

OFFERING CIRCULAR



US\$250,000,000

Desarrolladora Homex, S.A. de C.V.

7.50% Senior Guaranteed Notes due September 28, 2015

We will pay interest on the notes on each March 28 and September 28. The first interest payment will be made on March 28, 2006. The notes will mature on September 28, 2015. At our option, we may redeem the notes on or after September 28, 2010 at the redemption prices set forth in this offering circular. Prior to September 28, 2010, we may redeem, in whole or in part, the notes by paying the principal amount of the notes plus the applicable "make-whole" premium and accrued interest. Prior to September 28, 2008, we may redeem up to 35% of the notes with the proceeds of certain equity offerings. See "Description of Notes—Optional Redemption." In addition, in the event of certain changes in the Mexican withholding tax treatment relating to payments on the notes, we may redeem all (but not less than all) of the notes at 100% of their principal amount, plus accrued and unpaid interest. There is no sinking fund for the notes.

We have agreed, subject to certain restrictions and conditions, to file with the United States Securities and Exchange Commission, or SEC, an exchange offer registration statement or, under certain circumstances, a shelf registration statement, pursuant to a registration rights agreement. See "Description of Notes—Registration Rights."

The notes will be our unsecured general obligations and will be fully and unconditionally guaranteed by some of our existing and future subsidiaries. The notes will rank equally with all of our and our subsidiary guarantors' existing and future unsecured and unsubordinated indebtedness. The notes will effectively rank junior to all of our and our subsidiary guarantors' secured indebtedness to the extent of the value of the assets securing such indebtedness. The notes will be structurally subordinated to indebtedness of our non-guarantor subsidiaries, including trade payables.

We expect that notes sold to qualified institutional buyers will be eligible to trade in the Private Offerings, Resales and Trading through Automated Linkages, or PORTAL, market. Application has been made to list the notes, and is expected to be made to list the exchange notes, if any, on the EuroMTF, the alternative market of the Luxembourg Stock Exchange.

Investing in the notes involves risks. See "Risk Factors" on page 15.

Price: 99.653%

plus accrued interest, if any, from September 28, 2005.

Delivery of the notes in book-entry form will be made on or about September 28, 2005.

THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR IS EXCLUSIVELY THE RESPONSIBILITY OF HOMEX AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE COMISIÓN NACIONAL BANCARIA Y DE VALORES, THE MEXICAN BANKING AND SECURITIES COMMISSION, OR THE CNBV. AN APPLICATION HAS BEEN FILED WITH THE CNBV FOR THE REGISTRATION OF THE NOTES WITH THE SPECIAL SECTION (SECCIÓN ESPECIAL) OF THE NATIONAL SECURITIES REGISTRY (REGISTRO NACIONAL DE VALORES), MAINTAINED BY THE CNBV, WHICH IS A REQUIREMENT UNDER THE MEXICAN SECURITIES MARKET LAW (LEY DEL MERCADO DE VALORES). SUCH REGISTRATION IS EXPECTED TO BE OBTAINED ON OR BEFORE THE CLOSING OF THIS OFFER. SUCH REGISTRATION DOES NOT CONSTITUTE A CERTIFICATION AS TO THE INVESTMENT VALUE OF THE NOTES OR OF HOMEX'S SOLVENCY. THE NOTES HAVE NOT BEEN REGISTERED WITH THE SECURITIES SECTION (SECCIÓN DE VALORES) OF THE NATIONAL SECURITIES REGISTRY (REGISTRO NACIONAL DE VALORES) AND THEREFORE, THE NOTES MAY NOT BE PUBLICLY OFFERED OR SOLD IN MEXICO. IN MAKING AN INVESTMENT DECISION, ALL INVESTORS, INCLUDING ANY MEXICAN INVESTORS WHO MAY ACQUIRE NOTES FROM TIME TO TIME, MUST RELY ON THEIR OWN REVIEW AND EXAMINATION OF HOMEX.

The notes have not been registered under the U.S. Securities Act of 1933, as amended, or the Securities Act. The notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A and to non-U.S. persons in offshore transactions in reliance on Regulation S. You are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Sole Book-Running Manager and Joint-Lead Manager

Credit Suisse First Boston

Joint-Lead Manager

HSBC

The date of this offering circular is September 21, 2005.



DESARROLLADORA HOMEX, S.A. DE C.V.

Affordable Entry-Level Home Development



Middle-Income Home Development



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You should rely on only the information contained in this offering circular or to which we have referred you. We have not, and the initial purchasers have not, authorized anyone to provide you with information that is different. This offering circular may only be used where it is legal to sell the notes. The information in this offering circular is accurate only as of the date on the front of this offering circular.

We are relying upon an exemption from registration under the Securities Act for an offer and sale of securities which do not involve a public offering. By purchasing notes, you will be deemed to have made certain acknowledgments, representations and agreements as set forth under “Notice to Investors” in this offering circular. We are not, and the initial purchasers are not, making an offer to sell the notes in any jurisdiction except where such an offer or sale is permitted. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

Neither the Mexican Banking and Securities Commission nor the SEC nor any state securities commission has approved or disapproved of these securities or determined if this offering circular is truthful or complete. Any representation to the contrary is a criminal offense.

We have submitted this offering circular solely to a limited number of qualified institutional buyers in the United States and to investors outside the United States so they can consider a purchase of the notes. We have not authorized the use of this offering circular for any other purpose. This offering circular may not be copied or reproduced in whole or in part. This offering circular may be distributed and its contents disclosed only to prospective investors to whom it is provided. By accepting delivery of this offering circular, you agree to these restrictions. See “Notice to Investors.”

This offering circular is based on information provided by us and other sources that we believe to be reliable. We and the initial purchasers cannot assure you that this information is accurate or complete. This offering circular summarizes certain documents and other information and we refer you to such documents and other documents for a more complete understanding of what we discuss in this offering circular. In making an investment decision, you must rely on your own examination of Homex and the terms of the offering and the notes, including the merits and risks involved.

We are not making any representation to any purchaser regarding the legality of an investment in the notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering circular to be legal, business or tax advice. You should consult your own counsel, accountant, business advisor and tax advisor for legal, financial, business and tax advice regarding any investment in the notes.

We accept responsibility for the information contained in this offering circular. To the best of our knowledge and belief (and we have taken all reasonable care to ensure that), the information contained in this offering circular is in accordance with the facts and does not omit any material information. You should assume that the information contained in this offering circular is accurate only as of the date on the front cover of this offering circular.

We reserve the right to withdraw this offering of the notes at any time and we and the initial purchasers reserve the right to reject any commitment to subscribe for the notes in whole or in part and to allot to any prospective investor less than the full amount of notes sought by that investor. The initial purchasers and certain related entities may acquire for their own account a portion of the notes.

You must comply with all applicable laws and regulations in force in your jurisdiction and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the notes under the laws and regulations in force in your jurisdiction to which you are subject or in which you make such purchase, offer or sale, and neither we nor any of the initial purchasers will have any responsibility therefor.

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (the “FMSA”) (Financial Promotion) Order 2005 (the “Order”) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). The notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

To the extent that the offer of the notes is made in any European Economic Area (“EEA”) member state that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any member state, the “Prospectus Directive”) before the date of publication of a prospectus in relation to the notes which has been approved by the competent authority in that member state in accordance with the Prospectus Directive (or, where appropriate, published in accordance with the Prospectus Directive and notified to the competent authority in that member state in accordance with the Prospectus Directive), the offer (including any offer pursuant to this document) is only addressed to qualified investors in that member state within the meaning of the Prospectus Directive or has been or will be made otherwise in circumstances that do not require the issuer to publish a prospectus pursuant to the Prospectus Directive.

In connection with the issue of the notes, Credit Suisse First Boston LLC, as stabilization manager, or the persons acting on its behalf, may over-allot notes or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, we cannot assure you that the stabilization manager or the persons acting on its behalf will undertake any stabilization. Any stabilization may begin on or after the date on which adequate public disclosure of the terms of the offer of the notes is made and, if begun, may be ended at any time, but must end no later than the earlier of 30 days after the issue date of the notes and 60 days after the date of the allotment of the notes.

ENFORCEMENT OF CIVIL LIABILITIES

Most of our directors, executive officers and controlling persons reside outside of the United States, a significant portion of the assets of our directors, executive officers and controlling persons, and substantially all of our assets are located outside of the United States, and certain of the experts named in this offering circular also reside outside of the United States. As a result, it may not be

possible for you to effect service of process within the United States upon these persons or to enforce against any of them or us in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. We have been advised by our Mexican counsel, Mijares, Angoitia, Cortés y Fuentes, S.C., that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated solely on U.S. federal securities laws and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of U.S. federal securities laws. See “Risk Factors—Risk Factors Related to the Notes—It May be Difficult to Enforce Civil Liabilities Against Us or Our Directors, Executive Officers and Controlling Persons.”

SEC REVIEW

In connection with the filing of the registration statement for the exchange offer that we have agreed to make with respect to the notes and the related guarantees, and in the course of the review by the SEC of the registration statement, we may make changes to the description of our business, as well as changes to the financial data and other information, included in this offering circular including, but not limited to, the inclusion of a reconciliation from accounting principles generally accepted in Mexico to accounting principles generally accepted in the United States of the consolidated financial statements of Controladora Casas Beta, S.A. de C.V. and subsidiaries. Comments by the SEC on the description of our business, financial data and other information in the registration statement may require modification or reformulation of the information we present in this offering circular, and any such modification or reformulation could be significant.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This offering circular contains forward-looking statements. Words such as “believe,” “anticipate,” “plan,” “expect,” “intend,” “target,” “estimate,” “project,” “predict,” “forecast,” “guideline,” “should” and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying these statements. Examples of forward-looking statements include:

- projections of revenues, net income (loss), earnings per share, capital expenditures, dividends, capital structure or other financial items or ratios;
- statements regarding the anticipated results of our recent acquisition of Controladora Casas Beta, S.A. de C.V. and its subsidiaries;
- statements of our plans, objectives or goals, including those relating to anticipated trends, competition, regulation, government housing policy and rates;
- statements about our future economic performance or that of Mexico; and
- statements of assumptions underlying these statements.

You should not place undue reliance on forward-looking statements, which are based on current expectations. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Our future results may differ materially from those expressed in forward-looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict. All forward-looking statements and risk factors included in this offering circular are made as of the date on the front cover of this offering circular, based on information available to us as of such date, and we assume no obligation to update any forward-looking statement or risk factor.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Throughout this offering circular, unless the context otherwise requires, the terms “we,” “us,” “our,” “the Company” and “Homex” refer to Desarrolladora Homex, S.A. de C.V. and its subsidiaries, excluding Controladora Casas Beta S.A. de C.V. and its subsidiaries. In this offering circular, Controladora Casas Beta S.A. de C.V. is sometimes referred to as “Beta.”

Financial Information

This offering circular contains our audited consolidated financial statements as of December 31, 2003 and 2004 and for each of the three years ended December 31, 2002, 2003 and 2004, and our unaudited condensed consolidated financial statements as of June 30, 2005 and for the six-month periods ended June 30, 2004 and 2005.

This offering circular also includes Beta’s audited consolidated financial statements as of December 31, 2003 and 2004 and for each of the three years ended December 31, 2002, 2003 and 2004 and Beta’s unaudited condensed consolidated financial statements as of June 30, 2005 and for the six-month periods ended June 30, 2004 and 2005. We acquired Beta on July 1, 2005, as further described under “Summary—Recent Developments” in this offering circular.

Our annual audited consolidated financial statements and those of Beta have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., a member of Deloitte Touche Tohmatsu and independent auditors. Our results of operations and those of Beta for the six-month periods ended are unaudited and not necessarily indicative of full year results to be expected and should be read, respectively, in conjunction with our and Beta’s audited consolidated financial statements included in this offering circular.

Also included in this offering circular is unaudited pro forma condensed combined financial information reflecting the combined accounts of Homex and Beta on a pro forma basis as of and for the six-month period ended June 30, 2005 and as of and for the year ended December 31, 2004. All such pro forma financial information is unaudited and may not be indicative of the results of operations that actually would have been achieved had we acquired Beta at the beginning of the periods presented and do not purport to be indicative of future results.

We and Beta prepare our respective financial statements in constant pesos and in accordance with accounting principles generally accepted in Mexico, referred to as Mexican GAAP, which differ in certain significant respects from accounting principles generally accepted in the United States, referred to as U.S. GAAP. See Notes 22 and 23 to our audited consolidated financial statements for information relating to the nature and effect of such differences for us and for a quantitative reconciliation of our majority net income and majority stockholders’ equity according to Mexican GAAP to consolidated net income and consolidated stockholders’ equity according to U.S. GAAP.

Under Bulletin B-10, issued by the Mexican Institute of Public Accountants, we and Beta are required to present our respective financial information in inflation-adjusted monetary units to allow for more accurate comparisons of financial line items over time and to mitigate the distortive effects of inflation on our financial statements. Unless otherwise indicated, all financial information in this offering circular has been restated in pesos of constant purchasing power as of June 30, 2005. The Mexican National Consumer Price Index, or NCPI, increased 0.8% from December 31, 2004 to June 30, 2005.

We and Beta are also required to determine any gain or loss in our respective monetary positions to reflect the effect of inflation on monetary assets and liabilities under Mexican GAAP. This is done by subtracting monetary liabilities from monetary assets and then adjusting net monetary position by the appropriate inflation rate for the period with the resulting monetary gain or loss reflected in earnings.

Pursuant to Mexican GAAP, we recognize revenues from the sale of homes based on the percentage-of-completion method of accounting, which requires us to recognize revenues as we incur the cost of construction. In this offering circular we use “sell” and refer to homes “sold” in connection with homes where:

- we establish that the home buyer will obtain the required financing from the mortgage lender;
- the home buyer has submitted all required documents in order to obtain financing from the mortgage lender;
- the home buyer has signed a purchase agreement (*contrato de promesa de compra-venta*); and
- the home buyer has made a down payment, in the case that a down payment is required.

We use “deliver” and refer to homes “delivered” in connection with homes for which title has passed to the buyer and for which we have received the sale proceeds.

Currency Information

Unless otherwise specified, references to “US\$,” “U.S. dollars” and “dollars” are to the lawful currency of the United States. References to “Ps.” and “pesos” are to the lawful currency of Mexico. References to “UDI” and “UDIs” are to *Unidades de Inversión*, units of account whose value in pesos is indexed to inflation on a daily basis by Banco de México, Mexico’s central bank.

This offering circular contains translations of various peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. You should not construe these translations as representations that the peso amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, we have translated U.S. dollar amounts in this offering circular at the exchange rate of Ps.10.7720 to US\$1.00, which was the noon buying rate for cable transfers in pesos published by the Federal Reserve Bank of New York, expressed in pesos per U.S. dollar, on June 30, 2005. On September 21, 2005, such noon buying rate was Ps.10.7800 to US\$1.00.

