In thousands of Mexican pesos (Ps.) as of purchasing power of December 31, 2006)	2006 (Convenience translation; Note 2.a	2006	2005	2004
Operating activities:				
Consolidated net income	$ 128,007	Ps. 1,387,406	Ps. 912,075	Ps. 769,573
Add items that did not require the use of resources:				
Depreciation	11,633	126,089	64,212	26,070
Loss on sale of subsidiary	-	-	-	1,228
Amortization of intangibles	10,184	110,380	168,622	-
Labor obligations	1,720	18,646	32,470	-
Deferred income tax net of inflation	46,820	507,463	387,793	298,728
	198,364	2,149,984	1,565,172	1,095,599
Changes in operating assets and liabilities:				
(Increase) decrease in:				
Trade accounts receivable	13,452	145,796	(674,567)	(1,425,429)
Inventories and land held for future development	(311,535)	(3,376,565)	(2,287,547)	(1,488,614)
Other assets	20,222	219,147	(348,015)	(159,982)
Increase (decrease) in:				
Trade accounts payable	49,733	539,026	242,392	172,937
Land suppliers	144,332	1,564,346	934,687	553,067
Accrued expenses and taxes payable	(7,271)	(78,812)	280,330	-
Other	8,932	96,811	133,308	79,101
Net resources generated by (used in) operating activities	116,229	1,259,733	(154,240)	(1,173,321)
Financing activities:				
Proceeds from new borrowings	146,805	1,591,158	4,036,169	434,949
Payments of notes payable	(155,341)	(1,683,646)	(1,807,472)	(403,253)
Change in fair value of financial instruments	8,839	95,800	-	-
Debt issuance cost	(1,155)	(12,523)	-	-
Loans from related parties	-	-	-	32,265
Payment of loans to related parties	-	-	-	(187,404)
Issuance of common stock	-	-	1,040,311	1,823,220
Net resources generated by financing activities	(852)	(9,211)	3,269,008	1,699,777
Investing activities:				
Restricted investments	-	-	46,173	(8,394)
Proceeds from sale of subsidiary	-	-	-	51,731
Acquisition of property and equipment	(26,889)	(291,437)	(155,826)	(234,865)
Acquisition of minority interest	-	-	(84,173)	-
Acquisition of BETA, net of cash	-	-	(2,120,041)	-
Net resources used in investing activities	(26,889)	(291,437)	(2,313,867)	(191,528)
Cash, cash equivalents and restricted cash				
Net increase	88,488	959,085	800,901	334,928
Balance at beginning of year	126,636	1,372,554	571,653	236,725
Balance at end of year	$ 215,125	Ps. 2,331,639	Ps. 1,372,554	Ps. 571,653

See accompanying notes to consolidated financial statements.

DESARROLLADORA HOMEX, S.A.B. DE C.V. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006, 2005 and 2004 (In thousands of Mexican pesos (Ps.) of purchasing power of December 31, 2006)

1. Nature of business

Desarrolladora Homex, S.A.B. de C.V. and subsidiaries (the "Company") is a vertically integrated company engaged in the development, construction and sale of affordable entry level, middle income and upper-income housing in Mexico.

The Company engages in land acquisition, constructing, marketing and selling homes, obtaining individual financing for its clients and developing communities to satisfy housing needs in Mexico.

The Company participates in housing supply offers from the main housing funds in Mexico, such as the National Workers' Housing Fund, or Instituto Nacional del Fondo de Ahorro para la Vivienda de los Trabajadores ("INFONAVIT"), the Social Security and Services Institute Public-Sector Workers' Housing Fund, or Fondo de la Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado ("FOVISSSTE") and the public mortgage providers such as the Federal Mortgage Society, or Sociedad Hipotecaria Federal ("SHF"). Additionally, the Company participates in the middle-income housing market, where mortgage financing is provided by commercial banks and sociedades financieras de objeto limitado ("sofoles").

For the years ended December 31, 2006, 2005 and 2004 revenues obtained through INFONAVIT mortgage financing accounted for 75%, 61% and 36%, respectively of the Company's total revenues; for the remaining revenues the sources from other accounted by 25%, 39% and 64% respectively.

Operating cycle – The Company's operations present a seasonal cycle: normally, the highest volume of sales takes place in the second half of the year. Construction times of real-estate developments vary depending on the type of housing: entry-level, middle-income or upper-income; accordingly, construction revenues are recognized in different fiscal years, and the revenues from work completed and generation of accounts receivable fluctuate depending on the project construction starting date.

2. Basis of presentation

a. *Convenience translation* - The financial statements are stated in Mexican pesos, the currency of the country in which the Company is incorporated and operates. The statement translations of Mexican pesos amounts into U.S. dollar amounts are included solely for the convenience of readers in the United States of America and have been made at the rate of Ps. 10.8385 per one U.S. dollar. Such translations should not be construed as representations that the Mexican peso amounts have been, could have been, or could in the future, be converted into U.S. dollars at this or any other exchange rate.

b) *Reclassifications* - Certain captions shown in the 2005 financial statements as originally issued have been reclassified for uniformity of presentation with the 2006 financial statements as follows:

- Interest payable has been reclassified accrued expenses to the short term debt and leases, the amount reclassified is Ps. 78,116.
- The accumulated effect of deferred income tax has been reclassified to retained earnings, the amount reclassified is Ps. 152,110.
- The swap payable was separated from the long-term debt and presented in a single line by Ps. 218,847 in 2006 and Ps.123,047 in 2005.

- Land trust and land suppliers were reclassified as asset and liability for Ps. 159,500 in 2005

- The labor obligations shown in the consolidated statement of changes in Stockholders' equity in 2005 for Ps. (8,541) was reclassified as part of the comprehensive income of the year.

c) Consolidation of financial statements - The consolidated financial statements include those of Desarrolladora Homex, S.A. de C.V. and its subsidiaries, whose shareholding percentage in their capital stock is shown below:

	Ownership Percentage		
Company	2006	2005	Activity
Proyectos Inmobiliarios de Culiacán, S.A. de C.V. ("PICSA")	100%	100%	Promotion, design, construction and sale of entry-level, middle-income and upper-income housing.
Nacional Financiera, S.N.C. Fid. del Fideicomiso AAA Homex 80284	100%	100%	Rendering of financial services.
Administradora Picsa, S.A. de C.V.	100%	100%	Rendering of administrative services and professional services for affiliated companies.
Altos Mandos de Negocios, S.A. de C.V.	100%	100%	Rendering of administrative services to affiliated companies.
Aerohomex, S.A. de C.V.	100%	100%	Rendering of transportation services.
Desarrolladora de Casas del Noroeste, S.A. de C.V. (DECANO)	100%	100%	Construction and development of housing complexes.
Homex Atizapán, S.A. de C.V.	67%	67%	Construction and development of housing complexes.
Casas Beta del Centro, S de R.L. de C.V. (1)	100%	100%	Promotion, design, construction and sale of entry-level housing.
Casas Beta del Norte, S de R. L. de C.V.	100%	100%	Promotion, design, construction and sale of entry-level housing.
Casas Beta del Noroeste, S de R.L. de C.V.	100%	100%	Promotion, design, construction and sale of entry-level housing.
Edificaciones Beta, S. de R.L de C.V. (2)	100%	100%	Construction and design of housing.
Edificaciones Beta del Noroeste, S. R.L. de C.V. (2)	100%	100%	Construction and design of housing.
Edificaciones Beta del Norte, S. de R.L. de C.V. (2)	100%	100%	Construction and design of housing.
Hogares del Noroeste, S.A. de C.V. (3)	50%	-	Construction and design of housing.

Significant intercompany balances and transactions have been eliminated in these consolidated financial statements.

(1) Casas Beta del Centro, S.A. de C.V. owns 100% of the outstanding stock of Comercializadora Cántaros, S.A. de C.V., Promotora Residencial Huehuetoca, S.A. de C.V. and Super Abastos Centrales y Comerciales, S.A. de C.V., which are engaged in the promotion, design, construction and sale of entry-level housing.

(2) To efficiently manage its operations, the Company decided to reduce the number of subsidiaries. Therefore, these companies, as of December 15, 2005, began a process of legal liquidation that entails the transfer of all of their assets and liabilities, at book value, to other companies in the group.

(3) Hogares del Noroeste, S. A. de C.V. is a 50% owned controlled subsidiary of Desarrolladora Homex, S.A. de C.V., engaged in the promotion, design, construction and sale of entry-level housing.

d) Acquisition of shares in Controladora Casas Beta, S.A. de C.V. - On July 1, 2005, the Company acquired 100% of the voting stock of Controladora Casas Beta, S.A. de C.V. ("BETA"), whose primary activity is the construction and sale of entry-level housing primarily in the Mexican states of Baja California, Nuevo León and the State of Mexico. The results of BETA's operations starting July 1, 2005, have been included in the Company's consolidated financial statements. Among the main reasons for the acquisition of BETA was that, prior to the acquisition, BETA was considered to be the sixth largest homebuilder in Mexico, in terms of the number of units sold. The acquisition of BETA is expected to significantly improve the Company's financial results and will strengthen its position in the domestic market, enhancing its presence in the three previously mentioned states, which have substantial housing markets where BETA has major construction developments.

The purchase price of BETA was Ps.2,164 million pesos (Ps.2,043 million pesos at nominal value), and the acquisition included the cash purchase of 53% of the shares of BETA for 1.08 billion pesos (Ps.1,066 million pesos at nominal value) and the purchase of the remaining 47% of the shares of BETA in exchange for 22,013,060 shares in the Company with a value of Ps.996 millions pesos (Ps.977 million pesos at nominal value). Upon completion of the acquisition of BETA, it was merged with the Company.

The condensed balance sheet of BETA on the acquisition date, adjusted for the assignment of the acquisition cost to the assets and liabilities assumed, was as follows:

		Balances as of June 30, 2005
Current assets (includes cash of Ps.44,498)	Ps.	2,237,544
Fixed assets		329,369
Intangible asset (BETA trademark)		470,403
Intangible asset (Backlog)		135,315
Current liabilities		(723,215)
Long-term debt		(904,038)
Minority interest		(86,186)
Net assets acquired		1,459,192
Cost of the acquired entity		2,164,539
Goodwill	Ps.	705,347

The intangible assets represent the value assigned to the BETA trademark and backlog, Both intangibles were determined as part of the assessment performed by the Company to assign the purchase price to the assets acquired and the liabilities assumed. Backlog represents the houses under construction at the date of the purchase of Casas Beta which are expected to be sold in a subsequent period ranging between six and nine months. The trademark value was established by independent appraisers and the backlog was determined internally.

The goodwill resulting from the acquisition of BETA represents the benefit the Company expects to obtain from increasing its position in major housing markets in the State of Mexico and in the cities of Monterrey and Tijuana, and expected future synergies from the combination of the businesses.

In the consolidated statement of income for the period from July 1, 2005 to December 31, 2005, BETA contributed net revenues of Ps. 2,061,381, operating income of Ps. 620,951 and net income of Ps. 372,982.

For the years ended December 31, 2005 and 2004, proforma total consolidated revenues of the Company if Beta had been acquired on January 1, 2004, are Ps.10,204,222 and Ps. 8,379,087, respectively; proforma operating income was Ps. 2,196,827 and Ps. 1,801,100, respectively; proforma net income was Ps. 1,199,744 and Ps. 1,087,504, respectively; and proforma basic and diluted earnings per share was Ps.3.68 and Ps.3.84, respectively.

e) *Acquisition of shares of Super Abastos Centrales y Comerciales, S.A. de C.V.* **-** In February 2005, Casas Beta del Centro, S.A. de C.V. ("Beta del Centro"), , acquired 50% of the outstanding shares of Super Abastos Centrales y Comerciales, S.A. de C.V. ("SACC") in order to participate in a program of entry-level housing construction in Mexico City. The excess cost of the acquired assets over their book value and the liabilities assumed totaled Ps.12,581, which was identified and recorded in the inventory of the development project. With this percentage of stock acquired, under the agreements signed with SACC shareholders, Beta del Centro has a controlling interest in SACC as of the acquisition date and consolidates SACC.

On September 12, 2005, Beta del Centro acquired the remaining 50% of SACC's outstanding shares for Ps. 145,668. The excess cost of the shares acquired from minority owners totaled Ps.76,560, which was recorded as a capital distribution, since this was a transaction between common shareholders.

f) *Merger* **-** On May 16, 2004, Econoblock, S.A. de C.V. (affiliated company) merged with Desarrolladora de Casas del Noroeste, S.A. de C.V. (subsidiary company) with the latter assuming all the rights and obligations of the merged company. As the companies were under common control, the merger was recorded by recognizing the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer, based on the guidance incorporated in Statement of Financial Accounting Standards No. 141, "Business Combinations", issued by the Financial Accounting Standards Board, and in accordance with MFRS Bulletin A-8, "Supplemental Application of International Accounting Standards" issued by the Mexican Institute of Public Accountants. This transaction resulted in a gain of Ps. 11,393, which was accounted for as an increase in retained earnings.

3. Summary of significant accounting policies

The significant accounting policies and practices observed by the Company in the preparation of the financial statements, which are in conformity with Mexican Financial Reporting Standards (MFRS), which are comprised of the bulletins issued by the Mexican Institute of Public Accountants that have not yet been modified, replaced or abolished by the MFRS, as well as the MFRS issued by the Mexican Financial Information Standards Research and Development Board (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C. or "CINIF").

The MFRS are understood to encompass the new standards and interpretations issued by the CINIF plus the bulletins previously issued by the Accounting Principles Board of the Mexican Institute of Public Accountants and transferred to the CINIF. As such, any of the documents comprising the MFRS will hereinafter be referred to by their original name or rather, either as "MFRS" or a "Mexican Accounting Bulletin", as the case may be.

The accompanying financial statements at December 31, 2006, 2005 and 2004 and their corresponding notes were authorized for their issuance and approved by the Finance Director (CFO), Alan Castellanos Carmona and the Controller, Angel García Vázquez as well as by the Audit Committee on June 30, 2007 and request approval by the Company's board of directors.

a. New accounting policies:

MFRS A-1, Structure of Financial Reporting Standards
MFRS A-1 collects all the previously basic principles issued by the commission of accounting principles (CPC) adding only the concept of economic substance.

Such concept establishes that the economic substance must be considered in the financial reporting process in order to recognize the transactions, internal transformations and other economic events affecting the entity, based on its economic nature and not only on its legal nature, whenever both are met. This bulletin became effective January 1 2006.

MFRS A-3, User Needs and the Objectives of Financial Statements

MFRS A-3 establishes, among other provisions, that the statement of changes in financial position or a statement of cash flows must be presented. This bulletin became effective starting 2006.

MFRS A-5, Basic Elements of the Financial Statements

MFRS A-5 includes a new classification of revenues and expenses as either ordinary or nonordinary. Ordinary revenues and expenses derive from usual transactions or events; that is, those that are directly related to the Company's own business purposes, whether they are frequent or not. Nonordinary revenues and expenses derive from unusual transactions or events, whether they are frequent or infrequent. This bulletin became effective January 1, 2006.

Also, this MFRS considers the reclassification to "other comprehensive income accounts" when the net assets, source of those accounts, are realized.

However, MFRS Bulletin B-3 Income Statement, effective January 1, 2007, issued by the CPC, does not mention this reclassification. Therefore, the income statement is presented according to the rules provided in Bulletin B-3 outstanding at December 31, 2006, and in accordance to the provisions of INIF-3.

MFRS A-7, Preparation and Disclosure

MFRS A-7 requires that the financial statements be prepared on a comparative basis with those of at least the preceding period. MFRS A-7 also requires that the date on which the issuance of the financial statements was approved be disclosed in the financial statements. This bulletin became effective January 1, 2006.

MFRS A-8 Supplementation

FRS A-8 establishes the requirements and procedure for the application of supplementary financial reporting standards, effective starting 2006.

MFRS B-1, Accounting Changes and Corrections of errors

MFRS B-1 establishes that accounting changes, reclassifications and corrections of errors must be recognized retrospectively, and therefore the financial statements being affected presented on a comparative basis with the most recent financial statements must be adjusted from the beginning of the earliest period being presented. This standard is effective January 1, 2006.

Interpretation of MFRS 4 Presentation of Employee Profit Sharing in the Statement of Income

IMFRS 4 establishes that employee profit sharing shall no longer be presented as a tax provision, but instead, such item shall be included in the income statement as an ordinary expense. This IMFRS is effective on January 1,2007.

MFRS B-13, Subsequent Events

MFRS B-13 modifies the prior rules related to subsequent events disclosures, establishing that when the restructuring of assets and liabilities occurs in the subsequent period they must be disclosed in the notes to the financial statements only without affecting the body of the financial statements for these events, as previously provided by Bulletin B-13.

MFRS B-7, Business acquisitions

As of January 1, 2005, the Company adopted the provisions of Bulletin B-7, "Business Acquisitions". Bulletin B-7 provides rules for the accounting treatment of business acquisitions and investments in associated entities. It establishes, among others, that a) the adoption of the purchase method as the sole valuation rule for these transactions; b) goodwill arising from an acquired entity should not be amortized, but should be subject to impairment tests, at least on an annual basis in conformity with Bulletin C-15, "Accounting for Impairment and Disposal of Long-lived Assets"; and c) any unamortized excess of recorded value over cost of subsidiaries and associated companies should be immediately considered in the year's results. It also provides rules for the accounting treatment of asset transfers or share exchanges between entities under common control and for the acquisition of minority interest, the effects of which are recorded in stockholders' equity.

MFRS D-3 Severance payments

Effective January 1, 2005, the Company adopted the revised provisions to Bulletin D-3, "Labor Obligations", related to the recognition of the liability for severance payments for reasons other than restructuring, which is recorded using the projected unit credit method, based on calculations by independent actuaries. Bulletin D-3 grants the option to immediately recognize, in current earnings, the resulting transition asset or liability, or to amortize it over the average remaining labor life of employees. Through December 31, 2004, severance payments were charged to results when the liability was determined to be payable.

b. *Revenue and cost recognition -* Revenues from the Company's activities as a developer are recorded pursuant to the percentage-of-completion method, measured by the percentage of actual costs incurred to total estimated costs for each development and each project. Under this method, the estimated revenue for each development and project is multiplied by such percentage to determine the amount of revenue to be recognized. Management periodically evaluates the fairness of estimates used to determine percentage of completion. If, as a result of such evaluation, it becomes apparent that estimated costs on non completed projects exceed expected revenues, a provision for estimated costs is recorded in the period in which such costs are determined. The Company begins applying the percentage-of-completion method when the following conditions have been met:

- The homebuyer has submitted all required documents in order to obtain the financing from the mortgage lender;
- The Company establishes that the homebuyer will obtain the required financing from the mortgage lender;
- The homebuyer has signed a purchase agreement whereby he is liable for payment once the purchase is effected; and
- The homebuyer has made a down payment, total or partially, where down payments are required.

c) *Recognition of the effects of inflation -* The Company restates its consolidated financial statements to Mexican peso purchasing power of the most recent balance sheet date presented. Accordingly, the consolidated financial statements of the prior years, which are presented for comparative purposes, have also been restated to Mexican pesos of the same purchasing power and, therefore, differ from those originally reported in the prior year. The factor used to restate the prior year balances was 1.040532. Recognition of the effects of inflation results mainly in inflationary gains or losses on nonmonetary and monetary items that are presented in the financial statements under the following line items:

Other stockholders' equity accounts - Includes the accumulated monetary position result through the initial restatement of the consolidated financial statements and the gain from holding nonmonetary assets, which resulted from restating certain nonmonetary assets above inflation.

Monetary position result - Monetary position result, which represents the erosion of purchasing power of monetary items caused by inflation, is calculated by applying National Consumer Price Index ("NCPI") factors to the monthly net monetary position. Losses result from maintaining a net monetary asset position.

Stockholders' equity - Stockholders' equity accounts were restated based on adjustment factors derived from the NCPI.

d) *Use of estimates -* In conformity with Mexican Financial Reporting Standards, the preparation of financial statements requires the use of estimates and assumptions in certain areas. Actual results could differ from these estimates.

e) *Cash and cash equivalents -* Cash and cash equivalents consist basically of bank deposits and highly liquid investments with maturities of less than 90 days. These investments are stated at cost plus accrued interest, which is similar to their market value.

f) *Allowance for doubtful accounts -* The Company's policy is to provide for doubtful accounts based balances of accounts receivable inactive, applying several percentages based on their aging status.

g) *Inventories and costs of sales -* Finished construction, construction-in-process and land for development are recorded at acquisition cost and restated using the NCPI. Cost of sales is also restated by applying such index.

Land for future developments refers to land reserves yet to be developed by the Company. Land for future development is recorded at acquisition cost and is restated by applying factors derived from the NCPI.

The company has land trusts agreements for the homebuilding development sites, in where each one of the trustee participates in the income generated by these developments in percentages that vary between 9% and 14% for lands nonurbanized and 32% for urbanized lands. According with the agreements the Company recognizes the land as inventory when the construction process starts (only for the portion of land used).

h) *Property and equipment -* Property and equipment are initially recorded at acquisition cost and restated using the NCPI. Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets, as follows:

	Years
Buildings	20
Machinery and equipment	4 and 10
Transportation equipment	4
Air transportation equipment	10
Office furniture and equipment	10
Computers	4
Communication equipment	4

The value of property and equipment is reviewed whenever there are indications of impairment. Please refer to note 3 k) for our accounting policy regarding impairment of long-lived assets.

In the case of projects under construction, the Company's policy is not to capitalize its comprehensive financing cost as part of its assets.

i) Leases – The Company classified the lease arrangements of property and equipment as operative or capital leases according with the guideline of Bulletin D-5 issued by CINIF. Lease agreements are recognized as capital leases if they meet at least one of the following conditions:

a) Under the agreement, the ownership of the leased asset is transferred to the lessee upon termination of the lease.

b) The agreement includes an option to purchase the asset at a reduced price.

c) The term of the lease is basically the same as the remaining useful life of the leased asset.

d) The present value of minimum lease payments is basically the same as the market value of the leased asset, net of any benefit or scrap value.

When the lessor retains the risks or benefits inherent to the ownership of the leased asset, the agreements are classified as operating leases and rent is charged to results of operations.

j) Goodwill - Goodwill represents the difference between the purchase price and the fair value of the net assets acquired at the date of purchase in accordance with the purchase method of accounting.

As of January 1, 2005, the Company adopted the requirements of Mexican accounting Bulletin B-7, *Business Acquisitions,* issued by the Mexican Institute of Public Accountants. As a result, the Company values all of its business and associated entity acquisitions using the purchase method and no longer amortizes its goodwill.

Goodwill is recorded initially at acquisition cost and then restated using adjustment factors derived from the NCPI.