Unless otherwise indicated, references to UDIs are to UDIs at the Banco de México UDI conversion rate of Ps.3.56 to UDI 1.00 on June 30, 2005. On September 21, 2005, Banco de México’s UDI conversion rate was Ps.3.582148 to US\$1.00.

Industry And Market Data

Market data and other statistical information used throughout this offering circular are based on independent industry publications, government publications, reports by market research firms or other published independent sources. Some data are also based on our estimates, which are derived from our review of internal surveys, as well as independent sources. Although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy or completeness.

Other Information Presented

The standard measure of area in the real estate market in Mexico is the square meter (m²). Unless otherwise specified, all units of area shown in this offering circular are expressed in terms of square meters, acres or hectares. One square meter is equal to approximately 10.764 square feet. Approximately 4,047 square meters (or 43,562 square feet) is equal to one acre and one hectare is equal to 10,000 square meters (or approximately 2.5 acres).

TERMS USED IN THIS OFFERING CIRCULAR

“Affordable entry-level homes” refers to housing developed by us in Mexico with a sales price per unit between Ps.165,000 and Ps.400,000.

“Canadevi” means *Cámara Nacional de la Industria de Desarrollo y Promoción de la Vivienda*, the Mexican Home Building and Development Industry Chamber of Commerce, previously known as Provivac.

“Conafovi” means *Comisión Nacional de Fomento a la Vivienda*, the Housing Development Agency.

“Conapo” means *Consejo Nacional de Población*, the Mexican Population Council.

“Fividesu” means *Fideicomiso para Promover y Realizar Programas de Vivienda y Desarrollo Social y Urbano*, the Mexican Housing and Social and Urban Development Trust Fund.

“Fonhapo” means *Fideicomiso Fondo Nacional de Habitaciones Populares*, the Mexican Fund for Popular Housing.

“Fovissste” means the *Fondo de la Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, the Mexican Social Security and Services Institute of the Public-Sector Workers’ Housing Fund.

“Inegi” means *Instituto Nacional de Estadística, Geografía e Informática*, the Mexican Institute of Statistics, Geography and Computer Sciences.

“Infonavit” means the *Instituto del Fondo Nacional de la Vivienda para los Trabajadores*, the Mexican National Workers’ Housing Fund Institute.

“Issfam” means *Instituto de Seguridad Social para las Fuerzas Armadas Mexicanas*, the Mexican Armed Forces Social Security Institute.

“Middle-income homes” refers to housing developed by us in Mexico with a sales price per unit between Ps.400,000 and Ps.1,300,000.

“Provivac” means *Federación Nacional de Promotores Industriales de la Vivienda*, the Mexican Federation of Industrial Housing Promoters, now known as Canadevi.

“Residential-level homes” refers to housing developed by us in Mexico with a sales price per unit of more than Ps.1,300,000.

“Sedesol” means *Secretaría de Desarrollo Social*, the Mexican Ministry of Social Development.

“SHF” means the *Sociedad Hipotecaria Federal, S.N.C., Institución de Banca de Desarrollo*, the Mexican Federal Mortgage Bank.

“Sofoles” means *Sociedades Financieras de Objeto Limitado* or limited purpose financial companies.

SUMMARY

You should read the following summary together with the information set forth under the heading “Risk Factors” and in the financial statements and accompanying notes appearing elsewhere in this offering circular.

Throughout this offering circular, unless the context otherwise requires, the terms “we,” “us,” “our,” “the Company” and “Homex” refer to Desarrolladora Homex, S.A. de C.V. and its subsidiaries, excluding Controladora Casas Beta S.A. de C.V. and its subsidiaries. In this offering circular, Controladora Casas Beta S.A. de C.V. is sometimes referred to as “Beta.”

Our Company

We are a vertically-integrated home development company specializing in affordable entry-level and middle-income housing in Mexico. During 2004 we sold 21,053 homes, an increase of 57.2% over 2003, and during the six-month period ended June 30, 2005 we sold 10,536 homes, an increase of 30.3% over the same period in 2004. As of June 30, 2005 we had 52 developments under construction in 25 cities located in 17 Mexican states. We had total land reserves under title of approximately 10.4 million square meters as of June 30, 2005 on which we estimate we could build approximately 45,000 affordable entry-level homes and approximately 6,800 middle-income homes. As of June 30, 2005 we also had approximately 2.7 million square meters of land for which we had signed purchase agreements and made partial payment, and for which title was in the process of being transferred. We estimate that we could build approximately 12,000 affordable entry-level homes and 1,200 middle-income homes on this land.

Even before taking into account our recent acquisition of Beta described below, we believe that we have grown faster than the three other largest publicly traded Mexican home development companies over the past three year period ended December 31, 2004, based on:

- number of homes sold, reflected by our compounded annual growth rate of 43.0% versus a 6.0% average compounded annual growth rate for these other three companies;
- revenues, reflected by our compounded annual growth rate of 57.6% versus a 10.3% average compounded annual growth rate for these other three companies; and
- net income, reflected by our compounded annual growth rate of 180.5% versus a 23.5% average compounded annual growth rate for these other three companies.

In addition, we believe our geographic diversity is one of the strongest among home builders in Mexico, reflected by our operations as of June 30, 2005 in 25 cities located in 17 Mexican states. In addition, our sales are not concentrated in a limited number of areas, compared to our competitors, with only one city (Guadalajara) in which we operate providing approximately 23% of our revenues and no other city providing more than 10% of our revenues for the six-month period ended June 30, 2005.

Our Strategy

Maintain a Conservative Financial Position

We operate our business with the goal of reducing our exposure to interest rate and financing risk. We begin construction only when an approved buyer has qualified for a mortgage and, if applicable, made a down-payment, thereby reducing our working capital needs. We believe the resulting financial flexibility enhances our ability to respond quickly to market opportunities and minimizes any negative effects that might result from a downturn in the economy.

Focus on Growth Consolidation and High-Margin Opportunities

Our strategy is to consolidate our growth and to identify and target high margin opportunities such as middle-income home sales. For the six-month period ended June 30, 2005, 24.1% of our revenue came from middle-income home sales as compared to 15.5% in the same period in the prior year. We have developed an operating model that we believe allows us to enter underserved markets quickly and efficiently in order to take advantage of attractive opportunities offered by increased availability of public and private sector mortgage financing. In response to these opportunities, during the last three calendar years and the six-month period ended June 30, 2005 we launched 32 new affordable entry-level developments in 16 cities. Increased availability of private sector financing has also allowed us to expand our presence in the middle-income sector, which provides higher margins than affordable entry-level homes. We launched eight new middle-income developments in 2004 and three new middle-income developments in three cities in the first six months of 2005. We expect to continue to expand our operations in the higher margin middle-income sector.

Maintain Appropriate and Balanced Land Reserves

Our ability to identify, acquire, and improve land is critical to our success. Because the success of our operations depends, among other things, on managing our land reserves efficiently, we continually review our portfolio and seek new development opportunities. We balance our need for additional land for growth with our desire to minimize leverage and avoid excessive inventory. Our current goal is to maintain sufficient land reserves for a minimum of 18 to 24 months of future home deliveries. This time period allows us to undertake the lengthy processes necessary to prepare land for development, including identifying suitable parcels, locating adequate water supplies, obtaining required governmental permits and authorizations, and incorporating parcels into existing urban zones. We generally purchase large parcels of land in order to amortize our acquisition and infrastructure costs over a large number of homes, minimize competition, and take advantage of economies of scale. As of June 30, 2005, we had total land reserves of approximately 10.4 million square meters, which had an estimated aggregate capacity of approximately 45,000 affordable entry-level homes and approximately 6,800 middle-income homes. As of June 30, 2005, we also had approximately 2.7 million square meters of land for which we had signed purchase agreements and made partial payment, and for which title was in the process of being transferred. We estimate that we could build approximately 12,000 affordable entry-level homes and 1,200 middle-income homes on this land.

Continue to Build and Contribute to Successful Communities

We seek to foster brand loyalty by enhancing the quality and value of our communities through building and donating schools, day care facilities, parks and churches, and by providing other social services to residents of the housing we develop. We are committed to fulfilling our clients' needs by responding to and meeting their demands. Through market studies, for example, we determine that home buyers prefer larger home sizes over higher-priced finishing details. We allow our clients to improve these details at their own expense in order to offer more square footage per house than similarly priced homes offered by our competitors.

At the same time, we seek to become the best employer to our employees through training and educational opportunities. We seek to hire and keep talented employees and invest in training our workforce at all levels by offering programs such as middle-school equivalency courses for our construction laborers. We are committed to becoming the best customer to our suppliers by offering various payment alternatives and opportunities for cooperative growth, and through our factoring structure and other initiatives, including electronic ordering and payment systems. We believe that these factors make us a preferred home builder, employer, and customer and ultimately enhance our overall business.

Desarrolladora Homex, S.A. de C.V. is a corporation (*sociedad anónima de capital variable*) with its corporate domicile in Culiacán, Sinaloa, Mexico and organized under the Mexican General Companies Law (*Ley General de Sociedades Mercantiles*). Our principal executive offices are located at Andador Javier Mina 891-B, Colonia Centro Sinaloa, 80200 Culiacán, Sinaloa, México. Our telephone number is (52) (66) 7758-5800.

Recent Developments

Acquisition of Controladora Casas Beta, S.A. de C.V.

On July 1, 2005, we acquired Controladora Casas Beta S.A. de C.V., or Beta, which, prior to its acquisition by us was the sixth largest homebuilder in Mexico measured by units sold in 2004. After giving effect to the acquisition, we believe we are now the largest homebuilder in Mexico in terms of operating income on a pro forma basis for 2004.

We believe that our acquisition of Beta will provide significant economies of scale and further expand our geographic reach. Together with Beta, we believe we now have approximately a 7.8% share of the Mexican housing market in terms of units sold in 2004. Our Beta acquisition also strengthens our presence in the top four Mexican home-building markets: Estado de México, Guadalajara, Monterrey and Tijuana.

As of June 30, 2005, Beta had 12 developments under construction in Estado de México, Nuevo León, Baja California and Mexico City, areas that together represent approximately 28.7% of the population of Mexico. Additionally, as of such date, Beta had land reserves under title of approximately 4.6 million square meters, with an estimated capacity to build approximately 23,300 affordable entry-level houses and 6,200 middle-income homes. As of June 30, 2005, Beta was in the process of acquiring additional land of approximately 870,000 square meters, with an estimated capacity to build approximately 6,200 affordable entry-level homes.

The purchase price for Beta was approximately Ps.2,041.5 million (US\$188.9 million). The acquisition of Beta involved the purchase of 53.0% of Beta's stock for approximately Ps.1,063.9 million (US\$98.4 million) in cash and the purchase of the remaining 47.0% of Beta's stock in exchange for 22.0 million of our common shares valued at Ps.977.6 million (US\$90.5 million). On the date of the acquisition we incurred acquisition financing of Ps.1,081.0 million (US\$100.4 million). Following the acquisition, Beta was merged into Homex, with Homex being the surviving entity. As a result of the Beta acquisition, former Beta shareholders own approximately 6.6% of Homex's capital stock.

Beta was a housing development company located in the Mexico City area that focused on affordable entry-level and middle-income housing. During 2004, Beta sold 11,055 homes, an increase of 79.5% over 2003 and during the six-month period ended June 30, 2005, Beta sold 5,846 homes, an increase of 16.4% over the same period in 2004.

For the year ended December 31, 2004, Beta had revenues of Ps.2,497.7 million (US\$231.9 million), an increase of 51.4% from the previous year. Its revenues for the six-month period ended June 30, 2005 were Ps.1,240.1 million (US\$115.1 million), an increase of 19.3% over the same period in 2004. For 2004, 97.0% of Beta's revenue was attributable to affordable entry-level home sales, with 3.0% of revenue attributable to sales of residential-level homes. For the six-month period ended June 30, 2005, 100% of Beta's revenue was attributable to affordable entry-level home sales.

For the year ended December 31, 2004, Beta had operating income of Ps.498.4 million (US\$46.3 million), an increase of 132.4% from the previous year. Its operating income for the six-month period ended June 30, 2005 was Ps.197.1 million (US\$18.3 million), an increase of 27.5% over the same period in 2004.

For the year ended December 31, 2004, Beta had net income of Ps.331.0 million (US\$30.7 million), an increase of 185.5% from the previous year. Its net income for the six-month period ended June 30, 2005 was Ps.152.7 million (US\$14.2 million), an increase of 57.4% over the same period in 2004.

At December 31, 2004, Beta had total indebtedness of Ps.478.3 million (US\$44.5 million), an increase of 68.1% compared to December 31, 2003. Its total indebtedness at June 30, 2005 was Ps.612.2 million (US\$56.8 million), an increase of 28.0% compared to June 30, 2004.

The following table sets forth certain historical and pro forma information that we believe illustrates important contributions we expect the acquisition of Beta will make to our operations. The pro forma information shows the combined companies as if our acquisition of Beta had taken place as of January 1, 2004 and conforms certain of Beta's financial information to our accounting policies. As such, the pro forma information differs from a simple addition of Homex and Beta figures. See "Presentation of Financial and Other Information—Financial Information."

	Homex 2004	Pro Forma 2004(1)	Homex Six Months Ended June 30, 2005	Six Pro Forma Months Ended June 30, 2005(1)
	(thousand of pesos except homes sold)			
Revenues	5,369,428	7,720,213	2,863,328	4,079,188
Income from Operations	1,192,749	1,620,010	616,501	813,634
Net Income	723,181	856,867	390,797	455,275
Homes Sold	21,053	32,108	10,536	16,382

(1) Pro forma information is derived from the Unaudited Pro Forma Condensed Combined Financial Statements that begin on page B-1 of this offering circular.

For a further discussion of our acquisition of Beta, see "Business—Recent Developments—Acquisition of Controladora Casas Beta, S.A. de C.V." Additionally, Beta's recent financial statements as of and for the years ended December 31, 2002, 2003 and 2004 and as of June 30, 2005 and for the six-month periods ended June 30, 2004 and 2005 are included in this offering circular beginning on page A-1. Unaudited pro forma condensed combined financial statements reflecting the combined accounts of Homex and Beta on a pro forma basis as of and for the year ended December 31, 2004 and as of and for the six-month period ended June 30, 2005 are also included in this offering circular, beginning on page B-1.

The Offering

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the notes, see “Description of Notes” in this offering circular.