Goodwill is subject to annual impairment tests, and is adjusted for any impairment losses.

k) Impairment of long-lived assets in use - The Company reviews the carrying amounts of long-lived assets in use when an impairment indicator suggests that such amounts might not be recoverable, considering the greater of the present value of future net cash flows using an appropriate discount rate, or the net sales price upon disposal. Impairment is recorded when the carrying amounts exceed the greater of the amounts mentioned above. The impairment indicators considered for these purposes are, among others, the operating losses or negative cash flows in the period if they are combined with a history or projection of losses, depreciation and amortization charged to results, which in percentage terms in relation to revenues are substantially higher than that of previous years, obsolescence, reduction in the demand for the products manufactured, competition and other legal and economic factors.

l) Other assets - Debt issuance costs are capitalized and restated by applying the NCPI. Amortization is calculated using the straight-line method over the term of the loan. The value assigned to the BETA trademark and backlog is restated by applying the NCPI and amortized using the straight-line method over five years for the trademark and between six and nine months for the backlog, which represent their estimated useful lives.

m) Employee retirement obligations - The Company has a defined-benefit pension plan that covers all of its employees. Pension benefits are determined based on the provisions of the Mexican Federal Labor Law.

Seniority premiums and termination payments are recognized periodically based on independent actuarial computations, using the projected unit-credit method and financial assumptions net of inflation.

Under Mexican Labor Law, workers are entitled to certain benefits at the time of their separation from the Company under certain circumstances.

n) Business acquisitions - All business acquisitions are recognized and valued initially by the purchase method, which includes the cash delivered or its fair value equivalent.

o) Derivative financial instruments – Derivative financial instruments are used for hedging purposes. On January 1, 2005, Bulletin C-10 "Derivative Financial Instruments and Hedging Operations," issued by the Mexican Institute of Public Accountants, came into effect and modified the rules to recognize and value these instruments. In the years ended December 31, 2006 and 2005, all derivative instruments were recognized in the balance sheet at fair value, initially represented by the amount of consideration agreed (both assets and liabilities).Transaction costs and cash flow received or delivered to adjust these instruments to fair value at the beginning of the transaction, not related to premiums on options, are amortized during the respective term. The changes in the fair value of derivative financial instruments that do not qualify as hedging instruments are recognized in income as an exchange loss.

p) Liabilities, provisions, contingent assets and liabilities and commitments - Liability provisions are recognized whenever (i) the Company has current obligations (legal or assumed) derived from past events, (ii) the liability will probably give rise to a future cash disbursement for its settlement and (iii) the liability can be reasonably estimated.

Contingent liabilities are recognized when they will probably result in the use of economic resources for their settlement. Also, commitments are only recognized when they will generate a loss.

q) Income tax, asset tax and employee statutory profit sharing - Income tax (ISR) and employee statutory profit sharing (PTU) are recorded in results of the year in which they are incurred. Deferred income tax asset and liabilities are recognized for temporary differences resulting from comparing the book and tax values of assets and liabilities plus any future benefits from tax loss carryforwards. Deferred ISR assets are reduced by any benefits about which there is uncertainty as to their realizability. Deferred PTU is derived from temporary differences between the accounting result and income for PTU purposes and is recognized only when it can be reasonably assumed that they will generate a liability or benefit, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

The asset tax paid that is expected to be recoverable is recorded as an advance payment of ISR and is presented in the balance sheet decreasing the deferred ISR liability.

r) Foreign currency balances and transactions - Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the balance sheet date. Exchange fluctuations are recorded as a component of net comprehensive financing cost (income) in the consolidated statements of income.

Note 16 shows the consolidated net position in foreign currency at the end of each year and the exchange rates used in the translation of these balances.

s) Earnings per share - Earnings per share is calculated by dividing net income of majority interest by the weighted average number of shares outstanding during the year. The Company does not have any dilutive securities; therefore, basic and diluted earnings per share are the same.

t) Comprehensive income - Comprehensive income is the change in stockholders' equity which consists of the net income or loss for the year, plus the effect of labor obligations, the effect of deferred taxes on items applied directly to stockholders' equity, as well as the effect of minority interest.

4. Cash and cash equivalents

	2006	2005
Cash	Ps. 99,416	Ps. 1,075,347
Cash equivalents	2,232,223	296,883
	Ps. 2,331,639	Ps. 1,372,230

Cash and cash equivalents consist basically of bank deposits and highly liquid investments.

5. Trade accounts receivable

	2006	2005
As promoter:		
Due from customers(1) (2)	Ps. 747,294	Ps. 791,994
Unbilled revenues on developments		
in progress	4,616,037	4,597,054
Other debtors	104,709	151,312
Services	51,889	125,075
	5,519,929	5,665,435
Allowance for doubtful accounts	(70,889)	(27,978)
	5,449,040	5,637,457
Recoverable value-added taxes	191,603	176,340
	5,640,643	5,813,797
Trade accounts receivable long-term	(3,991)	(31,349)
	Ps. 5,636,652	Ps. 5,782,448

Unbilled revenues on developments in progress represent revenues recognized on costs incurred, in accordance with the percentage-of-completion method, which have not yet been billed.

Because of the varied composition of its receivables, the Company does not believe that it has a significant concentration of credit risk. While some of its receivables are from homebuyers, the majority are from entities in the home finance business, including those supported by the Mexican Government, which have different characteristics than the remainder of the receivables.

(1) These amounts include balances due from INFONAVIT, FOVISSSTE, SOFOLES, commercial banks and homebuyers.

(2) The Company participates in a government program referred to as "Programa de Entrega Anticipada de Vivienda INFONAVIT" (formely known as "Programa de Liquidez Electronica"). This program provides for factoring of INFONAVIT receivables without recourse thereby providing for more timely collection.

6. Inventories

	2006	2005
Land:		
Titled land	Ps. 2,192,978	Ps. 2,165,175
Contracted land	4,144,649	2,016,897
Advances to land suppliers	521,291	5,970
	6,858,918	4,188,042
Land for future developments	(4,992,897)	(1,857,397)
Total land	1,866,021	2,330,645
Other inventories:		
Construction-in-progress	1,143,788	1,191,684
Finished construction	32,370	3,286
Construction materials	355,824	244,142
Advances to suppliers	661,829	49,010
Total inventories	2,193,811	1,488,122
Total inventories	Ps. 4,059,832	Ps. 2,818,767

The Company's policy is to locate and acquire land each year, classifying land currently being developed and land planned to be developed within the next year as a part of current assets, and classifying all remaining land as non-current assets.

The company utilizes certain land trust agreements in order to obtain supply of land for construction purposes. As December 31, 2006 and 2005 the Company has recognized Ps. 90,106 and Ps. 159,500, related to this inventory, which are part of the "contracted" land inventory.

7. Other current assets

	2006	2005
Sales commissions paid in advance	Ps. 78,797	Ps. 147,867
Commissions and subscriptions		
pending amortization	-	2,298
Insurance and bond contracts	8,163	21,383
Prepaid interest	1,681	6,614
Other	-	7,287
	Ps. 88,641	Ps. 185,449

8. Property and equipment

	2006	2005
Buildings	Ps. 229,071	Ps. 24,855
Machinery and equipment	424,639	303,587
Transportation equipment	77,237	48,484
Air transportation equipment	38,256	36,458
Office furniture and equipment	43,381	30,540
Computers	37,946	39,703
Communication equipment	15,004	11,123
Construction-in-process	-	78,543
	865,534	573,293
Accumulated depreciation	(249,262)	(123,173)
	616,272	450,120
Land	28,583	29,390
	Ps. 644,855	Ps. 479,510

Depreciation expense for the years ended December 31, 2006, 2005 and 2004 was Ps. 126,089, Ps. 64,212, and Ps. 26,070, respectively.

9. Other assets

	2006	2005
Net value of the "BETA" trademark	Ps. 318,689	Ps. 425,620
Net value for backlog	-	11,461
Receivables from Proyectos y Servicios		
Alce Blanco, S.A. de C.V.	-	48,360
Trade accounts receivable		
long-term (Note 5)	3,991	31,349
Debt issuance costs, net	79,445	78,605
Intangible asset from employee		
retirement obligations	21,345	24,215
Deposits in guarantee	24,010	3,870
Investment in associates	1,000	2,466
Other accounts receivable	912	13,401
	Ps. 449,392	Ps. 639,347

Amortization expense for the years ended December 31, 2006 and 2005 was Ps.110,380 and Ps.168,622, respectively. For the year ended December 31, 2004 the Company did not have intangibles subject to amortization. The expected amortization of the Beta trademark and debt issue costs for the years 2007 to 2015 is as follows:

Year	Amortization
2007	Ps. 99,881
2008	99,881
2009	99,881
2010	54,356
Thereafter	44,135
	Ps. 398,134

10. Long-term debt

At December 31, 2006 and 2005 the long-term debt consisted of the following:

	2006	2005
Bond issuance (Senior guaranteed notes) with Credit Suisse First Boston and Merrill Lynch, guaranteed by PICSA, DECANO and other subsidiary companies, for US$250 million, with a fixed annual interest rate of 7.5%, payable on September 28, 2015. Interest is payable semiannually	Ps. 2,709,625	Ps. 2,764,045
HSBC México, S.A.		
A credit line of Ps.1,081 million granted on July 1, 2005, with semiannual payments beginning on March 14, 2008, maturing on September 14, 2010, bearing interest at the Mexican Interbank Equilibrium Interest Rate (TIIE) plus 1% at December 31, 2006. Proceeds were used to purchase BETA.	540,500	562,408
GE Capital, S.A.		
Line of credit granted by GE Capital to Aerohomex, S.A. de C.V., to purchase an executive jet for US$2.3 million, on July 29, 2005, maturing on July 29, 2010, at an interest rate of 7.4%.	18,733	24,262
Capital leases	8,389	15,703
Interest Payable	74,799	78,116
	3,352,046	3,444,534
Less current portion	(88,081)	(96,207)
Total long-term debt	Ps. 3,263,965	Ps. 3,348,327

Covenants

Loan convenants require the company and its subsidiaries to meet certain obligations. These covenants cover changes in ownership control, restrictions on incurring additional debt that does not meet certain requirements established in the loan contracts, restrictions on the sale of assets and the sale of capital stock in subsidiaries, unless they meet certain requirements, restricted payments where dividends cannot be paid or capital reimbursed to stockholders' equity unless they are made between the guarantor subsidiaries. In addition, the Company cannot pledge any of its assets or properties to guarantee any additional debt.

Financial covenants require the company to maintain:

- a ratio of total stockholders' equity to total debt of more than 1.0 to 1.0,
- a ratio of the earnings before interest, taxes, depreciation and amortization (EBITDA) to the short term debt (including the interest payable) of at least 3.0 to 1.0;
- operational restrictions on the working capital,

There are also restrictions applicable to additional debt based on EBITDA levels.

In the event the Company does not comply with any of the above provisions, there is a resulting limitation on its ability to pay dividends to the stockholders.

As of December 31 2006. the company was in compliance with the financial covenants contained within its debt agreements.

Senior guaranteed notes exchange offer

In January 2006, the company completed an Exchange Offer related to all of its 7.50% Senior Guaranteed Notes. The new notes have been registered pursuant to the Securities Act of 1933. Otherwise, the terms of the "Old" Senior Guaranteed Notes and the "New Senior" Guaranteed Notes are identical. The Company incurred Ps. 12,523 in incremental direct costs associated with the Exchange Offer. These amounts are included with other debt issue costs (see Note 9) and will be amortized over the remaining life of the Senior Guaranteed Notes.