Issuer	Desarrolladora Homex, S.A. de C.V.
Notes Offered	US\$250 million aggregate principal amount of 7.50% Senior Guaranteed Notes due 2015.
Maturity	September 28, 2015
Interest Payment Dates	March 28 and September 28, beginning March 28, 2006.
Guarantors	Proyectos Inmobiliarios de Culiacán, S.A. de C.V. (“PICSA”); Desarrolladora de Casas del Noroeste, S.A. de C.V. (“DECANO”); Casas Beta del Centro, S.A. de C.V.; Casas Beta del Norte S.A. de C.V.; Casas Beta del Noroeste, S.A. de C.V.; Edificaciones Beta, S.A. de C.V.; Edificaciones Beta del Noroeste, S.A. de C.V.; and Edificaciones Beta del Norte, S.A. de C.V.
Guarantees	The payment of principal, interest and premium on the notes will be fully and unconditionally guaranteed on a senior unsecured basis by certain of our existing and future restricted subsidiaries. See “Description of Notes—Guarantees.”
Ranking	The notes and guarantees will rank <ul style="list-style-type: none"> • equally with all of our and the subsidiary guarantors’ existing and future senior indebtedness; and • senior to all of our and the subsidiary guarantors’ existing and future subordinated indebtedness.

The notes and the guarantees will effectively rank junior to all of our and the subsidiary guarantors existing and future secured indebtedness with respect and up to the value of the assets securing such indebtedness. The notes and the guarantees will be structurally subordinated to all indebtedness (including trade payables) of our non-guarantor subsidiaries. Furthermore, the notes and the guarantees will rank junior to all obligations preferred by statute (such as tax or labor obligations).

As of June 30, 2005 after giving pro forma effect to our acquisition of Beta, the issuance of the notes and the use of the net proceeds of this offering,

- Homex and the subsidiary guarantors had Ps.3,274.9 million (US\$304.0 million) of senior indebtedness, of which Ps.41.4 million (US\$3.9 million) was secured indebtedness; and
- Homex’s non-guarantor subsidiaries had no outstanding indebtedness (including trade payables).

- Optional Redemption Prior to September 28, 2008, Homex is entitled to redeem up to 35% of the original principal amount of the notes, including the original principal amount of any additional notes we may issue in the future under the indenture, from the proceeds of certain equity offerings, so long as
- we pay to the holders of such notes a redemption price of 107.5% of the principal amount of the notes, plus accrued and unpaid interest to the date of redemption; and
 - at least 65% of the original aggregate principal amount of the notes and any additional notes issued under the indenture remains outstanding after each such redemption.

Prior to September 28, 2010, we are entitled to redeem the notes as a whole at a redemption price equal to the principal amount of the notes plus the Make-Whole Amount and accrued and unpaid interest to the date of redemption. The term “Make-Whole Amount” is defined under “Description of Notes—Optional Redemption.”

On or after September 28, 2010, we are entitled to redeem some or all of the notes at the fixed redemption prices listed under “Description of Notes—Optional Redemption,” plus accrued and unpaid interest to the date of redemption.

- Certain Covenants The indenture governing the notes limits what we and our restricted subsidiaries may do. The indenture limits our and our restricted subsidiaries’ ability to, among other things:
- incur additional indebtedness;
 - pay dividends on our capital stock or redeem, repurchase or retire our capital stock or subordinated indebtedness;
 - make investments;
 - create liens;
 - create any consensual limitation on the ability of our restricted subsidiaries to pay dividends, make loans or transfer property to us;
 - engage in transactions with affiliates;
 - sell assets, including capital stock of our subsidiaries; and
 - consolidate, merge or transfer assets.

If the notes obtain investment grade ratings from both Moody’s Investors Services, Inc. and Standard & Poor’s Rating Group and no default has occurred and is continuing, the foregoing covenants will cease to be in effect with the exception of covenants that contain limitations on liens and on, among other things, certain consolidations, mergers and transfer of assets for so long as each of the foregoing rating agencies maintains its investment grade rating.

	These covenants are subject to a number of important qualifications and exceptions. See “Description of Notes—Certain Covenants.”
Change of Control	If we experience a Change of Control, subject to certain conditions, we must give holders of the notes the opportunity to sell to us their notes at 101% of the principal amount, plus accrued and unpaid interest. The term “Change of Control” is defined under “Description of Notes—Change of Control.”
Additional Amounts	All payments by us or the subsidiary guarantors in respect of the notes, whether of principal or interest, will be made without withholding or deduction for or on account of any Mexican taxes, unless required by law, in which case, subject to specified exceptions and limitations, we and the subsidiary guarantors will pay such additional amounts as may be required so that the net amount received by the holders of the notes in respect of principal, interest or other payments on the notes, after any such withholding or deduction, will not be less than the amount that would have been received in the absence of any such withholding or deduction. See “Description of Notes—Additional Amounts.”
Redemption for Changes in Mexican Withholding Taxes	In the event that, as a result of certain changes in Mexican tax laws applicable to payments under the notes, we become obligated to pay additional amounts in respect of interest (or amounts deemed interest) payable under the notes, in excess of those attributable to a Mexican withholding tax rate of 10%, the notes will be redeemable, in whole but not in part, at our option, at any time upon notice, at 100% of their principal amount plus accrued and unpaid interest. See “Description of Notes—Additional Amounts.”
Book Entry; Form and Denominations	The notes will be issued in the form of one or more global notes without coupons, registered in the name of a nominee of The Depository Trust Company, or DTC, as depositary, for the accounts of its participants including Clearstream Banking, <i>société anonyme</i> (“Clearstream”) and Euroclear Bank S.A./N.V. (“Euroclear”). The notes will be issued in minimum denominations of US\$2,000 and integral multiples of US\$1,000 in excess thereof. See “Book-Entry; Delivery and Form.”
Listing	We expect the notes will be eligible for trading in the PORTAL Market, the National Association of Securities Dealers’ screen-based automated market for trading securities eligible for resale under Rule 144A. Application has been made to the <i>Commission de Surveillance du Secteur Financier</i> in its capacity as competent authority under the Prospectus Directive, for the notes to be admitted to trading and to be listed on the Euro MTF, the unregulated section of the Luxembourg Stock Exchange.

Directive 2004/109/EC of the European Parliament and Council, dated December 15, 2004, on the harmonization of transparency requirements for information about issuers whose securities are admitted to trading on an European Union regulated market amended Directive 2001/34/EC (the “Transparency Directive”) and became effective on January 20, 2005. It requires member states, including Luxembourg, to take measures necessary to comply with the Transparency Directive by January 20, 2007. If, as a result of the Transparency Directive or any legislation implementing the Transparency Directive, we could be required to publish financial information either more regularly than we otherwise would be required to or according to accounting principles which are materially different from the accounting principles which we would otherwise use to prepare our published financial information, we may delist the notes from the Euro MTF in accordance with the rules of the Luxembourg Stock Exchange and seek an alternative admission to listing, trading and/or quotation for the notes on a different section of the Luxembourg Stock Exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as we may reasonably decide.

Transfer Restrictions We have not registered the notes under the Securities Act. The notes are subject to restrictions on transfer and may only be offered in transactions exempt from or not subject to the registration requirements of the Securities Act. See “Notice to Investors.”

Exchange Offer; Registration

Rights Under a registration rights agreement to be executed as part of this offering, we will agree to:

- use our reasonable best efforts to file with the SEC a registration statement within 180 days after the issue date of the notes that would enable noteholders to exchange the privately placed notes for publicly registered notes with identical terms other than those pertaining to transfer restrictions and penalty interest;
- use our reasonable best efforts to cause the registration statement to become effective within 240 days after the issue date of the notes; and
- use our reasonable best efforts to consummate the exchange offer within 270 days after the issue date of the notes;

or

- use our reasonable best efforts to file a shelf registration statement for the resale of the notes if we cannot effect an exchange offer within the time periods listed above and in certain other circumstances.

	<p>If we do not comply with our obligation to register the notes pursuant to an exchange offer registration statement or shelf registration statement in accordance with the registration rights agreement, liquidated damages will accrue on the notes at an additional 0.25% per annum until the first anniversary of the settlement date and will accrue at 0.50% per annum thereafter. See “Description of Notes—Registration Rights.”</p>
Use of Proceeds	We intend to use the net proceeds of this offering to repay certain of our outstanding indebtedness and any remaining amounts for general corporate purposes. See “Use of Proceeds.”
Risk Factors	Investing in the notes involves certain risks. See “Risk Factors.”
Governing Law	State of New York
Trustee, Registrar and Paying Agent	The Bank of New York
Luxembourg Paying Agent and Transfer Agent	The Bank of New York (Luxembourg) S.A.
Luxembourg Listing Agent	The Bank of New York Europe Limited

Summary Consolidated Financial Data

The following tables present our summary consolidated financial information as of and for the periods indicated. The information presented in these tables does not include Beta which we acquired on July 1, 2005. Information as of December 31, 2003 and 2004 and for each of the three years ended December 31, 2002, 2003 and 2004 are derived from and should be read together with our audited consolidated financial statements. The information as of June 30, 2005 and for the six-month periods ended June 30, 2005 and 2004 are derived from our unaudited condensed consolidated financial statements and should be read together with both such unaudited consolidated financial statements and our audited consolidated financial statements. These financial statements are provided in this offering circular beginning on page F-1. The information in the following tables should also be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our consolidated financial statements are prepared in accordance with Mexican GAAP, which differs in certain significant respects from U.S. GAAP. Notes 22 and 23 to our audited consolidated financial statements provide information relating to the nature and effect of such differences as they relate to us and provide a reconciliation to U.S. GAAP of consolidated net income and consolidated stockholders' equity.

Pursuant to Mexican GAAP, our consolidated financial statements and the selected consolidated financial data set forth below restate the components of stockholders' equity using NCPI factors and record gains and losses in purchasing power from holding monetary assets or liabilities. Under Mexican GAAP, non-monetary assets, with the exception of inventories and fixed assets of non-Mexican origin, are restated using the NCPI factors. Inventories are restated at current replacement costs while fixed assets of foreign origin are restated by the inflation rate of the country of origin prior to translation to pesos at the period-end exchange rate. Mexican GAAP also requires restatement of all financial statements to pesos of constant purchasing power as of the date of the most recent balance sheet presented, and accordingly all data in the consolidated financial statements and in the selected consolidated financial data set forth below have been restated in pesos of constant purchasing power as of June 30, 2005. The effects of inflation accounting under Mexican GAAP, other than for the use of a specific index for the restatement of fixed assets of foreign origin, have not been reversed in the reconciliation to U.S. GAAP. See Notes 22 and 23 to our consolidated financial statements.

On May 15, 2004, one of our affiliates, Econoblock, S.A. de C.V., merged with one of our subsidiaries, Desarrolladora de Casas del Noroeste, S.A. de C.V., or DECANO, with DECANO assuming all the rights and obligations of the merged company. Because 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, in a manner similar to a pooling of interests, based on the guidance provided by Statement of Financial Accounting Standards No. 141, "Business Combinations," issued by the Financial Accounting Standards Board, and in accordance with Bulletin A-8, "Supplemental Application of International Accounting Standards" issued by the Mexican Institute of Public Accountants. Therefore, the accompanying financial statements of the merged company are included as if the merger had taken place as of the beginning of the earliest period presented. See Note 2 to our consolidated financial statements.

Except for ratios, percentages, per share, per ADS, and operating data, all amounts are presented in thousands of U.S. dollars or constant pesos. Unless otherwise indicated, we have translated U.S. dollar amounts at the exchange rate of Ps.10.7720 to US\$1.00, which was the noon buying rate for cable transfers in pesos published by the Federal Reserve Bank of New York, expressed in pesos per U.S. dollar, on June 30, 2005. On September 21, 2005, the noon buying rate for pesos was Ps.10.7800 to US\$1.00.

For additional information regarding financial information presented in this offering circular, see "Presentation of Financial and Other Information."

Homex Summary Consolidated Financial Information

	Six Months Ended June 30,			Year Ended December 31,			
	2005(1)	2005(1)	2004(1)	2004	2004	2003	2002
	(US\$)	(Ps.)	(Ps.)	(US\$)	(Ps.)	(Ps.)	(Ps.)
(in thousands, except per share data, percentages and ratios)							
Statement of operations data:							
Mexican GAAP:							
Revenues(2)	265,812	2,863,328	1,990,806	498,462	5,369,428	2,942,067	1,372,113
Costs	183,145	1,972,835	1,363,267	347,077	3,738,718	2,104,408	961,584
Gross profit	82,667	890,493	627,539	151,385	1,630,710	837,659	410,529
Selling and administrative expenses	25,436	273,992	186,586	40,657	437,961	269,526	169,330
Income from operations	57,232	616,501	440,953	110,728	1,192,749	568,133	241,199
Other income (expense)	1,544	16,623	46,221	4,037	43,486	78,668	(1,785)
Net comprehensive financing cost(3)	6,363	68,545	57,366	14,972	161,286	128,907	150,880
Income before income tax and employee statutory profit sharing expense	52,412	564,579	429,808	99,793	1,074,949	517,894	88,534
Income tax expense	16,133	173,782	133,192	31,859	343,157	185,269	54,185
Employee statutory profit sharing expense	—	—	1,501	799	8,611	279	1,580
Consolidated net income	36,279	390,797	295,115	67,135	723,181	332,346	32,770
Net income of majority stockholders	36,655	394,849	295,875	66,285	714,022	326,987	31,390
Net income of minority stockholders	(376)	(4,052)	(760)	850	9,159	5,359	1,380
Weighted average shares outstanding		313,978	249,962		281,997	241,521	191,896
Basic and diluted earnings (loss) per share		1.26	1.18		2.53	1.35	0.16
Basic and diluted earnings (loss) per ADS(4)		7.55	7.10		15.18	8.10	0.96
U.S. GAAP:							
Revenues(2)				370,140	3,987,147	2,752,825	1,230,640
Costs				279,017	3,005,574	2,111,305	973,826
Gross profit				91,123	981,573	641,520	256,814
Operating income(5)(6)				48,984	527,660	371,670	87,107
Net income				39,605	426,628	248,918	65,000
Weighted average shares outstanding				281,997	281,997	241,521	191,896
Basic and diluted earnings per share				0.14	1.51	1.03	0.34
Basic and diluted earnings per ADS(4)				0.84	9.08	6.18	2.03

	As of and for Six Months Ended June 30,			As of and for Year Ended December 31,			
	2005(1)	2005(1)	2004(1)	2004	2004	2003	2002
	(US\$)	(Ps.)	(Ps.)	(US\$)	(Ps.)	(Ps.)	(Ps.)
(in thousands, except per share data, percentages and ratios)							
Balance sheet data:							
Mexican GAAP:							
Cash and temporary investments	37,649	405,555		47,948	516,500	222,458	69,349
Trade accounts receivable	351,139	3,782,471		297,415	3,203,752	1,864,249	1,283,045
Total current assets	620,467	6,683,669		552,674	5,953,400	3,142,448	1,724,579
Land held for future development	61,554	663,065		47,279	509,294	242,443	88,742
Property and equipment	24,250	261,219		23,586	254,072	57,863	27,385
Total assets	712,960	7,680,001		635,506	6,845,673	3,488,320	1,851,107
Notes payable to financial institutions	103,727	1,117,348		37,252	401,276	679,079	421,390
Total current liabilities	252,633	2,721,352		204,921	2,207,402	1,749,362	703,927
Long-term notes payable to financial institutions	4,379	47,167		15,020	161,800	—	—
Land purchases—long-term	65,393	704,410		1,885	20,300	—	—
Total long-term liabilities	69,772	821,996		76,309	821,996	359,176	200,719
Total liabilities	322,405	3,472,929		281,230	3,029,398	2,108,538	904,646
Common stock	20,367	219,398		20,367	219,398	175,096	169,150
Total stockholders' equity	390,555	4,207,072		354,276	3,816,275	1,379,782	946,460
U.S. GAAP:							
Cash and cash equivalents				47,948	516,500	222,458	69,622
Restricted cash				10,921	20,692	—	—
Accounts receivable				67,471	726,793	587,595	188,953
Total current assets				520,298	5,604,654	2,875,696	1,549,906
Land held for future development				47,279	509,294	238,683	88,741
Property and equipment				23,586	254,072	57,910	27,385
Total assets				603,131	6,496,927	3,210,139	1,676,435
Total current liabilities				277,475	2,988,964	2,033,375	854,923
Total majority stockholders' equity				303,082	3,264,798	1,130,257	816,267
Other financial data:							
Mexican GAAP:							
Depreciation	2,402	25,877	5,058	2,274	24,498	11,182	6,843
Gross margin(7)	31.1%	31.1%	31.5%	30.4%	28.5%	29.9%	29.5%
Operating margin(8)	21.5%	21.5%	22.1%	22.2%	22.2%	19.3%	17.6%
Net margin	13.8%	13.8%	14.9%	13.3%	13.3%	11.1%	2.3%
Other financial data computed from Mexican GAAP financial information:							
EBITDA(9)	61,177	659,001	492,232	117,038	1,260,733	657,983	246,257
EBITDA margin(10)	23.0%	23.0%	24.7%	23.5%	23.5%	22.4%	17.9%
Net debt(11)	70,457	758,960		4,324	46,184	456,620	352,041
Ratio of notes payable to financial institutions to total stockholders' equity	27.7%	27.7%		15.3%	15.3%	49.2%	44.5%
Ratio of notes payable to financial institutions to total assets	15.2%	15.2%		8.5%	8.5%	19.5%	22.8%
Ratio of earnings to fixed charges(12)	5.9x	5.9x	7.0x	8.0x	8.0x	4.4x	0.7x
U.S. GAAP:							
Gross margin(7)				24.6%	24.6%	23.3%	20.9%
Operating margin(8)				13.2%	13.2%	13.5%	7.1%
Net margin				10.7%	10.7%	33.1%	5.3%
Other financial data derived from U.S. GAAP financial information:							
EBITDA(9)				58,494	630,102	442,957	92,038
EBITDA margin(10)				15.8%	15.8%	16.1%	7.5%

(1) Financial information as of and for the six-month periods ended June 30, 2004 and 2005 is unaudited.

- (2) For U.S. GAAP purposes, sales are recognized when title passes to the home buyer, as opposed to the percentage-of-completion method of accounting used for Mexican GAAP purposes, which requires us to recognize income from homes we sell as we incur the cost of their construction.
- (3) Represents interest income, interest expense, monetary position gains and losses, and foreign exchange gains and losses.
- (4) Assumes all common shares are represented by ADSs. Each ADS represents six common shares. Any discrepancies between per share and per ADS amounts in the table are due to rounding.
- (5) Employee statutory profit sharing expense is classified as an operating expense under U.S. GAAP.
- (6) Interest capitalized as part of the cost of inventories is included in operating expense under U.S. GAAP.
- (7) Represents gross profit divided by total revenues.
- (8) Represents operating income divided by total revenues.
- (9) EBITDA is not a financial measure computed under Mexican or U.S. GAAP. EBITDA derived from our Mexican GAAP financial information means Mexican GAAP net income (loss) excluding (i) depreciation, (ii) net comprehensive financing costs (which is composed of net interest expense, foreign exchange gain or loss and monetary position gain or loss), and (iii) income tax expense and employee statutory profit sharing expense.

EBITDA derived from our U.S. GAAP financial information means U.S. GAAP net income excluding (i) depreciation, (ii) interest expense and monetary position gain or loss, and (iii) income tax expense.

We believe that EBITDA can be useful to facilitate comparisons of operating performance between periods and with other companies in our industry because it excludes the effect of (i) depreciation, which represents a non-cash charge to earnings, (ii) certain financing costs, which are significantly affected by external factors, including interest rates, foreign currency exchange rates, and inflation rates, which have little or no bearing on our operating performance, and (iii) income tax expense and, for EBITDA derived from our Mexican GAAP financial information, employee statutory profit sharing expense.

EBITDA is also a useful basis of comparing our results with those of other companies because it presents operating results on a basis unaffected by capital structure. You should review EBITDA, along with net income (loss) and cash flow from operating activities, investing activities and financing activities, when trying to understand our operating performance. While EBITDA may provide a useful basis for comparison, our computation of EBITDA is not necessarily comparable to EBITDA as reported by other companies, as each is calculated in its own way and must be read in conjunction with the explanations that accompany it. While EBITDA is a relevant and widely used measure of operating performance, it does not represent cash generated from operating activities in accordance with Mexican or U.S. GAAP and should not be considered as an alternative to net income (loss), determined in accordance with Mexican or U.S. GAAP, as an indication of our financial performance, or to cash flow from operating activities, determined in accordance with Mexican or U.S. GAAP, as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs. Additionally, the definition of EBITDA is different from that used for purposes of our financial covenants described in “Description of the Notes.”

EBITDA has certain material limitations as follows: (i) it does not include interest expense, which, because we have borrowed money to finance some of our operations, is a necessary and ongoing part of our costs and assisted us in generating revenue; (ii) it does not include taxes, which are a necessary and ongoing part of our operations; and (iii) it does not include depreciation, which, because we must utilize property and equipment in order to generate revenues in our operations, is a necessary and ongoing part of our costs. Therefore, any measure that excludes any or all of interest expenses, taxes and depreciation has material limitations. For a further discussion of EBITDA, including a reconciliation to GAAP, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—EBITDA Reconciliation.”

- (10) Represents EBITDA divided by total revenues.
- (11) Net debt is not a financial measure computed under Mexican GAAP. We compute net debt as the sum of all notes payable to financial institutions less cash and temporary investments, each of which is computed in accordance with Mexican GAAP. Management uses net debt as a measure of our total amount of leverage, as it gives effect to cash accumulated on our balance sheets. Management believes net debt provides useful information to investors because it reflects our actual debt as well as our available cash and temporary investments that could be used to reduce this debt. Net debt has certain material limitations in that it assumes the use of our cash and temporary investments to repay debt that is actually still outstanding and not to fund operating activities or for investment. For a reconciliation to GAAP, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—EBITDA Reconciliation.”
- (12) Represents earnings divided by fixed charges. Earnings are defined as earnings before income taxes, minority interest and cumulative effect of change in accounting principle, plus fixed charges and amortization of interest capitalized, less interest capitalized; fixed charges are defined as the sum of interest expensed and interest capitalized, plus amortized premiums, discounts and capitalized expenses related to indebtedness.

Homex Summary Operating Information

	Six Months Ended June 30,		Year Ended December 31,		
	2005	2004	2004	2003	2002
(in thousands, except for percentages and ratios)					
Homes Sold					
Affordable entry-level	9,284	7,645	19,141	12,933	7,206
Middle income	1,252	443	1,912	463	—
Total	10,536	8,088	21,053	13,396	7,206
Affordable entry-level as percentage of homes sold	88.1%	94.5%	90.9%	96.5%	100.0%
Middle income as percentage of homes sold . . .	11.9%	5.5%	9.1%	3.5%	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Average Price					
Affordable entry-level Ps.	234	Ps. 225	Ps. 219	Ps. 205	Ps. 190
Middle income	551	695	613	639	—
Weighted average Ps.	272	Ps. 246	Ps. 225	Ps. 255	Ps. 220
Revenue					
Affordable entry-level Ps.	2,173,900	Ps. 1,682,934	Ps. 4,197,926	Ps. 2,646,226	Ps. 1,372,113
Middle income	689,428	307,872	1,171,502	295,841	—
Total Ps.	2,863,328	Ps. 1,990,806	Ps. 5,369,428	Ps. 2,942,067	Ps. 1,372,113
Affordable entry-level as percentage of all revenue	75.9%	84.5%	78.2%	89.9%	100.0%
Middle income homes as percentage of all revenue	24.1	15.5	21.8	10.1	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%

RISK FACTORS

Investing in the notes involves risk. You should consider carefully the following factors, as well as all other information in this offering circular, before investing in the notes. The risk factors below describe certain risks relating to our business and an investment in the notes. We believe these risks as they relate to our business are substantially similar to the risks relating to our Company, as combined with Beta, which we acquired on July 1, 2005.

Risk Factors Related to Our Business

Decreases in the Amount of Mortgage Financing Provided by Mexican Government-Sponsored Agencies on which We Depend, or Disbursement Delays, Could Result in a Decrease in Our Sales and Revenues

The home building industry in Mexico has been and continues to be characterized by a significant shortage of mortgage financing. Historically, the limited availability of financing has restricted home building and contributed to the current shortage of affordable entry-level housing. Substantially all financing for affordable entry-level housing in Mexico is provided by government-sponsored housing funds such as:

- the National Workers' Housing Fund Institute, or Infonavit (*Instituto del Fondo Nacional para la Vivienda de los Trabajadores*), which is financed primarily through mandatory contributions from the gross wages of private sector workers;
- the Social Security and Services Institute Public Sector Workers' Housing Fund, or Fovissste (*Fondo para la Vivienda y la Seguridad y Servicios Sociales para los Trabajadores del Estado*), which is financed primarily through mandatory contributions from the gross wages of public sector workers; and
- public mortgage providers such as the Federal Mortgage Society, or SHF (*Sociedad Hipotecaria Federal, S.N.C., Institución de Banca de Desarrollo*), which is financed through its own funds as well as funds provided by the World Bank and a trust managed by Banco de México.

See “Business—The Mexican Housing Market.”

The amount of funding available and the level of mortgage financing from these sources is limited and may vary from year to year.

These government-sponsored entities have significant discretion in terms of the allocation and timing of disbursement of mortgage funds. We depend on the availability of mortgage financing provided by these government-sponsored entities for substantially all of our sales of affordable entry-level housing, which sales represented 78.2% of our revenues and 67.6% of our operating income for 2004 and 75.9% of our revenues and 53.8% of our operating income for the six-month period ended June 30, 2005.

Accordingly, our financial results are affected by policies and administrative procedures of Infonavit, Fovissste, and SHF, as well as by the Mexican government's housing policy. The availability of mortgage financing granted by these government-sponsored entities has increased significantly during the past four years as compared to historical levels. From 2001 through 2004, the amount of mortgage financing granted in terms of number of homes by these government-sponsored entities increased by 56.4% according to Softec, S.C. (“Softec”). However, future Mexican government housing finance policy may limit or delay the availability of mortgage financing provided by these agencies or otherwise institute changes, including changes in the methods by which these agencies grant mortgages and, in the case of Infonavit, the geographic allocation of mortgage financing, that could result in a decrease in our sales and revenues.

Additionally, in 2001 we experienced delays of up to three months in the disbursement of mortgage funds for homes that were financed by Infonavit. Due to the change in the presidential administration following the 2000 elections in Mexico and the resulting change in the administration of Infonavit, the agency suspended processing mortgages pending the appointment of its new general director. Although we have not experienced delays of this magnitude since 2001, there is a possibility of delays at the end of 2006 and in early 2007 as a result of the upcoming 2006 presidential election. Disruptions in the operations of government-sponsored lenders, for any reason, may occur and result in a decrease in our sales and revenues.

Decreases or delays in the amount of funds available from Infonavit, Fovissste, SHF or other sources, or substantially increased competition for these funds, could result in a decrease in our sales and revenues. These funds may not continue to be allocated at their current levels or in regions in which we have or can quickly establish a significant presence.

Slowdown in the Mexican Economy Could Limit the Availability of Private-Sector Financing in Mexico, on which We Depend for Our Sales of Middle-Income Housing, which Could Result in a Decrease in Our Sales and Revenues

One of our principal strategies is to expand our operations in the middle-income housing sector. Our expansion into this market depends on private sector lenders, such as commercial banks and Limited Purpose Financial Companies (*Sociedades Financieras de Objeto Limitado*, or “sofoles”), which provide a substantial majority of mortgage financing for the middle-income sector. The availability of private sector mortgage financing in Mexico has been severely constrained in the past as a result of volatile economic conditions in Mexico, the level of liquidity and stability of the Mexican banking system, and the resulting adoption of more stringent lending criteria and bank regulations. From 1995 through 2001, commercial bank mortgage lending was generally unavailable in Mexico. However, during the same period a number of sofoles were formed, serving the mostly middle-income market. Since 2002, private sector lenders have gradually increased their mortgage financing activities as a result of improved economic conditions and increasing consumer demand. However, it is possible that the amount of mortgage financing provided by private sector entities for the middle-income housing market will not increase or be maintained at current levels.

SHF Will Limit the Amount of Funding It Provides to Commercial Banks and Sofoles for Individual Mortgage Loans, which Could Result in a Decrease in Our Sales and Revenues

SHF is a public mortgage provider that makes financing available to commercial banks and sofoles for the purpose of providing individual home mortgages for affordable entry-level and middle-income homes. Historically, SHF has financed mortgages for amounts up to approximately UDI 500,000 (approximately US\$166,000 as of June 30, 2005). Since January 1, 2005, however, SHF replaced its financing of mortgages for homes with a purchase price greater than UDI 150,000 (approximately US\$50,000 as of June 30, 2005) with credit enhancements and loan guarantees for commercial banks and sofoles to support their capital-raising efforts for the financing of such individual home mortgages. Commercial banks and sofoles may not be able to raise enough capital to provide additional loans and to compensate for the reduced SHF funding and this reduction in SHF’s funding of mortgages could result in a decrease in our sales and revenues.

We Experience Significant Seasonality in Our Results of Operations

The Mexican affordable entry-level housing industry experiences significant seasonality during the year, principally due to the operational and lending cycles of Infonavit and Fovissste. The programs, budgets, and changes in the authorized policies of these mortgage lenders are approved during the first quarter of the year. Payment by these lenders for home deliveries is slow at the beginning of the year and increases gradually through the second and third quarters with a rapid acceleration in the fourth

quarter. We build and deliver affordable entry-level homes based on the seasonality of this cycle because we do not begin construction of these homes until a mortgage provider commits mortgage financing to a qualified home buyer in a particular development. Accordingly, we also tend to recognize significantly higher levels of revenue in the third and fourth quarters and our debt levels tend to be highest in the first and second quarters. We anticipate that our quarterly results of operations and our level of indebtedness will continue to experience variability from quarter to quarter in the future.