Debt maturities

As of December 31, 2006, long-term debt matures as follows:

Year		Amount
2008	Ps.	184,790
2009		184,790
2010		184,790
2015		2,709,595
	Ps.	3,263,965

The value of the Banking Interest Rate ("TIIE") published on the Diario Oficial de la Federación at December 31, 2006 and 2005 was 7.3675% and 8.54% respectively. Exchange rate used to convert debt denominated in US Dollars was Ps. 10.8385 and Ps. 10.6255, respectively.

11. Financial Instruments

In order to convert the principal of the U.S. dollar bonds to Mexican pesos, in September 2005 the Company entered into two "Principal Only Swaps" with a notional value of US$250 million, which entitles the Company to receive this amount in 2015 in return for a payment in Mexican pesos at a fixed exchange rate of Ps.10.83 per dollar. As part of the derivatives estructure, the Company will pay interest of 2.92% a year on the total notional amount in U.S. dollars, in semiannual payments. The transaction is an economic hedge, but because it does not meet current hedge accounting requirements, it was classified and recorded as a trading derivative. As of December 31, 2006 and 2005, the fair value of this derivative was Ps. 218,847 (US$20.2 million) and Ps.123,047 (US$11.3 million) respectively, which represents the estimated present value of future cash flows to be paid out by the Company. This unfavorable balance does not represent cash outlay given the structure of Principal Only Swaps. Changes in fair value are recognized in current earnings as a component of comprehensive financing cost within the exchange losses account.

12. Employee retirement obligations

The Company has a plan for covering seniority premiums which consist of a lump sum payment of 12 days' wages for each year worked, calculated using the most recent salary, not to exceed twice the legal minimum wage established by law. Since 2005, the Company has recognized a liability for personal severance pay. The related liability and annual cost of such benefits are calculated by an independent actuary on the basis of formulas defined in the plans using the projected unit credit method.

As of December 31, 2006 and 2005, the present values of these obligations and the rate used for the calculations are:

	2006	2005
Accumulated benefit obligation	Ps. 50,381	Ps. 41,013
Projected benefit obligation	Ps. 56,047	Ps. 46,752
Unrecognized items:		
Transition asset	(21,345)	(24,215)
Non-recognized actuarial losses	(18,432)	(14,280)
Net projected liability	16,270	8,257
Additional liability	34,111	32,756
	Ps. 50,381	Ps. 41,013
Integration of Net Period Cost:		
Labor cost	8,528	3,554
Financial Cost	2,758	1,372
Transition Liability	2,858	2,660
Actuary losses	1,351	-
Inflation adjustment	541	671
Net period cost	Ps. 16,036	Ps. 8,257

The transition liability will be amortized in a 10 to 22 year period, which is the average labor life remaining for the employees, related to indemnities and seniority premiums respectively.

The rates used in the actuarial analysis are as follows:

	2006	2005
Discounts of labor obligations	5.25%	5.50%
Real salary increases rate	1.25%	1.50%
Inflation rates	4.00%	3.30 %

As of December 31, 2006 and 2005 the additional liability was Ps.34,111 and Ps.32,756, respectively; the intangible asset which was included as part of the other assets, amounted to Ps.21,345 and Ps.24,215, respectively. The accumulated effect in the stockholders' equity as of December 31, 2006 and 2005 was Ps. 9,277 and Ps.(8,541), respectively.

13. Accounts payable

	2006	2005
Suppliers	Ps. 1,335,183	Ps. 1,011,786
Revolving lines of credit	389,462	221,546
Other creditors	303,611	255,898
Total accounts payable	Ps. 2,028,256	Ps. 1,489,230

The Company has helped its suppliers to obtain financing from various financial institutions, in part through a factoring program sponsored by Nacional Financiera. In relation to this program, the Company established a trust fund called Fiedicomiso AAA-Homex with Nacional Financiera, S,N.C. ("Nafinsa"), which granted a line of credit for Ps.390,000 with a guarantee fund of Ps. 36,235 (investment account). Under this program, the AAA-Homex trust can dispense of the Nafinsa line of credit to finance a portion of the accounts receivable of the Company's suppliers. As of December 31, 2006 and 2005, Ps.36,235 is invested in the reserve fund, in compliance with the trust contract. As mentioned in Note 2, the AAA Homex trust is a consolidated subsidiary of the Company. As of December 31, 2006 and 2005, this factoring program encompassed approximately 1,000 suppliers and amounts of Ps. 199,121 and Ps.221,539, respectively, whose financing was covered by the suppliers themselves.

14. Land suppliers

	2006	2005
Land suppliers	Ps. 3,375,026	Ps. 1,810,680

This balance represents the outstanding balance payable within the next year to suppliers of land.

15. Stockholders' equity

a. Common stock at par value (historical pesos) as of December 31, 2006 and 2005 is as follows:

	Number of Shares		Historical Amount as of	
	2006	2005	2006	2005
Fixed capital:				
Sole series	335,869,550	335,869,550	Ps. 425,443	Ps. 425,443

b. Majority stockholders' equity consists of the following as of December 31, 2006 and 2005:

2006	Historical Amount	Inflation Effects	Restated Amount
Common stock	Ps. 425,443	Ps. 83,439	Ps. 508,882
Additional paid-in capital	2,807,077	354,308	3,161,385
Retained earnings	2,411,625	815,209	3,226,834
Other stockholders' equity accounts	-	334,820	334,820
	Ps. 5,644,145	Ps. 1,587,776	Ps. 7,231,921

2005	Historical Amount	Inflation Effects	Restated Amount
Common stock	Ps. 425,443	Ps. 83,439	Ps. 508,882
Additional paid-in capital	2,807,076	354,309	3,161,385
Retained earnings	1,747,449	138,508	1,885,957
Other stockholders' equity accounts	-	325,544	325,543
	Ps. 4,979,968	Ps. 901,800	Ps. 5,881,767

c. Pursuant to a resolution of the general ordinary stockholders' meeting on May 26, 2004, variable common stock was increased by 8,481,673 no-par value Series B, Sub Series B1 shares for Ps.4,699 (Ps. 4,236 historical pesos) through cash contributions. Shares were paid at Ps.0.49942646 each.

d. At a stockholders' general ordinary meeting held on June 1, 2004, among others, resolutions were approved to convert the 256,666,490 shares of series "B", sub series B1, B2 and B3, representing the Company's variable capital, currently outstanding, for the same number of ordinary, nominative shares, at no par value, representing the Company's fixed capital without right of withdrawal by issuing 64,220,000 ordinary nominative shares at no par value, which may be freely subscribed, and will be made available in a placement through a primary offering of shares and ADR'S issued based on common stock shares;

At the same time, a resolution was approved whereby the Company's Board of Directors will be empowered to determine the amount of the Company's common stock as a result of the offering, and then make the respective amendments to the corporate bylaws and the resulting cancellation of any shares issued, which were not placed among public investors.

e. A meeting of the Board of Directors of Desarrolladora Homex, S.A. de C. V. approved a resolution, among others, to increase common stock by Ps.42,445 (Ps.38,257 historical pesos) to the amount of Ps.166,636, which is represented by 313,856,490 shares. Consequently, the board approved the cancellation of 7,130,000 shares, which were issued by the stockholders' ordinary and extraordinary meeting held on June 1, 2004, which were not available for subscription in the public offering. Furthermore, it was agreed to modify the first paragraph of article six of the corporate bylaws to reflect the following:

Article Six. Common stock is variable. Fixed capital without right of withdrawal is Ps.166,636 and will be represented by 313,856,490 ordinary, nominative shares, at no par value, fully subscribed and paid in, of a single series (¨single series¨). The variable portion of common stock is unlimited and will be represented by ordinary, nominative shares at no par value, of the single series. Except for the right of withdrawal to which the holders of shares representing the variable part of common stock are entitled, all common stock shares confer the same rights and obligations.

f. At a meeting of the Board of Directors held on July 22, 2004, it was agreed that the total number of the Company's outstanding common shares after the public offering is 313,856,490 shares, and a resolution was approved to increase common stock by the amount resulting from decreasing the total proceeds from the placement by the expenses incurred in relation to the public offering, and the amount applicable to additional paid in capital.

g. The stockholders' general extraordinary meeting held on June 30, 2005 approved, among other resolutions, an increase in fixed capital derived from the merger with Controladora Casas Beta, S.A. de C.V. (see Note 2), for a total of 22,013,060 common nominative single series shares at no-par value, which were delivered to stockholders of the merged company as released stock in exchange for the shares they owned in the merged company, which was canceled pursuant to such merger at a ratio of 134.7807 shares of the Company for every share of the merged company. Accordingly, capital stock increased by Ps.258,808, at par value, with a share subscription premium of Ps.718,792 at par value, equivalent to Ps.275,409 and Ps.764,902 constant Mexican pesos, respectively.

h. Retained earnings include the statutory legal reserve. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. The legal reserves as of December 31, 2006 and 2005 amounted $101,776 and $59,197, respectively and are included as part of the retained earnings.

i. Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to income tax at the rate in effect when the dividend is distributed. In 2006, and 2005, the ISR rate was 28% and 29%, respectively. Any tax paid on such distribution, may be credited against the income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment.

j. The balances of the stockholders' equity tax account as of December 31 are:

	2006	2005
Contributed capital account	Ps. 3,670,265	Ps. 3,670,265

Earnings distributed in excess of the balances of the Net Tax Profit Account (CUFIN) will be subject to the payments of income tax at the rate in force. At December 31, 2006 and 2005, the Company had no CUFIN balance.

k. The accumulated effect of the deferred income taxes is part of the retained earnings.

16. Foreign currency balances and transactions

a. At December 31, 2006 and 2005 the foreign currency monetary position is as follows:

	2006	2005
Thousands of U.S. dollars:		
Monetary assets	$ 114,353	$ 174
Monetary liabilities	(310,953)	(355,196)
Monetary liability position, net	$ (196,600)	$ (355,022)
Equivalent in Mexican pesos	Ps. (2,130,849)	Ps. (3,772,286)

b. Nonmonetary assets of foreign origin at December 31, 2006 are as follows:

	Currency	Foreign Currency Balance (in thousands)	Equivalent in Mexican Pesos
Air transportation equipment	U.S. dollars	$ 3,529	Ps. 38,256

c. The exchange rates in effect at the dates of the consolidated balance sheets and of issuance of the consolidated financial statements were as follows:

	December 31, 2006	2005	2004	June 30, 2007
U.S. dollar	10.8385	10.6255	11.15	10.7946

17. Transactions with related parties

The Company is a party to an administrative service agreement with two entities whose principal owners are officers of the Company (Serviasesorías and Administradores de la Empresa en Equipo) for which PICSA paid a 5% based on total expenses. The amounts paid for those services totaled Ps.85,035, Ps.50,090 and Ps.50,599 in 2006, 2005 and 2004, respectively.

An analysis of balances due from/to related parties at December 31, 2006 and 2005 is as follows:

	2006	2005
Due from:		
Administradores de la empresa en equipo, S.C. (1)	Ps. 628	Ps. -
	Ps. 628	Ps. -
Due to:		
Serviasesorías, S.C. (2)	Ps. 5,062	Ps. -
Administradores de la empresa en equipo, S.C. (2)	Ps. -	Ps. 1,905
	Ps. 5,062	Ps. 1,905

(1) This balance is a component of the account receivable due from customers.

(2) These balances are components of the supplier account.

Additionally, in 2006 the Company entered into transactions with its shareholders and companies affiliated with the shareholders. Its affiliates Hipotecaria Crédito y Casa, S.A. de C.V. and Credito Inmobiliario, S.A. de C.V. provide mortagages to the Company's homebuyers with respect to certain of the homes sold by the Company (approximately 0.1% of the mortagages obtained by the homebuyers were provided by related parties).

18. Segment reporting

Subsequent to the hiring of a new Chief Operating Decision Maker (CODM) in late 2006, we began to generate separate reports by affordable entry level and middle income operations, which is why the Company began reporting segment information in its 2006 financial statements. Prior to 2006, such reports were not generated. The following segment reporting information is presented according to the information use by management for purposes of decisions taken. The Company segregates the financial information by operation segments, considering the operational and organizational structure of the business (which was established by house models as explained in the next paragraph), according to the provisions of Bulletin B-15 "Información financiera por segmentos". The information presented in 2005 and 2004 is included for comparative purposes.

General description of the products

Mexico's developer-built housing industry is divided into three tiers according to cost: affordable entry-level, middle-income, and residential. The prices of affordable entry-level range between Ps.173 and Ps.399, middle-income homes range between Ps.400

and Ps. 1,700 and residential homes have a price above Ps. 1,800. The focus is to provide affordable entry-level and middle-income housing for our clients.

Affordable entry-level developments range in size from 500 to 20,000 homes and are developed in stages typically comprising 300 homes each. During 2006, affordable entry-level homes had an average sales price of approximately Ps.234. A typical affordable entry-level home consists of a kitchen, living-dining area, one to three bedrooms, and one bathroom.

Middle-income developments range in size from 400 to 2,000 homes and are developed in stages typically comprising 200 homes each. During 2005, middle-income homes had an average sales price of approximately Ps.551. A typical middle-income home consists of a kitchen, dining room, living room, two or three bedrooms, and two bathrooms. A completed middle-income home is delivered in approximately twelve to fourteen weeks from the time a buyer obtains a mortgage approval.

Revenues from "residential" house models amounted to Ps. 12,952,625, Ps. 8,882,159, and Ps. 5,713,871, in 2006, 2005 and 2004, respectively. For the purposes of disclosing information about segments present below, the middle-income and residential operating segments were aggregated since both segments have similar economic and basic characteristics, such as profit margin, nature of the construction process, type of customers, regulatory environment and others.

The following table shows the operating results by each segment identified as of December 31, 2006, 2005 and 2004:

Ending year as of December 31, 2006	Entry-level	Middle-income	Consolidated
Revenues	Ps. 10,162,155	Ps. 2,790,470	Ps.12,952,625
Icome from operations	2,184,823	599,867	2,784,690
Depreciation and amortization	185,525	50,944	236,469
Ending year as of December 31, 2005	**Entry-level**	**Middle-income**	**Consolidated**
Revenues	Ps. 6,935,019	Ps. 1,947,140	Ps. 8,882,159
Income from Operations	1,448,437	367,608	1,816,045
Depreciation and amortization	185,703	47,131	232,834
Ending year as of December 31, 2004	**Entry-level**	**Middle-income**	**Consolidated**
Revenues	Ps. 4,520,556	Ps. 1,193,315	Ps. 5,713,871
Income from operations	1,015,411	253,853	1,269,264
Depreciation and amortization	20,856	5,214	26,070

The income from operations caption on the table above was calculated as the total revenue from each segment, less allocated the total consolidated operating cost and expenses. The allocation of total operating cost and expenses into the segments was based on the percentage that the sales in each segment represent of the total consolidated sales. Depreciation and amortization expense is allocated to each segment using the same basis as operating cost and expenses.

The Company does not segregate their total assets by operating segment.

19. Operating expenses

	2006	2005	2004
Administrative	Ps. 573,670	Ps. 381,842	Ps. 251,214
Selling	645,183	450,868	214,841
Amortization expense BETA trademark	91,054	47,372	-
	Ps. 1,309,907	Ps. 880,082	Ps. 466,055

20. Other income

	2006	2005	2004
Recovery of taxes	Ps. -	Ps. -	Ps. 37,224
Other income, net	46,003	24,393	9,052
	Ps. 46,003	Ps. 24,393	Ps. 46,276

21. Interest expense

	2006	2005	2004
Interest expense related to senior guaranteed notes	Ps. 316,669	Ps. 78,116	Ps. -
Other interest expenses	237,362	293,024	108,823
Commissions and financing costs*	96,109	64,975	33,348
	Ps. 650,140	Ps. 436,115	Ps. 142,171

* Includes the commissions paid to INFONAVIT, when obtaining approval of individual financing for its clients. These commissions facilitates the sales of houses and cash recovery. Therefore, the Company considers these commissions as part of its financing costs. The balances for 2006, 2005 and 2004 were $49,881, $31,318 and $10,115 respectively.

22. Income taxes, asset tax and employee statutory profit sharing

In accordance with Mexican tax law, the Company is subject to income tax (ISR) and tax on assets (IMPAC). ISR is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated asset values. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the inflationary component, which is similar to the gain or loss from monetary position. On December 1, 2004 certain amendments to the ISR and IMPAC laws were enacted and were effective in 2005. The most significant amendments were as follows: a) the ISR rate was reduced to 30% in 2005 and will be further reduced to 29% in 2006 and 28% in 2007 and thereafter (the rate in 2004 was 33%); b) for income tax purposes, cost of sales is deducted instead of inventory purchases and related conversion costs; c) taxpayers had the ability to elect, in 2005, to ratably increase taxable income over a period from 4 to 12 years by the tax basis of inventories as of December 31, 2004 determined in conformity with the respective tax rules; when electing to amortize the tax basis of inventories into taxable income, any remaining tax balance of inventories that had not been deducted and any unamortized tax loss carryforwards were deducted from the tax basis of the December 31, 2004 inventory balance; as a consequence, cost of sales of such inventories were deducted; d) as of 2006, employee statutory profit sharing paid will be fully deductible; and e) bank liabilities and liabilities with foreign entities are included to determine the IMPAC taxable base.

IMPAC is calculated by applying 1.8% on the net average of the majority of restated assets less certain liabilities and is payable only to the extent that it exceeds ISR payable for the same period; any required payment of IMPAC is creditable against the excess of ISR over IMPAC of the following ten years.

The Company files ISR and IMPAC tax returns on an individual entity basis and the related tax results are combined in the consolidated financial statements.

a. At December 31, 2006, 2005 and 2004, ISR and PTU consist of the following:

	2006		2005		2004	
ISR:						
Current	Ps.	138,113	Ps.	187,123	Ps.	2,509
Deferred		507,463		268,521		422,963
Effect of reduction in statutory rate on deferred ISR		-		(13,367)		(60,302)
	Ps.	645,576	Ps.	442,277	Ps.	365,170
PTU:						
Current	Ps.	35,397	Ps.	12,443	Ps.	1,668
Deferred		-		(2,464)		7,495
	Ps.	35,397	Ps.	9,979	Ps.	9,163

To determine deferred ISR at December 31, 2006 and 2005, the Company applied the different tax rates that will be in effect beginning in 2007 and 2006, respectively, to temporary differences according to their estimated dates of reversal. The result derived from applying the different tax rates is shown in the income tax provision table above and in the rate reconciliation table below under the caption effect of reduction in statutory rate on deferred ISR. In addition, in accordance with tax regulations in effect as of 2005, certain subsidiaries elected to amortize the tax inventory of Ps 400,166 at December 31, 2004 into taxable income over an 8-year period beginning in 2005, based on inventory turnover. Accordingly, the initial effect of the new regulation of no longer deducting inventory purchases is deferred.

b. The reconciliation of the statutory and effective ISR rates expressed as a percentage of income before ISR and PTU is:

	2006	2005	2004
	%	%	%
Statutory rate	29	30	33
Add (deduct) effect of permanent differences mainly:			
Nondeductible expenses	1	1	1
Difference between book and tax inflation effects	3	2	3
Effect of reduction in statutory rate on deferred ISR	(2)	(1)	(5)
Effective tax rate	31	32	32

c. At December 31 2006 and 2005, the main items comprising the asset (liability) balance of deferred ISR and PTU are:

	2006	2005
Deferred ISR asset:		
Effect of tax loss carryforwards	Ps. 394,870	Ps. 158,385
Construction-in-process	421,770	286,730
Derivative financial instruments	61,277	34,576
Labor obligations, net	8,130	-
Accrued liabilities	-	29,657
Advances from customers	-	22,316
Allowance for doubtful accounts	16,838	8,090
PTU liability incurred	12,137	5,754
Others	30,424	7,435
Asset tax recoverable	6,760	60,458
Deferred ISR asset	952,206	613,401
Deferred ISR liability:		
Trade accounts receivable	(1,233,050)	(1,340,070)
Inventories (1)	(1,456,304)	(525,665)
Property and equipment	(57,919)	(25,971)
Other assets	(51,253)	(49,548)
Beta Trademark	(92,419)	(118,825)
Debt issuance costs	(22,220)	(20,404)
Labor obligations, net		(6,869)
Prepaid expenses	(4,696)	(5,440)
Additional liability (1)	(59,920)	-
Total liability	Ps. (2.025,575)	Ps. (1,479,391)

(1) In conformity with the Mexican Income Tax Law (MITLA) in force through December 31, 2004, the cost of sales was considered as a non-deductible expense and instead, purchases of inventory and production costs were considered as deductible items. This tax treatment in the MITLA gave rise to a temporary difference because of the difference in the book value of inventories and its corresponding tax value. Effective January 1, 2005, the MITLA considers cost of sales as a deductible item instead of inventory purchases and production costs. The MITLA established transition rules to be followed to accumulate the December 31, 2004 inventory balance into taxable revenue. However, as result of the Company's interpretation at the transition rules established by MITLA, did not accumulate its inventory balances. Also the Company recorded an additional deferred tax liability in the amount of Ps. 59,920 to account for the difference in net income for the period for which the Company did not pay taxes. This additional liability relates to the inventory item and a tax law change described above as it is the source of income for which the Company did not pay taxes.

d. Tax loss carryforwards and recoverable IMPAC for which the deferred ISR asset and prepaid ISR, respectively, have been recognized can be recovered subject to certain conditions. Amounts as of December 31, 2006 and expiration dates are:

Year of Expiration	Tax Loss Carryforwards	Recoverable IMPAC
2009	Ps. 2,785	Ps. -
2010	441	-
2011	56	-
2012	8,763	657
2013	283,324	1,125
2014	307,506	2,093
2015	253,097	1,489
2016	554,285	1,396
	Ps. 1,410,257	Ps. 6,760

e. The asset tax, which is a minimum income tax, is payable based on 1.8% of the average value of most assets net of certain liabilities. The balances as of December 31, 2006 and 2005 of the asset tax was Ps.6,760 and Ps.60,458, respectively.

23. New accounting principles

On December 22, 2006 the Mexican Financial Information Standards Research and Development Board (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C. or CINIF) issued the MFRS B-3 "Statement of Income", MFRS C-13 "Related parties" and MFRS D-6 "Capitalization of the Comprehensive Financing Cost", these standards will take place in the fiscal years beginning January 1, 2007. The Company is evaluating the effects of these new accounting principles.

MFRS B-3, Statements of Income:

MFRS B-3 establishes a new approach for identifying revenues, costs and expenses as either "ordinary" or "nonordinary".

With this new approach, the classification of special and extraordinary items, as established by the previous Bulletin B-3 and certain specific MFRSs, has been eliminated and the primary sections of the statements of income have been redefined, to provide a new classification of either "ordinary" or "earning levels". As well, the caption "Initial accumulated effect of accounting changes" has been eliminated from the income statement, as the above-mentioned MFRS B-1, requires that any effect derived from an accounting change affecting the financial information from prior years must be recognized in the financial statements of such years and should not affect the current-year results of operations.