We May Experience Difficulty in Finding Desirable Land Tracts or Increases in the Price of Land May Increase Our Cost of Sales and Decrease Our Earnings

Our continued growth depends in large part on our ability to continue to be able to acquire land and to do so at a reasonable cost. As more developers enter or expand their operations in the Mexican home building industry, land prices could rise significantly and suitable land could become scarce due to increased demand or decreased supply. A resulting rise in land prices may increase our cost of sales and decrease our earnings. We may not be able to continue to acquire suitable land at reasonable prices in the future.

Increases in the Price of Raw Materials May Increase Our Cost of Sales and Reduce Our Net Earnings

The basic raw materials used in the construction of our homes include concrete, concrete block, steel, bricks, windows, doors, roof tiles and plumbing fixtures. Increases in the price of raw materials, including increases that may occur as a result of shortages, duties, restrictions, or fluctuations in exchange rates, could increase our cost of sales and reduce our net earnings to the extent we are unable to increase our sales prices. It is possible that the prices of our raw materials will increase in the future.

Because We Recognize Income From Sales of Homes Under the Percentage-of-Completion Method of Accounting Before Receiving Cash Revenue, Failed Closings Could Result in a Shortfall of Actual Cash Received and Require an Adjustment to Revenue Previously Recorded

In accordance with Mexican GAAP, and consistent with industry practice in Mexico, we recognize income from the sale of homes based on the percentage-of-completion method of accounting, which in Mexico requires us to recognize income as we incur the cost of construction. See Note 3 to our consolidated financial statements for a discussion of the percentage-of-completion method. However, we do not receive the proceeds from these sales until the homes are delivered. As a result, there is a risk that revenue in respect of the income recognized for accounting purposes will not be received due to the failure of a sale to close. Historically, an immaterial amount of our home sales have failed to close.

Reduced Availability of Bridge Loans and SHF-Sponsored Funds, on which We Rely as a Secondary Source of Funding for Our Home Development Operations, Could Limit Our Ability to Achieve Anticipated Growth Levels

In the Mexican housing industry, the majority of development and construction activities are financed primarily through bridge loans secured with mortgages over land and developments in progress. Additionally, SHF, through commercial banks and sofoles, was an important source of bridge financing for housing development. Since September 1, 2004, however, SHF provides funding for bridge loans only for homes with a purchase price of up to UDI 166,667 (approximately US\$55,000 as of June 30, 2005). In lieu of funding bridge loans for homes with a higher purchase price (up to UDI 500,000 (approximately US\$166,000 as of June 30, 2005)), SHF now provides guarantees to support efforts by commercial banks and sofoles to raise capital for the financing of bridge loans to build such homes. As a result, SHF-sponsored construction financing has decreased significantly.

Although we currently finance our development and construction activities primarily out of our working capital and commercial paper programs (*certificados bursátiles de corto plazo*), we have used and may use secured bridge loans in the future as a back-up source of financing. If the availability of bridge loans were to be reduced significantly, our ability to plan new developments and continue our construction operations could be limited and our business operations could be disrupted.

We may use these bridge loans as a source of financing to plan and construct new developments and achieve anticipated levels of growth. This kind of financing may not continue to be available or it may not be available on reasonable terms.

Loss of Services of Our Key Management Personnel Could Result in Disruptions to Our Business Operations

Our management and operations are dependent in large part upon the contributions of a small number of key senior management personnel, including Eustaquio Tomás de Nicolás Gutiérrez, our chairman, and Gerardo de Nicolás Gutiérrez, our CEO. We do not have employment or non-compete agreements with or maintain key-man life insurance in respect of either of these individuals. Because of their knowledge of the industry and our operations and their experience with Homex, we believe that our future results will depend upon their efforts, and the loss of services of any of these individuals for any reason could result in disruptions to our business operations.

Competition from Other Home Builders Could Result in a Decrease in Our Sales and Revenues

The home building industry in Mexico is highly competitive. Our principal competitors include Corporacion GEO, S.A. de C.V., Consorcio ARA, S.A. de C.V., URBI Desarrollos Urbanos, S.A. de C.V., SARE, S.A. de C.V. and Grupo SADASI. Our ability to maintain existing levels of home sales depends to some extent on competitive conditions, including price competition, competition for available mortgage financing, and competition for available land. Competition is likely to continue or intensify. Competitive conditions may prevent us from achieving our goal of increasing our volumes of sales, or increased competition may result in a decrease in our sales and revenues.

Changes in Building and Zoning Regulations to which We are Subject Could Cause Delays in Construction and Result in Increased Costs

The Mexican housing industry is subject to extensive building and zoning regulation by various federal, state, and municipal authorities. These authorities oversee land acquisition, development and construction activities, and certain dealings with customers. The costs associated with obtaining building and zoning permits, paying purchase or development fees and taxes, securing utility service rights, and titling new homes are substantially higher in Mexico than in other countries and vary significantly from region to region in Mexico. We are required to obtain the approval of numerous federal, state, and local governmental authorities for our development activities. Changes in local circumstances or applicable law or regulations of such entities may require modifying or applying for additional approvals or changing our processes and procedures to comply with them. It is possible that these factors could cause delays in construction and result in increased costs.

Changes to Environmental Laws and Regulations to which We Are Subject Could Cause Delays in Construction and Result in Increased Costs

Our operations are subject to Mexican federal, state, and municipal environmental laws and regulations. Changes to environmental laws and regulations, or stricter interpretation or enforcement of existing laws or regulations, could cause delays in construction and result in increased costs.

Our Uninsured Housing Developments under Construction Could Suffer Unforeseen Casualties, which Could Result in Significant Losses to Us

We do not generally obtain liability insurance to cover housing developments under construction unless it is required by providers of construction financing. In the event that our uninsured housing developments suffer unforeseen casualties, we may experience significant losses.

Risk Factors Related to the Acquisition of Beta**We May Fail to Realize the Anticipated Benefits of Our Merger with Beta, and the Integration of Beta with Our Operations Will Present Significant Challenges**

On July 1, 2005 we acquired Controladora Casas Beta, S.A. de C.V. which has now been merged into our Company. The success of the merger will depend, in part, on our ability to realize the anticipated growth opportunities and cost savings from combining our business with Beta's business. We will face significant challenges in consolidating functions, integrating organization, procedures and operations in a timely and efficient manner and retaining our and Beta's key personnel. The integration of Beta will be costly, complex and time consuming and the respective management teams will have to devote substantial effort to it. The integration process and other disruptions from the transaction could be more costly than we expect or result in the loss of key employees, the reduction of profitability, the disruption of our ongoing businesses or inconsistencies in standards, controls, forms to compile and present information, procedures and policies that adversely affect our ability to maintain relationships with customers, suppliers, employees and others who have business dealings, or to achieve the anticipated benefits of the merger or to manage the merged business with levels of profitability equivalent to those existing prior to the merger.

Some accounting, financing and commercial practices used by Beta to develop its projects are different from the practices used by Homex, and it will be necessary to apply the practices Homex has been using historically in the operation of Beta. The lack of a successful integration of Beta's operations with those of Homex could curtail the growth of the combined entity and adversely affect the operations and results of the merged entities.

Additionally, we will have to integrate most of Beta's employees in Homex. As a result of such integration process and as a result of the differences in the hiring terms and in the employees compensation scheme of Homex and Beta, certain labor, tax and social security contingencies may arise, which could have an adverse effect on the anticipated results of the acquisition.

The Increase in Our Leverage as a Result of Our Acquisition of Beta Could Significantly Affect Our Growth and Operating Results

We incurred debt of approximately Ps.1,081 million to finance the acquisition of Beta shares and assumed approximately Ps.570.3 million of net debt (Ps.612.2 million of debt less Ps.41.8 million of cash and temporary investments) of Beta as a part of our acquisition of Beta and the merger of Beta into our Company. In addition to the Ps.1,081 million acquisition financing, we have debt of approximately Ps.1,164.5 million and Ps. 405.6 million of cash and temporary investments, resulting in Ps.2,410.2 million of net debt as of June 30, 2005. Accordingly, our level of debt is significantly larger compared to historical levels. The increase in the debt's service costs could reduce the amount of cash, which would otherwise be available to invest in land acquisition for new developments or to meet other obligations. The high level of leverage could reduce Homex's access to new financing sources on favorable terms and with it, significantly affect our growth and operating results.

The Loss of Beta's Main Executives Could Affect Our Operations

The integration of Beta's administration and operations in Homex is highly dependant on the participation of a reduced number of Beta's principal executives, including Mr. Alfredo Sefami Mizraje, Corporate Manager, Mr. Naftoli Mishkin Antokolsky, Commercial Director, Mr. Alberto Romano Guakil, Promotion Director, and Mr. Elias Romano Guakil, Regional Manager of Casas Beta del Noroeste, S.A. de C.V. Because these persons know Beta's administration and operation and have extensive experience in the housing industry in the areas where Beta has currently some of their developments, we believe that the projected results of the transaction will depend on the efforts of these individuals and, therefore, the loss of services of any of them in the short term, for any cause, could have an adverse effect on Homex's operations and results.

Risk Factors Related to Mexico

Adverse Economic Conditions in Mexico May Result in a Decrease in Our Sales and Revenues

We are a Mexican company with substantially all of our assets located in Mexico and all of our revenues derived from operations in Mexico. As such, our business may be significantly affected by the general conditions of the Mexican economy.

Mexico experienced a period of slow growth from 2001 through 2003 primarily as a result of the downturn in the U.S. economy. In 2001, Mexico's gross domestic product, or GDP, declined by 0.3%, while inflation reached 4.4%. In 2002, GDP grew by 0.9% and inflation reached 5.7%. In 2003, GDP grew by 1.2% and inflation declined to 4.0%. In 2004, GDP grew by 4.2% and inflation increased to 5.2%. During the six month period ended June 30, 2005, GDP grew by 2.8% and inflation decreased to 4.5% on an annualized basis.

Mexico also has, and is expected to continue to have, high real and nominal interest rates. The interest rates on 28-day Mexican government treasury securities (*certificados de la tesorería*) averaged approximately 15.2%, 11.3%, 7.1%, 6.2%, 6.8% and 9.5% for 2000, 2001, 2002, 2003, 2004 and the six-month period ended June 30, 2005, respectively. Accordingly, to the extent that we incur peso-denominated debt in the future, it could be at high interest rates.

If the Mexican economy falls into a recession or if inflation and interest rates increase significantly, consumer purchasing power will be decreased and demand for housing may decrease. In addition, a recession could affect our operations to the extent that we are unable to reduce our costs and expenses in response to falling demand. These factors could result in a decrease in our sales and revenues.

Fluctuations of the Peso Relative to the U.S. Dollar Could Result in an Increase in Our Cost of Financing and Limit Our Ability to Make Timely Payments on Foreign Currency Denominated Debt

Because substantially all of our revenues are and will continue to be denominated in pesos, if the value of the peso decreases against the U.S. dollar, our cost of financing will increase. Severe depreciation of the peso may also result in disruption of the international foreign exchange markets. This may limit our ability to transfer or convert pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on the notes and any U.S. dollar-denominated debt that we may incur in the future. While the Mexican government has not restricted the right or ability of Mexican or foreign individuals to convert pesos into U.S. dollars or to transfer other currencies out of Mexico since 1982, the Mexican government could institute restrictive exchange rate policies in the future.

Political Events in Mexico May Result in Disruptions to Our Business Operations and Decreases in Our Sales and Revenues

The Mexican government exercises significant influence over many aspects of the Mexican economy. In addition, we depend on Mexican government housing finance policy, especially with regard to the funding and operation of government-sponsored mortgage providers, for a large portion of our business. As a result, the actions of the Mexican government concerning the economy, regulating certain industries, and setting housing finance policy could have a significant effect on Mexican private sector entities, including Homex, and on market conditions, prices, and returns on Mexican securities.

The Mexican national elections held on July 2, 2000 ended 71 years of rule by the Institutional Revolutionary Party (*Partido Revolucionario Institucional*) with the election of President Vicente Fox Quesada, a member of the National Action Party (*Partido Acción Nacional*), and resulted in the increased representation of opposition parties in the Mexican national congress and in municipal and gubernatorial positions. As a result of these elections and legislative elections held on July 6, 2003, no political party has a majority in the Mexican national congress. This shift in political power has transformed Mexico from a one-party state to a multi-party democracy.

Although there have not yet been any material adverse repercussions resulting from this political change, multi-party rule is still relatively new in Mexico and could result in economic or political conditions that could cause disruptions to our business operations. The lack of a majority party in the legislature and the lack of alignment between the legislature and the executive branch could result in gridlock and prevent the timely implementation of economic reforms or other necessary actions, which in turn could have a material adverse effect on the Mexican economy and cause disruptions to our business operations and decreases in our sales and revenues.

In 2006 the Mexican presidential and congressional elections will be held. We cannot assure you that the next administration will continue to support the current housing policies, and any change in such policies could have a significant effect on Mexican homebuilders, including Homex, as well as on housing finance, demand for housing, market conditions, and the prices of and returns on Mexican securities or that results of the 2006 presidential elections and presidential succession will not adversely affect the Mexican economy, including the stability of its currency, which in turn could have a material adverse effect on our business, financial condition and results of operations, as well as market conditions and prices for our securities. These and other future developments in the Mexican political or social environment may cause disruptions to our business operations and decreases in our sales and revenues. In the past, presidential and congressional elections have resulted in significant disruptions in the business community.

Developments in Other Countries May Result in Decreases in the Price of Our Notes

As is the case with respect to securities of issuers from other emerging markets, the market value of securities of Mexican companies is, to varying degrees, affected by economic and market conditions in other emerging market countries. Although economic conditions in these countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Mexican issuers. In recent years, for example, prices of both Mexican debt securities and Mexican equity securities dropped substantially as a result of developments in Russia, Asia, and Brazil.

In addition, the direct correlation between economic conditions in Mexico and the United States has sharpened in recent years as a result of the North American Free Trade Agreement and increased economic activity between the two countries. As a result, economic downturns in the United States could have a significant adverse effect on the Mexican economy, which, in turn, could affect our financial condition and results of operations.

We Are Subject to Different Corporate Disclosure and Accounting Standards than U.S. Companies

A principal objective of the securities laws of the United States, Mexico, and other countries is to promote full and fair disclosure of all material corporate information. However, there may be less or different publicly available information about foreign issuers of securities than is regularly published by or about U.S. issuers of listed securities.