MFRS C-13, Related Parties:

MFRS C-13 broadens the concept of related parties to include joint ventures in which the reporting entity participates, immediate family members of key management personnel or directors, as well as funds derived from labor obligation plans. This standard obligates entities to disclose the relationship between the controlling company and its subsidiary, irrespective of whether transactions were carried out between them in the period or not. MFRS C-13 also establishes that the reporting entity may disclose that the considerations for transactions carried out with its related parties are at arm's length, provided that it can be demonstrated. Finally, MFRS C-13 also requires entities to disclose information on the compensation paid to the entity's key managerial personnel or relevant Company directors.

MFRS D-6, Capitalization of the Comprehensive Financing Cost:

MFRS D-6 establishes that entities must capitalize comprehensive financing cost (CFC), which was previously optional. CFC is defined as the net amount of interest expense, foreign exchange rate differences, net monetary position result, changes in the fair value of hedging instruments and other related costs (such as amortization of premiums, discounts on issuance of debt instruments and taxes paid on interests on behalf of third parties). MFRS D-6 establishes the conditions necessary for the capitalization of CFC, as well as guidelines for determining when such capitalization must cease.

24. Subsequent Events

During the first quarter of 2007, the Company recovered from the tax authorities Ps.287,614 of added value tax related to the fiscal years 2004 and 2005. This claim was pending final resolution as of December 31, 2006.

25. Commitments, contingencies and gain contingency

Commitments:

a) At December 31, 2006, the Company has leased machinery and equipment for periods ranging from nine to ten years.

b) The minimum lease payment obligations under these contracts at December 31, 2006, are as follows:

	2006
2007	Ps. 25,962
2008	25,915
2009	25,898
2010	25,875
2011	25,157
2012 and thereafter	1,198
Total	130,005

The rent expense for the years ended December 31, 2006, 2005 and 2004 amounted Ps. 15,665, Ps. 11,240 and Ps. 8,165, respectively

Contingencies

The Company grants a two year guarantee for construction defects to all of its customers, which could be derived from the Company's own activities, by defects in the construction materials provided by third parties (electrical installations, plumbing gas, waterproofing, etc.) or by other circumstances not within the control of the Company. However, the Company obtains a bail and a security fund from its contractors in order to cover any client claims, by withholding a guarantee deposit, which is reimbursed to the contractors once the guarantee period is over. This security fund amounted to Ps. 30 million and Ps. 18 million at December 31, 2006 and 2005 respectively and it is presented in the "Accounts payable" account on the balance sheet. Also, the Company obtains insurance for any visual or hidden defect that the construction might have, which also covers the guarantee period.

Arbitration process gain contingency

We have an arbitral procedure filed against Controladora Casas Beta, S. de R.L. de C.V., Corporación Cinco Siete, S.A. de C.V., IXE Banco, S.A. Institución de Banca Múltiple, IXE Grupo Financiero División Fiduciaria and the Messers. Alfredo Sefami Mizraje, Carlos Romano y Micha, Elías Romano Guakil, Alberto Romano Guakil, Naftoli Mishkin Antokilski and Juan Pablo Baights Lastiri. We filed this procedure on August 7, 2006, with the clerk of the Internacional Arbitration Court of the CCI, in which we claimed indemnity for several losses derived from the purchase/sale of shares contract dated June 14, 2005, for a total of approximately Ps. 329,384. At the date of preparation of this financial statement, this arbitration is in process, however in June 28, 2007, the parties agreed to reconcile the differences in dispute, final monetary settlements are to be delivered to the parties (US$ 5 million which will be divided in equal part between the Company and the sellers) and all the legal charges are to be retired.

26. Summary of differences between Mexican Financial Reporting Standards (MFRS) and U.S. GAAP

The consolidated financial statements of the Company are prepared in accordance with MFRS, which vary in certain significant respects from U.S. GAAP. A reconciliation of the reported majority net income, majority stockholders' equity and majority comprehensive income to U.S. GAAP is presented in Note 27. It should be noted that this reconciliation to U.S. GAAP does not include the reversal of the restatement of the financial statements for the effects of inflation as required by Bulletin B-10, "Recognition of the Effects of Inflation in Financial Information", of MFRS. The application of this Bulletin represents a comprehensive measure of the effects of price-level changes in the Mexican economy and, as such, is considered a more meaningful presentation than historical cost-based financial reporting in Mexican pesos for purposes of both MFRS and U.S. GAAP.

The differences between MFRS and U.S. GAAP included in the reconciliation that affect the consolidated financial statements of the Company are described as follows:

a) Revenue and Cost Recognition

The Company recognizes its revenues when all of following events occur:

- A sale is consummated;
- A significant initial consideration is received (when it is applicable);
- The earnings process is complete and the collection of any remaining receivables is reasonably assured.

All such conditions typically occur at the time the title passes to the buyer.

There are situations in which we sell to our customer a house with incremental improvements beyond the "basic" house, we recognize amounts from the customer on a cash-basis when received, essentially cost recovery accounting.

Under MFRS, the Company uses the percentage-of-completion method of accounting to account for housing project revenues and costs related to housing construction, progress towards completion is measured in terms of comparing the actual costs incurred to the estimated total cost of a project.

In accordance with U.S.GAAP sales are recognized when all of the following conditions are met: a sale is consummated, a significant down payment is received, the earnings process is complete and the collection of any remaining receivables is reasonably assured. All such conditions are met at the time title passes to the buyer.

Accordingly, a reconciling item for the additional revenues and additional costs recognized under the percentage-of-completion of accounting under MFRS is included in the U.S. GAAP reconciliation of net income and stockholders' equity.

b) Recovery of Value-Added Taxes Paid

Under MFRS the Company recognized other income in 2003 for the recovery of value-added taxes paid and expensed by the Company in 2002 in the amount of Ps.20.3 million, since in the opinion of management and its tax advisors, the future recovery of these amounts was probable.

In accordance with U.S. GAAP the recovery of such taxes was considered a contingent gain due to the prolonged challenge faced by the Company in settling the related tax dispute and was not recorded as income until the cash was received, which occurred during the first quarter of 2004.

c) Capitalization of Net Comprehensive Financing Cost

Under MFRS, the capitalization of net comprehensive financing costs (interest, foreign exchange gains and losses and monetary position gains and losses) incurred to finance investment projects is optional. The Company does not capitalize the integral cost of financing for MFRS reporting.

In accordance with U.S. GAAP, if interest is incurred during the construction of qualifying assets, capitalization is required as part of the cost of such assets. The Company applies the weighted-average interest rate on all outstanding debt to the balance of construction-in-progress and such amount is reduced by the gain on monetary position associated with the debt to determine the amount of interest to be capitalized in accordance with U.S. GAAP.

Accordingly, a reconciling item for the capitalization of interest is included in the U.S. GAAP reconciliation of net income and stockholders' equity, and the effect of interest capitalized to the cost of inventories is included within operating income for U.S. GAAP purposes.

d) Deferred Income Taxes and Employee Statutory Profit Sharing

The Company follows SFAS No. 109, "Accounting for Income Taxes", for U.S. GAAP purposes, which differs from MFRS as follows:

a. Under MFRS the effects of inflation on the deferred tax balance generated by monetary items are recognized in the result on monetary position. Under U.S. GAAP the deferred tax balance is classified as a nonmonetary item. As a result, the consolidated statement of operations differs with respect to the presentation of the gain (loss) on monetary position and deferred income tax provision.

b. Under MFRS deferred employee statutory profit sharing is calculated considering only those temporary differences that arise during the year and which are expected to reverse within a defined period and the effect is recorded as a component of income tax expense. For purposes of applying U.S. GAAP the liability is determined using a methodology similar to the liability method used in the calculation of deferred income taxes. Also, for U.S. GAAP purposes, employee statutory profit sharing is classified as an operating expense.

As a result of the differences related to the recognition of revenue, costs and interest capitalization as described above, the related deferred income tax presented under MFRS is different from the effect calculated in accordance with U.S. GAAP.

Reconciliation of Deferred Income Taxes

	2006	2005
Deferred income tax liability according to MFRS, net	Ps. 2,025,575	Ps. 1,479,391
Effect of U.S. GAAP adjustments:		
Cumulative tax effect of SAB 108	17,341	-
Accounts receivable	(1,312,673)	(1,333,145)
Inventories	1,169,640	1,076,258
Backlog	9,119	18,547
Other assets	665	-
Labor obligations	(9,349)	-
Employee profit sharing	3,595	(1,043)
Deferred income tax liability according to U.S. GAAP, net	Ps. 1,903,913	Ps. 1,240,009

Deferred income tax balance sheet classification:

	2006		2005	
	Current	Noncurrent	Current	Noncurrent
Deferred tax assets	428,009	535,722	73,252	257,014
Deferred tax liability	(2,783,328)	(84,316)	(1,543,003)	(27,272)
Net deferred tax (liability) asset	Ps. (2,355,319)	Ps. 451,406	Ps. (1,469,750)	Ps. 229,741

At December 31, 2006 and 2005, the Company has Ps. 451,406 and Ps. 229,741, respectively, of net long-term deferred tax assets. These amounts include net operating loss carry-forwards as disclosed in Note 22. The Company has established tax planning strategies that it believes will make it more likely than not that such amounts will ultimately recovered. Accordingly, no valuation allowance has been provided under US GAAP for these amounts.

Reconciliation of Deferred Employee Profit Sharing

	2006	2005
Deferred employee profit sharing liability according to MFRS	Ps. -	Ps. -
Effect of U.S. GAAP adjustments:		
Accounts receivable	-	(11,908)
Prepaid expenses	-	5,209
Accounts payable	-	6,193
Other	-	4,101
Deferred employee profit sharing liability according to U.S. GAAP	Ps. -	Ps. 3,595

e) Acquisition of Minority Interest

As described in Note 2.e, on September 12, 2005, Beta del Centro acquired the remaining 50% of Super Abastos Centrales y Comerciales, S.A. de C.V.'s outstanding shares. Under MFRS, the excess cost of the shares acquired from the minority shareholders was recorded as a capital distribution, since this was a transaction between common shareholders.

Under U.S. GAAP the acquisition of the remaining outstanding shares from the minority shareholders was accounted for under the purchase method of accounting.

Accordingly, a reconciling item for the acquisition of minority interest is included in the U.S. GAAP reconciliation of stockholders' equity.

f) Statement of Cash Flows

Under MFRS, the Company presents a consolidated statement of changes in financial position in accordance with Bulletin B-12, "Statement of Changes in Financial Position" (B-12), which identifies the generation and application of resources by the differences between beginning and ending financial statement balances in constant Mexican pesos. B-12 also requires that monetary and foreign exchange gains and losses be treated as cash items for the determination of resources generated by operations.

In accordance with U.S. GAAP the Company follows the requirements of SFAS No. 95, "Statement of Cash Flows", excluding the effects of inflation (see Note 27f).

g) Classification Differences

Under MFRS advances for the purchase of land and construction materials are recorded as part of the cost of real estate inventories. Under U.S. GAAP such advances are classified as prepaid expenses.

Under MFRS, deferred taxes are classified as non-current; U.S. GAAP requires a current, non-current classification based on the classification of the related asset or liability.