Risk Factors Related to the Notes

Our Substantial Level of Debt Could Impair Our Financial Condition

We currently have, and after this offering will have, a substantial amount of debt. As of June 30, 2005, after giving pro forma effect to our acquisition of Beta, the issuance of the notes and the use of the net proceeds of this offering, we would have had Ps.3,274.9 million (US\$304.0 million) of outstanding debt, including Ps.41.4 million (US\$3.9 million) of secured debt. We expect to use the proceeds of this offering to repay all of our financial instruments, with the exception of approximately Ps.540.5 million (US\$50.2 million) of indebtedness. Our significant level of debt could have important consequences to you, including:

- requiring a substantial portion of our cash flows from operations be used for the payment interest on our debt, therefore reducing the funds available to us for the operations or other capital needs;
- limiting our flexibility in planning for, or reacting to changes in our business and the industries in which we operate because our available cash flow after paying principal and interest on our debt may not be sufficient to make the capital and other expenditures necessary to address these changes;
- increasing our vulnerability to general adverse economic and industry conditions because, during periods in which we experience lower earnings and cash flow, we will be required to devote a proportionally greater amount of our cash flow to paying principal and interest on our debt;
- limiting our ability to obtain additional financing in the future to fund working capital, capital expenditures, acquisitions and general corporate requirements;
- making it difficult for us to refinance our indebtedness or to refinance such indebtedness on competitive terms;
- restricting our ability to take advantage of opportunities that would permit us to acquire other businesses;
- placing us at a competitive disadvantage to other relatively less leveraged competitors that have more cash flow available to fund working capital, capital expenditures and general corporate requirements; and
- any borrowings we make at variable interest rates, including our revolving credit facility, leave us vulnerable to increases in interest rates generally.

Our Ability to Repay the Notes and Our Other Debt Depends on Cash Flow from Our Subsidiaries

Homex is a holding company whose only material assets will be its ownership interests in its subsidiaries. Consequently, we depend on distributions or other inter-company transfers of funds from our subsidiaries to meet our debt service and other obligations, including with respect to the notes. Our non-guarantor subsidiaries are not obligated to make funds available to us for the payment on the notes. We cannot assure you that the operating results of our subsidiaries will be sufficient to enable us to make payments on the notes. Furthermore, under Mexican law, our subsidiaries may only pay dividends out of retained earnings and after all losses from prior fiscal years have been satisfied.

The Indenture and the Terms of Our Other Indebtedness Impose Significant Operating and Financial Restrictions, which May Prevent Us from Capitalizing on Business Opportunities

The indenture and the other instruments governing our consolidated indebtedness impose significant operating and financial restrictions on us and our restricted subsidiaries. These restrictions will limit our ability, among other things, to:

- incur additional indebtedness;
- make investments;
- sell assets;
- create liens;
- enter into agreements restricting our subsidiaries' ability to pay dividends;
- enter into transactions with affiliates; and
- consolidate, merge or sell substantially all of our assets.

These restrictions could limit our ability to seize attractive growth opportunities for our businesses that are currently unforeseeable, particularly if we are unable to incur financing or make investments to take advantage of these opportunities.

We May Not Have the Ability to Raise the Funds Necessary to Finance the Change of Control Offer Required by the Indenture

If we undergo a Change of Control (as defined in the Indenture), we may need to refinance large amounts of our debt, including the notes. Under the indenture, if a Change of Control occurs, we must offer to buy back the notes for a price equal to 101% of the principal amount of the notes, plus any accrued and unpaid interest. We may not have sufficient funds available to us to make any required repurchases of the notes upon a Change of Control. If we fail to repurchase the notes in those circumstances, we will be in default under the Indenture, which may, in turn, trigger cross-default provisions in our other debt instruments.

The Notes May Not Be Transferred Freely

The notes have not been registered under the Securities Act or any state securities laws. Unless and until so registered as contemplated in "Description of Notes—Registration Rights," the notes may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. See "Notice to Investors" for a full explanation of such restrictions.

An Active Trading Market for the Notes May Not Develop

Currently there is no market for the notes. Application has been made to have the notes listed on the EuroMTF, the alternative market of the Luxembourg Stock Exchange and, even if the notes become listed on this exchange, we may delist the notes if the provisions of the European Transparency Obligations Directive (2003/2004/COD) become unduly onerous or burdensome or for other reasons. A trading market for the notes may not develop, or if a market for the notes were to develop, the notes may trade at a discount from their initial offering price, depending upon many factors, including prevailing interest rates, the market for similar securities, general economic conditions and our financial condition. The initial purchaser is not under any obligation to make a market with respect to the notes, and we cannot assure you that trading markets will develop or be maintained. Accordingly, we cannot assure you as to the development or liquidity of any trading market for the notes. If an active market

for the notes does not develop or is interrupted, the market price and liquidity of the notes may be adversely affected.

If We or the Subsidiary Guarantors Were to Be Declared Bankrupt, Holders of Notes May Find It Difficult to Collect Payment on the Notes

Under Mexico's *Ley de Concursos Mercantiles*, if we or the subsidiary guarantors are declared bankrupt (*en quiebra*) or become subject to *concurso mercantil*, our obligations and the obligations of the subsidiary guarantors under the notes, respectively, (i) would be converted into pesos at the exchange rate prevailing at the time of the *concurso mercantil* and then from pesos into UDIs (*unidades de inversión*), which is a Mexican inflation unit adjusted by inflation and would not be adjusted to take into account any devaluation of the peso relative to the U.S. dollar occurring after such conversion, (ii) would be subject to the outcome of, and priorities recognized in, the relevant proceedings, (iii) would be satisfied at the time claims of all our creditors are satisfied and (iv) would cease to accrue interest from the date the *concurso mercantil* is declared.

In addition, under Mexican law, it is possible that in the event we or the subsidiary guarantors are declared bankrupt or become subject to *concurso mercantil*, any amount by which the stated principal amount of the notes exceeds their accreted value may be regarded as not matured and, therefore, claims of holders of the notes may only be allowed to the extent of the accreted value of the notes. There is no legal precedent in connection with bankruptcy or *concurso mercantil* in Mexico on this point and, accordingly, uncertainty exists as to how a Mexican court would measure the value of claims of holders of the notes.

Payments of Judgments Against Us on the Notes Would Be in Pesos

In the event that proceedings are brought against us or the subsidiary guarantors in Mexico, either to enforce a judgment or as a result of an original action brought in Mexico, we and the subsidiary guarantors would not be required to discharge those obligations in a currency other than Mexican currency. Under the Monetary Law of the United Mexican States (*Ley Monetaria de los Estados Unidos Mexicanos*), an obligation, whether resulting from a judgment or by agreement, denominated in a currency other than Mexican currency, which is payable in Mexico, may be satisfied in Mexican currency at the rate of exchange in effect on the date on which payments are made. Such rate is currently determined by Banco de México and published every banking day in the *Diario Oficial de la Federación*. As a result, you may suffer a United States dollar shortfall if you obtain a judgment or a distribution in bankruptcy in Mexico. You should be aware that no separate action exists or is enforceable in Mexico for compensation for any shortfall.

The Notes and the Guarantees Will be Effectively Subordinated to Our Secured Debt and to Certain Claims Preferred by Statute

Our obligations under the notes, and the obligations of the guarantors under the guarantees, are unsecured. As a result, the notes will be effectively subordinated to all of our and the guarantors' secured debt to the extent of the value of the collateral securing such debt. As of June 30, 2005, after giving pro forma effect to our acquisition of Beta, the issuance of the notes and the application of the net proceeds thereof, we and the guarantors would have had approximately Ps.41.4 million (US\$3.9 million) of secured debt outstanding. In the event that we or our subsidiaries are not able to repay amounts due under such secured debt obligations, creditors could proceed against the collateral securing such indebtedness. In that event, any proceeds upon a realization of the collateral would be applied first to amounts due under the secured debt obligations before any proceeds would be available to make payments on the notes. If there is a default, the value of this collateral may not be sufficient to repay both our secured creditors and the holders of the notes. Additionally, the claims of holders of

the notes will rank effectively junior to certain obligations that are preferred by statute, including certain claims relating to taxes and labor.

Certain of Our Subsidiaries Are Not Guarantors and Our Obligations with Respect to the Notes Will Be Effectively Subordinated to All Liabilities of These Non-Guarantor Subsidiaries

The guarantors of the notes do not include all of our subsidiaries. However, our financial information (including our financial statements included herein) is presented on a consolidated basis. For the year ended December 31, 2004 our non-guarantor subsidiaries did not make a material contribution to our net revenue or EBITDA. As of June 30, 2005, after giving pro forma effect to the issuance of the notes and the application of the proceeds thereof, our non-guarantor subsidiaries would have had no indebtedness (including trade payables). Any right that we or the guarantors have to receive assets of any of the non-guarantor subsidiaries upon the liquidation or reorganization of those subsidiaries, and the consequent rights of holders of notes to realize proceeds from the sale of any of those subsidiaries' assets, will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors and holders of debt of that subsidiary. In addition, payments to us by our subsidiaries may be subject to local restrictions on repatriation of earnings or currency exchange.

The Guarantees May Not Be Enforceable

The guarantees provide a basis for a direct claim against the subsidiary guarantors; however, it is possible that the guarantees may not be enforceable under Mexican law. While Mexican law does not prohibit the giving of guarantees and, as a result, does not prevent the guarantees of the notes from being valid, binding and enforceable against the subsidiary guarantors, in the event that a subsidiary guarantor becomes subject to a reorganization proceeding (*concurso mercantil*) or to bankruptcy (*quiebra*), the relevant guarantee may be deemed to have been a fraudulent transfer and declared void, based upon the subsidiary guarantor being deemed not to have received fair consideration in exchange for such guarantee.

It May Be Difficult to Enforce Civil Liabilities Against Us or Our Directors, Executive Officers and Controlling Persons

We are organized under the laws of Mexico. Most of our directors, executive officers and controlling persons reside outside the U.S., a significant portion of the assets of our directors, executive officers and controlling persons, and substantially all of our assets, are located outside the U.S., and certain of the experts named in this offering circular also reside outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons or to enforce against them or us in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. We have been advised by our Mexican counsel, Mijares, Angoitia, Cortés y Fuentes, S.C., that there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated solely on U.S. federal securities law and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of U.S. federal securities laws. See "Enforcement of Civil Liabilities."

USE OF PROCEEDS

We expect the net proceeds from the sale of the notes will be approximately US\$243.9 million, after deducting the discounts and commissions to the initial purchasers and the estimated offering expenses. We expect to use such net proceeds to repay indebtedness, including commercial paper in the amount of Ps.750.0 million (US\$69.6 million), bank debt (including financing used to acquire Beta) of Ps.948.7 million (US\$88.1 million), bridge loans of Ps.305.9 million (US\$28.4 million) and structured bonds issued in the Mexican market of Ps.271.2 million (US\$25.1 million), thus refinancing all of our current indebtedness (including all of Beta's indebtedness, which we have assumed) with the exception of approximately Ps.581.8 million (US\$54.0 million). The indebtedness to be repaid with net proceeds from the sale of the notes accrues interest at various floating rates and matures at various dates through July 8, 2009. As of June 30, 2005, this indebtedness had a weighted average interest rate of 11.87%. Approximately Ps.1,331.1 million (US\$123.6 million) of such indebtedness was incurred within the past year, including Ps.270.3 million (US\$25.1 million) from bridge loans to finance projects in the Estado de México, Tijuana and Monterrey, Ps.239.0 million (US\$22.2 million) from structured bonds issued for projects in Estado de México, Tijuana and Monterrey, Ps.47.3 million (US\$4.4 million) from a medium-term bank credit line for land acquisitions, and Ps.774.3 million (US\$71.9 million) to finance working capital needs. Approximately Ps.1,081 million (US\$100.4 million) of additional indebtedness was incurred to finance our Beta acquisition. We expect the remaining US\$32.6 million of net proceeds from the offering will be used for working capital and general corporate purposes. For a description of our outstanding indebtedness, see "Capitalization" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt Outstanding."

EXCHANGE RATE INFORMATION

The following table sets forth, for the periods indicated, the period-end, average, high and low exchange rate between the peso and U.S. dollar. The average annual rates presented in the following table were calculated by using the average of the exchange rates on the last day of each month during the relevant period. The data provided in this table is based on noon buying rates published by the Federal Reserve Bank of New York for cable transfers in Mexican pesos. All amounts are stated in pesos, and we have not restated the rates in constant currency units. We make no representation that the Mexican peso amounts referred to in this offering circular could have been or could be converted into U.S. dollars at any particular rate or at all.

<u>Year Ended December 31,</u>	<u>Noon Buying Rate (Ps. Per US\$)</u>			
	<u>High(1)</u>	<u>Low(1)</u>	<u>Average(2)</u>	<u>Period End</u>
2000	9.18	10.09	9.47	9.62
2001	8.95	9.97	9.33	9.16
2002	9.00	10.43	9.66	10.43
2003	10.11	11.41	10.79	11.24
2004	11.64	10.81	11.29	11.15
2005 (through September 21)	11.41	10.58	10.96	10.78
<u>Month Ended</u>				
February 28, 2005	11.21	11.04	11.14	11.09
March 31, 2005	11.33	10.98	11.16	11.18
April 30, 2005	11.23	11.04	11.11	11.08
May 31, 2005	11.03	10.89	10.98	10.91
June 30, 2005	10.88	10.76	10.82	10.77
July 31, 2005	10.80	10.59	10.67	10.60
August 31, 2005	10.90	10.58	10.69	10.79

(1) Rates shown are the actual low and high, on a day-by-day basis for each period.

(2) Average of month-end rates.

On September 21, 2005, the noon buying rate for pesos was Ps. 10.7800 to US\$1.00. On September 21, 2005, the Banco de México UDI conversion rate was Ps. 3.582148 to UDI 1.00.

Except during a liquidity crisis lasting from September through December 1982, Banco de México has consistently made foreign currency available to Mexican private sector entities (such as us) to meet their foreign currency obligations. Nevertheless, in the event of renewed shortages of foreign currency, it is possible that foreign currency will not continue to be available to private sector companies or that foreign currency that we may need to service foreign currency obligations or to import goods will not be available for purchase in the open market without substantial additional cost.

CAPITALIZATION

The following table sets forth certain financial information under Mexican GAAP as of June 30, 2005, including our cash and cash equivalents, short-term and long-term indebtedness and capitalization. The table also sets forth such pro forma information as adjusted to reflect the note offering, including application of an estimated US\$243.9 million of net proceeds in the manner described under “Use of Proceeds.”

The table below does not reflect our acquisition of Beta on July 1, 2005, on which date we also assumed Ps.612.2 million of Beta’s indebtedness. We expect to use a portion of the net proceeds from this offering to prepay all of such assumed Beta indebtedness. Further, the table does not reflect our Ps.1,081.0 million financing which we used to acquire Beta. We expect that such acquisition financing, together with the notes issued pursuant to this offering, will be our only outstanding debt immediately after our use of the net proceeds from this offering.