Under MFRS, amounts due under the Company's factoring agreements are included in trade accounts payable; U.S. GAAP requires that such amounts be recorded as a borrowing from the financial intermediary.

h) Backlog

The amount of backlog under US GAAP differs from the amount reported under MFRS. Under MFRS, sales are recognized using the percentage-of-completion method. Accordingly, a greater portion of the housing costs for houses in construction has already been recognized in costs of operations. Under US GAAP, sales are not recognized until collection has been assured; therefore the portion of the housing costs that is included in the statement of operations under MFRS has not yet been recognized under US GAAP and is considered backlog, thereby resulting in a greater backlog under US GAAP.

i) Goodwill

The amount of goodwill under US GAAP is greater than that reported under MFRS, due to the difference in the revenue recognition methods between Mexican and US GAAP for purchase accounting. For MFRS, accounts receivable is greater than the amount for US GAAP, in the contrary, under MFRS the inventories are lower than the amount for US GAAP. Accordingly, profit recognized under MFRS that has not yet been recognized for US GAAP purposes is included within goodwill under US GAAP, resulting in a higher goodwill for US GAAP purposes.

j) Labor Obligations

The Company maintains defined benefit pension plans for all of its subsidiaries and provides for seniority premiums and severance payments (severance indemnities) for all of its Mexican subsidiaries. For its MFRS consolidated financial statements, the Company applies Bulletin D-3. Prior to 2006, the accounting treatment for pensions and seniority premiums set forth in this Bulletin is substantially the same as those set forth in SFAS No. 87, "Employers' Accounting for Pensions". The Company records the pension cost determined by actuarial computations, as described in notes 3 n) and 12. Significant assumptions (weighted-average rates) used in determining net periodic pension cost and the Company's related pension obligations for 2006 and 2005 are also described in note 12.

Severance indemnities.- Under Mexican FRS, effective 2005 revised Bulletin D-3 requires the recognition of a severance indemnity liability calculated based on actuarial computations. Similar recognition criteria under U.S. GAAP are established in SFAS No. 112, "Employers' Accounting for Post employment Benefits", which requires that a liability for certain termination benefits provided under an ongoing benefit arrangement such as these statutorily mandated severance indemnities, be recognized when the likelihood of future settlement is probable and the liability can be reasonably estimated. Mexican FRS allows for the Company to amortize the transition obligation related to the adoption of revised Bulletin D-3 over the expected service life of the employees. However, U.S. GAAP required the Company to recognize such effect upon initial adoption, which results in an immaterial difference in the amount recorded under the two accounting principles.

For U.S. GAAP, the transition obligation related to the severance indemnities was recorded in the 2006 income statement since the effect is not considered to be quantitatively or qualitatively material to the Company's consolidated U.S. GAAP financial statements taken as a whole.

The Company adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)", in its December 31, 2006 consolidated financial statements. This statement requires companies to (1) fully recognize, as an asset or liability, the overfunded or underfunded status of defined pension and other postretirement benefit plans; (2) recognize changes in the funded status through other comprehensive income in the year in which the changes occur; and (3) provide enhanced disclosures. There is no impact on results of operations or cash flows. Retrospective application of this standard is not permitted. The impact of adoption, including the interrelated impact on the minimum pension liability, resulted in an increase in total liabilities and in stockholders' equity reported under U.S. GAAP of Ps. 5,666 and Ps. 25,578 respectively.

The incremental effect of this adoption on the individual line items in the December 31, 2006 consolidated U.S. GAAP balance sheet is shown in the following table:

	Before	SFAS 158	After
Application of SFAS No. 158			
Assets:			
Intangible assets from retirement obligation	Ps. 19,912	Ps. (19,912)	Ps -
Total assets U.S. GAAP	Ps. 18,414,079	Ps. (19,912)	Ps. 18,394,167
Long-term liabilities:			
Labor liabilities	Ps. 50,381	Ps. 5,666	Ps. 56,047
Total liabilities U.S. GAAP	11,476,598	5,666	11,482,264
Other comprehensive income:			
Cumulative other comprehensive loss	4,895	(25,578)	(20,683)
Total stockholders' equity U.S. GAAP	6,851,963	(25,578)	6,826,385
Total liabilities and stockholders' equity U.S. GAAP	Ps. 18,414,079	Ps. (19,912)	Ps. 18,394,167

Prior to the adoption of SFAS No. 158, there was no difference in the liabilities recorded for pension plans and seniority premiums between Mexican FRS and U.S. GAAP.

Total	
Unrecognized items:	
Transition obligation	Ps. 15,169
Prior service cost	-
Net actuarial loss	18,432
Unrecognized items	Ps. 33,601

For purposes of determining the cost of our pension plans, seniority premiums and severance indemnities under U.S. GAAP, the Company applies SFAS No. 87, as amended by SFAS No. 158, and SFAS No. 112. The Company uses a December 31 measurement date for its seniority premiums and severance indemnities.

	2006
Change in benefit obligations:	
Benefit obligation at beginning of year	Ps. 14,443
Net periodic cost	22,212
Other comprehensive income	Ps. 19,402
Unfunded status	Ps. 56,047

Net periodic cost for 2006 and 2005 are summarized below:

	2006	2005
Integration of Net Period Cost:		
Labor cost	Ps. 14,704	Ps. 3,554
Financial Cost	2,758	1,372
Transition Liability	2,858	2,660
Actuarial losses	1,351	–
Inflation adjustment	541	671
Net period cost	Ps. 22,212	Ps. 8,257

k) Disclosure about Fair Value of Financial Instruments

In accordance with SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," under U.S. GAAP it is necessary to provide information about the fair value of certain financial instruments for which it is practicable to estimate that value.

The fair values of the Company's financial instruments are based on quoted market prices, where available, or are estimated. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature, involve matters of judgment and therefore, cannot be determined with precision. Estimated fair values are significantly affected by the assumptions used. The Company's methods and assumptions used in estimating fair values are described below.

The carrying amounts of cash and short-term investments, accounts receivable and accounts payable and accrued liabilities approximate fair values due to the short term maturity of these instruments.

The fair value of total debt, excluding capital leases and interest payables, is estimated for variable rate debt whereby changes in interest rates generally do not impact the fair value of the debt instrument, and quoted market prices is used for senior guaranteed notes at December 31, 2006 and 2005. As of December 31, 2006 and 2005, the carrying value of total debt is Ps. 3,268,858 and Ps. 3,350,715, respectively. The fair value is Ps. 3,318,984 at December 31, 2006 and Ps. 3,230,599 at December 31, 2005.

As of December 31, 2006 and 2005, the fair value of the principal only swap was Ps.218,847 (US$20.2 million) and Ps.123,047 (US$11.3 million), respectively, which represents the estimated present value of future cash flows to be paid out by the Company.

l) Prepaid sales commissions

The amortization of the prepaid sales commission expense asset is based on an amortization methodology tied to Mexican GAAP revenue recognition (percentage of completion). For US GAAP purposes this prepaid expense is amortized linked to the revenue recognition method applied under US GAAP (a completed contract method).

27. Reconciliation of Mexican Financial Reporting Standards (MFRS) net income and equity to U.S. GAAP net income and equity and the presentation of condensed financial statements in accordance with U.S. GAAP.

a. Reconciliation of Majority Net Income for the Year

	2006	2005	2004
Majority net income according to MFRS	Ps. 1,340,877	Ps. 919,063	Ps. 759,825
U.S. GAAP adjustments:			
Reversal of revenue recognized under percentage-of-completion method of accounting (Note 26a)	(212,768)	(966,777)	(1,470,954)
Reversal of cost recognized under percentage-of-completion method of accounting (Note 26a)	144,683	639,767	855,647
Amortization of backlog and Beta trademark (Note 26h and 26i)	(45,955)	(164,456)	-
Labor Obligations (Note 26j)	(6,176)	-	-
Value-added tax recovery (Note 26b)	-	-	20,372
Capitalization of interest (Note 26c)	191,571	183,047	34,785
Deferral of unsecured homebuyers receivables	79,382	-	-
Deferral of future involvement	(7,300)	-	-
Sales commissions	2,401	-	-
Deferred employee statutory profit sharing (Note 26d)	-	-	(7,811)
Effects of inflation on U.S. GAAP adjustments	165,514	138,545	117,876
Total U.S. GAAP adjustments before tax effects	311,352	(169,874)	(450,085)
Tax effects on U.S. GAAP adjustments	(78,797)	62,106	144,256
Total U.S. GAAP adjustments	232,555	(107,768)	(305,829)
Net income according to U.S. GAAP	Ps. 1,573,432	Ps. 811,295	Ps. 453,996

b. Reconciliation of Majority Stockholders' Equity

	2006	2005	2004
Majority stockholders' equity according to MFRS	Ps. 7,231,921	Ps. 5,881,766	Ps. 4,007,496
U.S. GAAP adjustments:			
Dilution effect of merger (Note 26e)	-	-	(11,393)
Reversal of revenue recognized under percentage-of-completion method of accounting (Note 26a)	(4,616,037)	(4,597,053)	(2,635,852)
Reversal of cost recognized under percentage-of-completion method of accounting (Note 26a)	3,618,706	3,441,365	1,798,055
Backlog and Beta trademark (Note 26h)	(204,005)	(164,456)	-
Labor obligations (Note 26j)	(27,663)	-	-
Sales commissions	83,807	-	-
Deferral of unsecured homebuyers receivables of the year	(63,958)	-	-
Deferral of future involvement	(7,300)	-	-
Acquisition of minority interest (Note 26e)	76,559	76,559	-
Capitalization of interest (Note 26c)	462,842	282,267	102,557
Goodwill (Note 26i)	83,611	83,611	-
Deferred employee statutory profit sharing (Note 26d)	-	4,638	(10,292)
Total U.S. GAAP adjustments before tax effects	(593,438)	(873,069)	(756,925)
Tax effects on U.S. GAAP adjustments	187,902	300,983	223,659
Total U.S. GAAP adjustments	(405,536)	(572,086)	(533,266)
Stockholders' equity according to U.S. GAAP	Ps. 6,826,385	Ps. 5,309,680	Ps. 3,474,230

During 2006, the company recorded a charge for US GAAP purposes in relation to the adoption of SAB 108 as follows:

Through December 31, 2005, receivables obtained from homebuyers representing downpayments were considered as revenue under US GAAP, consistent with the accounting policy under MFRS, During 2006 the Company reevaluated this accounting policy and determined that under US GAAP, a cost recovery method should have been applied not recognizing revenue until collection. The company believes that the impact of its prior accounting was not material to either its 2005 or 2004 consolidated financial statements.

Through December 31, 2005, the amortization of the prepaid sales commissions was based on an amortization methodology tied to MFRS revenue recognition (percentage of completion). For US GAAP purposes this prepaid expense should have been amortized in a manner similar to the company's US GAAP revenue recognition (a completed contract method). The Company believes that the impact of its prior accounting was not material to either its 2005 or 2004 consolidated financial statements.