	As of June 30, 2005	
	Actual	As Adjusted for this Offering(1)
	(thousands of pesos)	
Cash and cash equivalents(2)	Ps.405,555	Ps.1,892,313
Short-term debt	1,117,348	23,983
Long-term debt	47,167	2,693,000
Total debt(3)	1,164,515	2,716,983
Majority stockholders’ equity	4,160,764	4,160,764
Minority interest	46,308	46,308
Total stockholders’ equity	4,207,072	4,207,072
Total capitalization	Ps.5,371,587	Ps.6,924,055

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- (1) As adjusted financial information is unaudited.
- (2) Does not reflect the use of a portion of the net proceeds of this offering to prepay all of Beta’s outstanding debt which we assumed on July 1, 2005 and a portion of our financing used to acquire Beta. See “Use of Proceeds”.
- (3) Upon acquiring Beta on July 1, 2005, we assumed the amounts outstanding under its various debt instruments and incurred additional financing to acquire Beta, which indebtedness is not reflected in Total debt. On June 30, 2005, all of Beta’s debt assumed by us had an aggregate principal amount of Ps.612.2 million, of which Ps.338.0 million was short-term debt and Ps.274.2 million was long-term debt.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following tables present unaudited pro forma condensed combined pro forma financial information reflecting the combined accounts of Homex and Beta on a pro forma basis as of and for the periods indicated. Such unaudited pro forma information gives effect to the consummation of our acquisition of Beta as of the earliest period presented in the case of the unaudited pro forma statement of earnings and as of June 30, 2005 in the case of the unaudited pro forma balance sheet, and are based on the estimates and assumptions set forth in the notes to these statements and our preliminary estimates of the allocation of the purchase price.

All pro forma financial information is unaudited and may not be indicative of the results of operations that actually would have been achieved had we acquired Beta at the beginning of the periods presented and do not purport to be indicative of future results. The information in the following tables should also be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The unaudited pro forma condensed combined financial information is prepared in accordance with Mexican GAAP, which differs in certain significant respects from U.S. GAAP.

Except for ratios, percentages, per share, per ADS, and operating data, all amounts are presented in thousands of U.S. dollars or constant pesos. Unless otherwise indicated, we have translated U.S. dollar amounts at the exchange rate of Ps.10.7720 to US\$1.00, which was the noon buying rate for cable transfers in pesos published by the Federal Reserve Bank of New York, expressed in pesos per U.S. dollar, on June 30, 2005. On September 21, 2005, the noon buying rate for pesos was Ps.10.7800 to US\$1.00.

For additional information regarding financial information presented in this offering circular, see “Presentation of Financial and Other Information.”

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Year Ended December 31, 2004						
	Homex December 31, 2004	BETA December 31, 2004	Purchase Accounting Adjustments	Adjustments to Conform Accounting Policies	Pro Forma	Pro Forma
	(Ps.)	(Ps.)	(Ps.)	(Ps.)	(Ps.)	(US\$)
	(in thousands)					
Revenues	Ps.5,369,428	Ps.2,497,700	Ps. —	Ps.(146,916)	Ps.7,720,212	716,692.6
Costs	3,738,718	1,867,125	—	(137,089)	5,468,754	507,682.3
Gross profit	1,630,710	630,575	—	(9,827)	2,251,458	209,010.3
Selling and administrative expenses	437,961	132,165	—	61,322	631,448	58,619.5
Income from operations	1,192,749	498,410	—	(71,149)	1,620,010	150,390.8
Other income (expense)—net	43,486	1,417	—	—	44,903	4,168.5
Net comprehensive financing cost:						
Interest income	(47,275)	(11,228)	—	—	(58,503)	(5,431.0)
Interest expense	133,601	1,810	126,766	93,717	355,894	33,038.8
Exchange gain—net	(7,191)	281	—	—	(6,910)	(641.5)
Monetary position loss	82,151	23,083	—	—	105,234	9,769.2
	161,286	13,946	126,766	93,717	395,715	36,735.5
Income before income tax expense, employees statutory profit sharing and equity in loss of equity method investees	1,074,949	485,881	(126,766)	(164,866)	1,269,198	117,823.8
Income tax expense	343,157	148,945	(38,000)	(56,309)	397,793	36,928.4
Employees statutory profit sharing expense	8,611	3,340	—	—	11,951	1,109.5
Equity in loss of equity method investees	—	2,587	—	—	2,587	240.1
Consolidated net income	Ps. 723,181	Ps. 331,009	Ps. (88,766)	Ps.(108,557)	Ps. 856,867	79,545.8
Net income of majority stockholders . . .	Ps. 714,022	Ps. 307,084			Ps. 848,567	78,775.3
Net income of minority stockholders . . .	9,159	23,925			8,300	770.5
Consolidated net income	Ps. 723,181	Ps. 331,009			Ps. 856,867	79,545.8

Six Months Ended June 30, 2005(1)

	Homex June 30, 2005	BETA June 30, 2005	Purchase Accounting Adjustments	Adjustments to Conform Accounting Policies	Pro forma	Pro forma
	(Ps.)	(Ps.)	(Ps.)	(Ps.)	(Ps.)	(US\$)
	(in thousands)					
Assets						
Current assets:						
Cash and temporary investments	Ps. 405,555	Ps. 41,816	Ps. 17,101	Ps. —	Ps. 464,472	43,118.5
Trade accounts receivable, net	3,782,471	1,596,216	—	(175,634)	5,203,053	483,016.4
Inventories	2,390,466	365,610	14,083	(67,207)	2,702,952	250,923.9
Other current assets	105,177	2,671	—	—	107,848	10,011.9
Total current assets	6,683,669	2,006,313	31,184	(242,841)	8,478,325	787,070.7
Land held for future development	663,065	190,216	70,564	—	923,845	85,763.4
Restricted investments	299	—	—	—	299	27.8
Property, plant and equipment—net	261,219	110,441	—	—	371,660	34,502.4
Investment in equity method investee	—	326	—	—	326	30.3
Goodwill	—	12,087	1,237,141	—	1,249,228	115,969.9
Other assets	71,749	8,531	—	—	80,280	7,452.7
Total	Ps.7,680,001	Ps.2,327,914	Ps. 1,338,889	Ps.(242,841)	Ps.11,103,963	1,030,817.2
Liabilities and stockholders' equity						
Current liabilities:						
Notes payable to financial institutions	Ps.1,117,348	Ps. 337,982	Ps. —	Ps. —	Ps. 1,455,330	135,103.0
Trade accounts payable	1,367,208	307,748	—	—	1,674,956	155,491.6
Advances from customers	109,152	—	—	—	109,152	10,132.9
Accrued expenses and taxes, other than income taxes	24,004	32,825	—	—	56,829	5,275.6
Income tax payable	102,442	—	—	—	102,442	9,510.0
Employee statutory profit sharing	1,198	1,559	—	—	2,757	255.9
Total current liabilities	2,721,352	680,114	—	—	3,401,466	315,769.0
Long-term debt	—	271,221	—	—	271,221	25,178.3
Long-term notes payable to financial institutions	47,167	2,971	1,081,000	—	1,131,138	105,007.2
Deferred income tax and employee statutory profit sharing	704,410	385,898	25,394	(67,548)	1,048,154	97,303.6
Total liabilities	3,472,929	1,340,204	1,106,394	(67,548)	5,851,979	543,258.1
Stockholders' equity:						
Common stock	219,398	283,072	(24,264)	—	478,206	44,393.4
Additional paid-in capital	2,252,018	—	718,792	—	2,970,810	275,790.0
Retained earnings	1,518,340	623,647	(462,033)	(161,614)	1,518,340	140,952.4
Excess in restated stockholders equity	313,948	—	—	—	313,948	29,144.8
Cumulative initial effect of deferred income taxes	(142,940)	—	—	—	(142,940)	(13,269.6)
Majority stockholders' equity	4,160,764	906,719	232,495	(161,614)	5,138,364	477,011.0
Minority interest in consolidated subsidiaries	46,308	80,991	—	(13,679)	113,620	10,548.1
Total stockholders' equity	4,207,072	987,710	232,495	(175,293)	5,251,984	487,559.1
Total	Ps.7,680,001	Ps.2,327,914	Ps. 1,338,889	Ps.(242,841)	Ps.11,103,963	1,030,817.2

Six Months Ended June 30, 2005(1)

	Homex June 30, 2005	BETA June 30, 2005	Purchase Accounting Adjustments	Adjustments to Conform Accounting Policies	Pro Forma	Pro Forma
	(Ps.)	(Ps.)	(Ps.)	(Ps.)	(Ps.)	(US\$)
	(in thousands)					
Revenues	Ps.2,863,328	Ps.1,240,082	Ps. —	Ps.(24,222)	Ps. 4,079,188	378,684.4
Costs	1,972,835	947,663	—	(58,425)	2,862,073	265,695.6
Gross profit	890,493	292,419	—	34,203	1,217,115	112,988.8
Selling and administrative expenses	273,992	95,335	—	34,154	403,481	37,456.5
Income from operations	616,501	197,084	—	49	813,634	75,532.3
Other income (expense)—net	16,623	(42)	—	—	16,581	1,539.3
Net comprehensive financing (income) cost:						
Interest expense	95,818	2,955	63,383	43,906	206,062	19,129.4
Interest income	(22,806)	(3,120)	—	—	(25,926)	2,406.8
Exchange gain—net	(5,864)	(32)	—	—	(5,896)	547.3
Monetary position loss	1,397	(4,931)	—	—	(3,534)	328.1
	<u>68,545</u>	<u>(5,128)</u>	<u>63,383</u>	<u>43,906</u>	<u>170,706</u>	<u>15,847.2</u>
Income before income tax expense	564,579	202,170	(63,383)	(43,857)	659,509	61,224.4
Income tax expense (benefit)	173,782	49,452	(19,000)	—	204,234	18,959.7
Consolidated net income	<u>Ps. 390,797</u>	<u>Ps. 152,718</u>	<u>Ps.(44,383)</u>	<u>Ps.(43,857)</u>	<u>Ps. 455,275</u>	<u>42,264.7</u>
Net income of majority stockholders . . .	Ps. 394,849	Ps. 135,376			Ps. 443,165	41,140.5
Net income of minority stockholders . . .	(4,052)	17,342			12,110	1,124.2
Consolidated net income	<u>Ps. 390,797</u>	<u>Ps. 152,718</u>			<u>Ps. 455,275</u>	<u>42,264.7</u>

(1) The information in this table is unaudited and is derived from the Unaudited Pro Forma Condensed Combined Financial Statements that begin on page B-1 of this offering circular.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present our selected consolidated financial information as of and for the periods indicated. The information presented in these tables does not include our Beta subsidiary which we acquired on July 1, 2005. Information as of December 31, 2003 and 2004 and for each of the three years ended December 31, 2002, 2003 and 2004 are derived from and should be read together with our audited consolidated financial statements. The information as of June 30, 2005 and for the six-month periods ended June 30, 2004 and 2005 are derived from our unaudited condensed consolidated financial statements and should be read together with both such unaudited consolidated financial statements and our audited consolidated financial statements. These financial statements are provided in this offering circular beginning on page F-1. The information in the following tables should also be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our consolidated financial statements are prepared in accordance with Mexican GAAP, which differs in certain significant respects from U.S. GAAP. Notes 22 and 23 to our audited consolidated financial statements provide information relating to the nature and effect of such differences as they relate to us and provide a reconciliation to U.S. GAAP of consolidated net income and consolidated stockholders’ equity.

Pursuant to Mexican GAAP, our consolidated financial statements and the selected consolidated financial data set forth below restate the components of stockholders’ equity using NCPI factors and record gains and losses in purchasing power from holding monetary assets or liabilities. Under Mexican GAAP, non-monetary assets, with the exception of inventories and fixed assets of non-Mexican origin, are restated using the NCPI factors. Inventories are restated at current replacement costs while fixed assets of foreign origin are restated by the inflation rate of the country of origin prior to translation to pesos at the period-end exchange rate. Mexican GAAP also requires restatement of all financial statements to pesos of constant purchasing power as of the date of the most recent balance sheet presented, and accordingly all data in the consolidated financial statements and in the selected consolidated financial data set forth below have been restated in pesos of constant purchasing power as of June 30, 2005. The effects of inflation accounting under Mexican GAAP, other than for the use of a specific index for the restatement of fixed assets of foreign origin, have not been reversed in the reconciliation to U.S. GAAP. See Notes 22 and 23 to our consolidated financial statements.

On May 15, 2004, one of our affiliates, Econoblock, S.A. de C.V., merged with one of our subsidiaries, Desarrolladora de Casas del Noroeste, S.A. de C.V., or DECANO, with DECANO assuming all the rights and obligations of the merged company. Because 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, in a manner similar to a pooling of interests, based on the guidance provided by Statement of Financial Accounting Standards No. 141, “Business Combinations,” issued by the Financial Accounting Standards Board, and in accordance with Bulletin A-8, “Supplemental Application of International Accounting Standards” issued by the Mexican Institute of Public Accountants. Therefore, the accompanying financial statements of the merged company are included as if the merger had taken place as of the beginning of the earliest period presented. See Note 2 to our consolidated financial statements.

Except for ratios, percentages, per share, per ADS, and operating data, all amounts are presented in thousands of U.S. dollars or constant pesos. Unless otherwise indicated, we have translated U.S. dollar amounts at the exchange rate of Ps.10.7720 to US\$1.00, which was the noon buying rate for cable transfers in pesos published by the Federal Reserve Bank of New York, expressed in pesos per U.S. dollar, on June 30, 2005. On September 21, 2005, the noon buying rate for pesos was Ps.10.7800 to US\$1.00.

For additional information regarding financial information presented in this offering circular, see “Presentation of Financial and Other Information.”