SAB 108 prior period adjustments.		
Unsecured homebuyers receivables	Ps.	(143,340)
Commissions on sales		81,406
Sub total	Ps.	(61,934)
Tax effect on SAB 108 adjustments		17,348
Cumulative net effect of SAB 108 adoption	Ps.	(44,586)

c. Reconciliation of Majority Comprehensive Income

	2006	2005	2004
Majority comprehensive income according to MFRS	Ps. 1,340,877	Ps. 919,063	Ps. 759,825
Labor obligation	13,438	(8,543)	-
Net U.S. GAAP adjustments:			
Net income	232,555	(107,768)	(305,829)
Comprehensive income according to U.S. GAAP	Ps. 1,586,870	Ps. 802,752	Ps. 453,996

d. Condensed balance sheets according to U.S. GAAP

Assets	2006	2005
Current assets	Ps. 12,015,586	Ps. 10,362,359
Land for development	4,992,897	1,857,397
Property and equipment	644,855	479,510
Goodwill	626,783	626,783
Other assets	1,072,023	933,047
Total assets	Ps. 19,352,144	Ps.14,259,091
Liabilities and stockholders equity		
Current liabilities	8,816,376	5,386,560
Long term liabilities	3,623,865	3,523,862
Minority interest	85,518	38,989
Majority stockholders equity	6,826,385	5,309,680
Total liabilities and stockholders equity	Ps. 19,352,144	Ps.14,259,091

e. Condensed statements of operations according to U.S. GAAP

	2006	2005	2004
Revenues	Ps. 12,745,058	Ps. 7,915,379	Ps. 4,242,917
Costs	8,974,079	5,927,981	3,198,377
Gross profit	3,770,979	1,987,399	1,044,540
Operating income	2,428,075	1,100,934	561,509
Income before income taxes	2,344,334	1,188,071	684,654
Income taxes	724,373	383,764	220,911
Minority interest	46,529	(6,988)	9,748
Net income according to U.S. GAAP	Ps. 1,573,432	Ps. 811,295	Ps. 453,996
Weighted average shares outstanding (in thousands)	335,869	324,953	281,997
Earnings per share according to U.S. GAAP (basic and diluted)	Ps. 4.68	Ps. 2.50	Ps. 1.61

f. Reconciliation of changes in stockholders' equity according to U.S. GAAP

	2006	2005	2004
Stockholders' equity at beginning of year	Ps. 5,309,680	Ps. 3,474,230	Ps. 1,202,761
Adoption of SFAS 158	(25,578)		
Cumulative effect of SAB 108 adoption	(44,586)	-	-
Net income according to U.S. GAAP	1,573,432	811,295	453,996
Labor obligations	13,438	-	-
Issuance of common stock	-	1,040,311	1,817,473
Other	-	(16,115)	-
Stockholders' equity at end of year	Ps. 6,826,385	Ps. 5,309,680	Ps. 3,474,230

g. Condensed statements of cash flows according to U.S. GAAP

Under MFRS, statements of changes in financial position identify the sources and uses of resources based on the differences between beginning and ending consolidated financial statement balances in constant pesos. Monetary position results and unrealized foreign exchange results are treated as cash items in the determination of resources provided by operations. Under U.S. GAAP (SFAS 95), statements of cash flows present only cash items and exclude non-cash items. SFAS 95 does not provide guidance with respect to inflation adjusted financial statements. The differences between MFRS and U.S. GAAP in the amounts reported are mainly due to: (i) elimination of inflationary effects of monetary assets and liabilities from financing and investing activities against the corresponding monetary position result in operating activities, and (ii) the recognition in operating, financing and investing activities of the U.S. GAAP adjustments.

The net income under US GAAP as per Note 27e, differs from the net income shown in the cash flow statement by Ps. (33,930) (from Ps. 1,573,432 to Ps. 1,607,362), Ps. (27,629) (from Ps. 811,295 to Ps. 838,924) and Ps. 7,553 (from Ps. 453,996 to Ps. 446,443) in 2006, 2005 and 2004, respectively.

The following cash flow statements prepared in accordance with SFAS 95 provided by operanting, financing and investing activities, giving effect to the U.S. GAAP adjustments, excluding the effect of inflation required by Bulletin B-10. The following information is presented in thousands of historical pesos and is not presented in pesos of constant purchasing power:

	2006	2005	2004
Operating activities:			
Adjusted Consolidated net income	Ps. 1,607,362	Ps. 838,924	Ps. 446,443
Non-cash items:			
Depreciation	112,404	59,913	22,141
Deferred income tax and statutory profit sharing	586,260	288,391	153,384
Amortization	156,335	320,103	-
Exchange gain	53,250	-	-
Allowance for doubtful accounts	-	-	5,244
Change in fair value of financial investments	100,594	-	-
Changes in operating assets and liabitilies	(1,282,408)	(1,666,824)	(2,119,809)
Recoverable taxes, net	(5,725)	(90,808)	28,306
Interest payable	-	-	1,244
Net cash flows provided by (used in) operating activities	1,328,072	(250,301)	(1,463,047)
Investing activities:			
Investments in:			
Property and equipment	(291,437)	(141,048)	(211,125)
Restricted cash	311	20,851	(21,162)
Other assets	-	(106,914)	(16,807)
Acquisition of Beta	-	(1,063,739)	-
Net cash flows used in investing activities	(291,126)	(1,290,850)	(249,094)
Financing activities:			
Supplier factoring agreement	-	-	461,842
Restricted investments	-	169,470	-
Debt issuance costs, net	(12,523)	-	-
Proceeds from new borrowings	1,537,908	3,899,298	404,416
Payments of notes payable to financial institutions	(1,549,468)	(1,737,064)	(348,708)
Loans from related parties	-	-	30,000
Payments of related party loans	-	-	(167,076)
Proceeds from issuance of common stock	-	-	1,643,469
Net cash flows provided by financing activities	24,083	2,331,704	2,023,943
Net increase in cash and cash equivalents	1,012,863	790,553	311,802
Cash and cash equivalents at the beginning of the year	1,318,776	528,223	216,421
Cash and cash equivalents at the end of the year	Ps. 2,331,639	Ps. 1,318,776	Ps. 528,223
Supplemental cash flow information:			
Interest paid	Ps. 428,489	Ps. 125,421	Ps. 59,535
Income tax and tax on assets paid	Ps. 17,473	Ps. 6,212	Ps. 3,268
Non-cash financing activities:			
Issuance of common stock for purchase of Beta	Ps. -	Ps. 977,469	Ps. -

In 2005 and 2004 the cash and cash equivalents balances above differ from MFRS by Ps. 53,778 (from Ps. 1,318,776 to Ps. 1,372,551) and Ps. 43,430 (from Ps. 528,223 to Ps. 571,653) for inflation effects.

h. Consolidated Statements of Changes in Stockholders' Equity according to U.S. GAAP

	Common stock	Additional paid-in capital	Retained Earnings	Other Comprehensive Income	Majority stockholders' equity	Comprehensive Income of the year
Balances as of						
January 1, 2004	Ps. 186,328	Ps. 626,154	Ps. 390,279	-	Ps. 1,202,761	-
Issuance of common stock	47,145	1,770,329	-	-	1,817,474	-
Net income of the year			453,995	-	453,995	453,995
Balances as of						
December 31, 2004	233,473	2,396,483	844,274	-	3,474,230	-
Issuance of common stock	275,409	764,902	-	-	1,040,311	-
Minority dilution	-	-	(7,613)		(7,613)	-
Labor obligations	-	-	-	(8,543)	(8,543)	(8,543)
Net income	-	-	811,295	-	811,295	811,295
	-	-	-	(8,543)		802,752
Balances as of						
December 31, 2005	508,882	3,161,385	1,647,956	-	5,309,680	-
Adoption of SFAS 158				(25,578)	(25,578)	-
Cumulative effect						
of SAB 108 adoption	-	-	(44,586)	-	(44,586)	-
Labor obligations	-	-	-	13,438	13,438	13,438
Net income	-	-	1,573,432	-	1,573,432	1,573,432
Balances as of						
December 31, 2006	Ps. 508,882	Ps. 3,161,385	Ps. 3,176,802	Ps. (20,683)	Ps. 6,826,385	Ps. 1,586,870

28. Additional U.S. GAAP disclosure information

Recently Issued Accounting Standards.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. We are currently evaluating the potential impact of adopting SFAS No. 157 on our consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115", which provides a fair value option to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. SFAS No. 159 is effective for the Company beginning in the 2008 first quarter. We do not expect that the adoption of this Statement will have a material impact on the consolidated financial statements.

In September 2006, the SEC Staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB No. 108"), which addresses how the effects of prior year uncorrected financial statement misstatements should be considered in current year financial statements. SAB No. 108 requires registrants to quantify misstatements using both balance sheet and income statement approaches and to evaluate whether either approach results in quantifying an error that is material in light of relative quantitative and qualitative factors. The requirements of SAB No. 108 are effective for annual financial statements covering the first fiscal year ending after November 15, 2006. Our adoption of SAB No. 108 in 2006 is disclosed in Note 27.

In June 2006, the EITF ratified the consensus on EITF Issue No. 06-3 (EITF 06-03), How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). EITF 06-03 concluded that the presentation of taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer, such as sales, use, value-added and certain excise taxes in an accounting policy decision that should be disclosed in a company's financial statements. In addition, companies that record such taxes on a gross basis should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. EITF 06-03 is effective for interim and annual reporting periods beginning after December 15, 2006. The Company does not anticipate that the adoption of EITF 06-03 will have an impact on its financial condition or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109" ("FASB Interpretation No. 48"). FASB Interpretation No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB Interpretation No. 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the potential impact of adopting FASB Interpretation No. 48 on our consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Deferred Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87,88, 106 and 132(R) ("SFAS N. 158"). SFAS No. 158 requires companies to (a) recognize the funded status of a benefit plan)measured as the difference between the fair value of plan assets and the benefit obligation) in its statement of financial position, (b) recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period, (c) measure defined benefit plan assets as of the date of a company's statement of financial position, and (d) disclose in the notes to the financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gain or losses, prior service cost or credits, and transition assets or obligation. SFAS No. 158 is effective for companies with publicly traded securities as of the end of the fiscal year ending December 15, 2006. Our adoption of SFAS N. 158 in 2006 is disclosed in Note 26 to our financial statements,

29. Valuation and qualifying accounts for the years ended December 31, 2006, 2005 and 2004

Description	Beginning Balance Accrual	Additions Charged to Income	Reversal	Ending Balance Accrual
Allowance for doubtful accounts				
2006	Ps. 26,888	Ps. 44,001	Ps. -	Ps. 70,889
2005	12,132	14,756	-	26,888
2004	6,635	5,497	-	12,132

30. Supplemental guarantor information

Supplemental guarantor information

The Senior Guaranteed Notes are fully and unconditionally guaranteed, on an unsecured senior, joint and several basis, by each of the Company's significant subsidiaries. Each of the guarantor subsidiaries (Proyectos Inmobiliarios de Culiacán, S. A. de C. V., Desarrollodora de Casas del Noroeste, S. A. de C. V., Casas Beta del Centro, S. de R.L. de C.V., Casas Beta del Norte, S. de R.L..de C.V., Casas Beta del Noroeste, S. de R.L. de C.V., Edificaciones Beta, S. de R.L. de C.V., Edificaciones Beta del Norte, S. de R. L. de C.V. and Edificaciones Beta del Norte, S. de R.L. de C.V.) is a wholly-owned subsidiary. The following condensed combining financial information includes the guarantor subsidiaries, non-guarantor-subsidiaries and the parent company.

Investments in subsidiaries are accounted for by the parent company under the equity method for purpose of the supplemental combining presentation. Earnings of subsidiaries are therefore reflected in the parent company's investment account and earnings. The principal elimination entries eliminate the parent company's investment in subsidiaries and intercompany balances and transactions.

For additional information please refer to the Company´s Annual report as form 20F, starting on page F-44 through F-54.

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Bolsa Mexicana de Valores
Ticker symbol:HOMEX
Ordinary share
Unique Series, full rights

New York Stock Exchange

Ticker symbol: HXM
American Depositary Shares
(ADS) = 6 ordinary shares
CUSIP: 230 30W 100

Senior Guaranteed Notes
CUSIP: P35054BD9

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Desarrolladora Homex, S.A.B. de C.V. annual reports, and all other written materials may from time to time contain statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors can cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include economic and political conditions and government policies in Mexico or elsewhere, including changes in housing and mortgage policies, inflation rates, exchange rates, regulatory developments, customer demand and competition. For those statements, the Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Discussion of factors that may affect future results is contained in our filings with the Securities and Exchange Commission.

Diseño: ZIMAT DESIGN CENTER

HOMEX