Homex Selected Consolidated Financial Information

	Six Months Ended June 30,			Year Ended December 31,					
	2005(1)	2005(1)	2004(1)	2004	2004	2003	2002	2001	2000
	(US\$)	(Ps.)	(Ps.)	(US\$)	(Ps.)	(Ps.)	(Ps.)	(Ps.)	(Ps.)
(in thousands, except per share data, percentages and ratios)									
Statement of operations data:									
Mexican GAAP:									
Revenues(2)	265,812	2,863,328	1,990,806	498,462	5,369,428	2,942,067	1,372,113	820,818	1,157,791
Costs	183,145	1,972,835	1,363,267	347,077	3,738,718	2,104,408	961,584	575,792	787,544
Gross profit	82,667	890,493	627,539	151,385	1,630,710	837,659	410,529	242,028	370,247
Selling and administrative expenses	25,436	273,992	186,586	40,657	437,961	269,526	169,330	124,993	154,654
Income from operations	57,232	616,501	440,953	110,728	1,192,749	568,133	241,199	120,035	215,593
Other income (expense)	1,544	16,623	46,221	4,037	43,486	78,668	(1,785)	10,669	3,294
Net comprehensive financing cost(3)	6,363	68,545	57,366	14,972	161,286	128,907	150,880	131,905	127,980
Income before income tax and employee statutory profit sharing expense	52,412	564,579	429,808	99,793	1,074,949	517,894	88,534	(1,201)	90,907
Income tax expense	16,133	173,782	133,192	31,859	343,157	185,269	54,185	17,011	54,940
Employee statutory profit sharing expense	—	—	1,501	799	8,611	279	1,580	194	2,702
Consolidated net income	36,279	390,797	295,115	67,135	723,181	332,346	32,770	(18,406)	33,265
Net income of majority stockholders	36,655	394,849	295,875	66,285	714,022	326,987	31,390	(18,406)	33,265
Net income of minority stockholders	(376)	(4,052)	(760)	850	9,159	5,359	1,380	—	—
Weighted average shares outstanding		313,978	249,962		281,997	241,521	191,896	147,637	147,559
Basic and diluted earnings (loss) per share		1.26	1.18		2.53	1.35	0.16	(0.12)	0.23
Basic and diluted earnings (loss) per ADS(4)		7.55	7.10		15.18	8.10	0.96	(0.75)	1.35
U.S. GAAP:									
Revenues(2)				370,140	3,987,147	2,752,825	1,230,640		
Costs				279,017	3,005,574	2,111,305	973,826		
Gross profit				91,123	981,573	641,520	256,814		
Operating income(5)(6)				48,984	527,660	371,670	87,107		
Net income				39,605	426,628	248,918	65,000		
Weighted average shares outstanding				281,997	281,997	241,521	191,896		
Basic and diluted earnings per share				0.14	1.51	1.03	0.34		
Basic and diluted earnings per ADS(4)				0.84	9.08	6.18	2.03		

	As of and for Six Months Ended June 30,			As of and for Year Ended December 31,					
	2005(1)	2005(1)	2004(1)	2004	2004	2003	2002	2001	2000
	(US\$)	(Ps.)	(Ps.)	(US\$)	(Ps.)	(Ps.)	(Ps.)	(Ps.)	(Ps.)
	(in thousands except per share data percentages and ratios)								
Balance sheet data:									
Mexican GAAP:									
Cash and temporary investments	37,649	405,555		47,948	516,500	222,458	69,349	47,921	20,773
Trade accounts receivable	351,139	3,782,471		297,415	3,203,752	1,864,249	1,283,045	1,103,818	1,019,995
Total current assets	620,467	6,683,669		552,674	5,953,400	3,142,448	1,724,579	1,262,590	1,221,067
Land held for future development	61,554	663,065		47,279	509,294	242,443	88,742	141,779	142,997
Property and equipment	24,250	261,219		23,586	254,072	57,863	27,385	18,586	22,373
Total assets	712,960	7,680,001		635,506	6,845,673	3,488,320	1,851,107	1,434,571	1,390,772
Notes payable to financial institutions	103,727	1,117,348		37,252	401,276	679,079	421,390	489,488	506,571
Total current liabilities	252,633	2,721,352		204,921	2,207,402	1,749,362	703,927	674,616	694,278
Long-term notes payable to financial institutions	4,379	47,167		15,020	161,800	—	—	—	—
Land purchases—long-term	65,393	704,410		1,885	20,300	—	—	—	—
Total long-term liabilities	69,772	821,996		76,309	821,996	359,176	200,719	172,331	171,326
Total liabilities	322,405	3,472,929		281,230	3,029,398	2,108,538	904,646	846,948	865,604
Common stock	20,637	219,398		20,367	219,398	175,096	169,150	134,035	117,330
Total stockholders' equity	390,555	4,207,072		354,276	3,816,275	1,379,782	946,460	587,624	525,168
U.S. GAAP:									
Cash and cash equivalents				47,948	516,500	222,458	69,622		
Restricted Cash				10,921	20,692	—	—		
Accounts receivable				67,471	726,793	587,595	188,953		
Total current assets				520,298	5,604,294	2,875,696	1,549,906		
Land held for future development				47,279	509,294	238,683	88,741		
Property and equipment				23,586	254,072	57,910	27,385		
Total assets				603,131	6,496,927	3,210,139	1,676,435		
Total current liabilities				277,475	2,988,964	2,033,375	854,923		
Total majority stockholders' equity				303,082	3,264,798	1,130,257	816,267		
Other financial data:									
Mexican GAAP:									
Depreciation	2,402	25,877	5,058	2,274	24,498	11,182	6,843	7,403	7,729
Gross margin(7)	31.1%	31.1%	31.5%	30.4%	28.5%	29.9%	29.5%	30%	32%
Operating margin(8)	21.5%	21.5%	22.1%	22.2%	22.2%	19.3%	17.6%	15%	19%
Net margin	13.8%	13.8%	14.9%	13.3%	13.3%	11.1%	2.3%	-2.2%	2.9%
Other financial data computed from Mexican GAAP financial information:									
EBITDA(9)	61,177	659,001	492,232	117,038	1,260,733	657,983	246,257	138,107	226,491
EBITDA margin(10)	23.0%	23.0%	24.7%	23.5%	23.5%	22.4%	17.9%	16.8%	19.6%
Net debt(11)	70,457	758,960		4,324	46,184	456,620	352,041	441,567	485,797
Ratio of notes payable to financial institutions to total stockholders' equity	27.7%	27.7%		15.3%	15.3%	49.2%	44.5%	83.3%	96.5%
Ratio of notes payable to financial institutions to total assets	15.2%	15.2%		8.5%	8.5%	19.5%	22.85%	34.1%	36.4%
Ratio of earnings to fixed charges(12)	5.9x	5.9x	7.0x	8.0%	8.0x	4.4x	0.7x		
U.S. GAAP:									
Gross margin(7)				24.62%	24.62%	23.30%	20.87%		
Operating margin(8)				13.23%	13.23%	13.50%	7.08%		
Net margin				10.7%	10.7%	33.1%	5.3%		
Other financial data derived from U.S. GAAP financial information:									
EBITDA(9)				58,494	630,102	442,957	92,038		
EBITDA margin(10)				15.8%	15.8%	16.1%	7.5%		

(1) Financial information as of and for the six-month periods ended June 30, 2004 and 2005 is unaudited.

- (2) For U.S. GAAP purposes, sales are recognized when title passes to the home buyer, as opposed to the percentage-of-completion method of accounting used for Mexican GAAP purposes, which requires Homex to recognize income from homes Homex sells as Homex incurs the cost of their construction.
- (3) Represents interest income, interest expense, monetary position gains and losses, and foreign exchange gains and losses.
- (4) Assumes all common shares are represented by ADSs. Each ADS represents six common shares. Any discrepancies between per share and per ADS amounts in the table are due to rounding.
- (5) Employee statutory profit sharing expense is classified as an operating expense under U.S. GAAP.
- (6) Interest capitalized as part of the cost of inventories is included in operating expense under U.S. GAAP.
- (7) Represents gross profit divided by total revenues.
- (8) Represents operating income divided by total revenues.
- (9) EBITDA is not a financial measure computed under Mexican or U.S. GAAP. EBITDA derived from our Mexican GAAP financial information means Mexican GAAP net income (loss) excluding (i) depreciation, (ii) net comprehensive financing costs (which is composed of net interest expense, foreign exchange gain or loss and monetary position gain or loss), and (iii) income tax expense and employee statutory profit sharing expense.

EBITDA derived from our U.S. GAAP financial information means U.S. GAAP net income excluding (i) depreciation, (ii) interest expense and monetary position gain or loss, and (iii) income tax expense.

We believe that EBITDA can be useful to facilitate comparisons of operating performance between periods and with other companies in our industry because it excludes the effect of (i) depreciation, which represents a non-cash charge to earnings, (ii) certain financing costs, which are significantly affected by external factors, including interest rates, foreign currency exchange rates, and inflation rates, which have little or no bearing on our operating performance, and (iii) income tax expense and, for EBITDA derived from our Mexican GAAP financial information, employee statutory profit sharing expense.

EBITDA is also a useful basis of comparing our results with those of other companies because it presents operating results on a basis unaffected by capital structure. You should review EBITDA, along with net income (loss) and cash flow from operating activities, investing activities and financing activities, when trying to understand our operating performance. While EBITDA may provide a useful basis for comparison, our computation of EBITDA is not necessarily comparable to EBITDA as reported by other companies, as each is calculated in its own way and must be read in conjunction with the explanations that accompany it. While EBITDA is a relevant and widely used measure of operating performance, it does not represent cash generated from operating activities in accordance with Mexican or U.S. GAAP and should not be considered as an alternative to net income (loss), determined in accordance with Mexican or U.S. GAAP, as an indication of our financial performance, or to cash flow from operating activities, determined in accordance with Mexican or U.S. GAAP, as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs. Additionally, the definition of EBITDA is different from that used for purposes of our financial covenants described in “Description of the Notes.”

EBITDA has certain material limitations as follows: (i) it does not include interest expense, which, because we have borrowed money to finance some of our operations, is a necessary and ongoing part of our costs and assisted us in generating revenue; (ii) it does not include taxes, which are a necessary and ongoing part of our operations; and (iii) it does not include depreciation, which, because we must utilize property and equipment in order to generate revenues in our operations, is a necessary and ongoing part of our costs. Therefore, any measure that excludes any or all of interest expenses, taxes and depreciation has material limitations. For a further discussion of EBITDA, including a reconciliation to GAAP, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—EBITDA Reconciliation.”

- (10) Represents EBITDA divided by total revenues.
- (11) Net debt is not a financial measure computed under Mexican GAAP. We compute net debt as the sum of all notes payable to financial institutions less cash and temporary investments, each of which is computed in accordance with Mexican GAAP. Management uses net debt as a measure of our total amount of leverage, as it gives effect to cash accumulated on our balance sheets. Management believes net debt provides useful information to investors because it reflects our actual debt as well as our available cash and temporary investments that could be used to reduce this debt. Net debt has certain material limitations in that it assumes the use of our cash and temporary investments to repay debt that is actually still outstanding and not to fund operating activities or for investment. For a reconciliation to GAAP, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—EBITDA Reconciliation.”
- (12) Represents earnings divided by fixed charges. Earnings are defined as earnings before income taxes, minority interest and cumulative effect of change in accounting principle, plus fixed charges and amortization of interest capitalized, less interest

capitalized; fixed charges are defined as the sum of interest expensed and interest capitalized, plus amortized premiums, discounts and capitalized expenses related to indebtedness.

Homex Selected Operating Information

	Six Months Ended June 30,		Year Ended December 31,		
	2005	2004	2004	2003	2002
(in thousands, except for percentages and ratios)					
Homes Sold					
Affordable entry-level	9,284	7,645	19,141	12,933	7,206
Middle income	1,252	443	1,912	463	—
Total	10,536	8,088	21,053	13,396	7,206
Affordable entry-level as percentage of homes sold	88.1%	94.5%	90.9%	96.5%	100.0%
Middle income as percentage of homes sold	11.9%	5.5%	9.1%	3.5%	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Average Price					
Affordable entry-level	Ps. 234	Ps. 225	Ps. 219	Ps. 205	Ps. 190
Middle income	551	695	613	639	—
Weighted average	272	246	225	255	220
Revenue					
Affordable entry-level	Ps.2,173,900	Ps.1,682,934	Ps.4,197,926	Ps.2,646,226	Ps.1,372,113
Middle income	689,428	307,872	1,171,502	295,841	—
Total	Ps.2,863,328	Ps.1,990,806	Ps.5,369,428	Ps.2,942,067	Ps.1,372,113
Affordable entry-level as percentage of all revenue	75.9%	84.5%	78.2%	89.9%	100.0%
Middle income homes as percentage of all revenue	24.1	15.5	21.8	10.1	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%

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 their accompanying notes included elsewhere herein. The consolidated financial statements have been prepared in accordance with Mexican GAAP and, unless otherwise specified, as the other financial information included in this offering circular, are restated in constant pesos as of June 30, 2005. Mexican GAAP differs in certain respects from U.S. GAAP as described in Notes 22 and 23 to our audited consolidated financial statements.

This offering circular contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this offering circular, particularly in "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors."

Substantially all of this "Management's Discussion and Analysis" section relates only to our Company, with certain limited references to Beta, which we acquired on July 1, 2005 and have since merged into our Company. For a further discussion of our acquisition of Beta, see "Business—Recent Developments—Acquisition of Controladora Casas Beta, S.A. de C.V." Additionally, Beta's consolidated financial statements as of December 31, 2003 and 2004 and for each of the three years ended December 31, 2004 and as of June 30, 2005 and for the six-month periods ended June 30, 2004 and 2005 are included in this offering circular beginning on page A-1. Unaudited pro forma condensed combined financial statements reflecting the combined accounts of Homex and Beta on a pro forma basis for the year ended December 31, 2004 and as of and for the six-month period ended June 30, 2005 are also included in this offering circular, beginning on page B-1.

Overview

We are a vertically-integrated home development company specializing in affordable entry-level and middle-income housing in Mexico. During 2004 we sold 21,053 homes, an increase of 57.2% over 2003, and during the six-month period ended June 30, 2005 we sold 10,536 homes, an increase of 30.3% over the same period in 2004. As of June 30, 2005 we had 52 developments under construction in 25 cities located in 17 Mexican states. We had total land reserves under title of approximately 10.4 million square meters as of June 30, 2005 on which we estimate we could build approximately 45,000 affordable entry-level homes and approximately 6,800 middle-income homes. As of June 30, 2005 we also had approximately 2.7 million square meters of land for which we had signed purchase agreements and made partial payment, and for which title was in the process of being transferred. We estimate that we could build approximately 12,000 affordable entry-level homes and 1,200 middle-income homes on this land.

Even before taking into account our July 1, 2005 acquisition of Beta described below, we believe that we have grown faster than the three other largest publicly traded Mexican home development companies over the past three calendar years. In addition, we believe our geographic diversity is one of the strongest among home builders in Mexico, reflected by our operations as of June 30, 2005 in 25 cities located in 17 Mexican states. We also compare positively with our competitors in terms of sales concentration, with only one city (Guadalajara) in which we operate providing approximately 23% of our revenues and no other city providing more than 10% of our revenues in the six-month period ended June 30, 2005.

Our strategy includes targeting high margin opportunities such as middle-income home sales. For the six-month period ended June 30, 2005, 24.1% of our revenue came from middle-income home sales as compared to 15.5% for the same period in the prior year. We have developed an operating model that we believe allows us to enter underserved markets quickly and efficiently in order to take

advantage of attractive opportunities offered by increased availability of public and private sector mortgage financing.

On July 1, 2005, we acquired Controladora Casas Beta S.A. de C.V., or Beta, which, prior to its acquisition by us was the sixth largest homebuilder in Mexico as measured by units sold in 2004. After giving effect to the acquisition, we believe we are now the largest homebuilder in Mexico in terms of operating income on a pro forma basis for 2004.

The purchase price for Beta was approximately Ps.2,041.5 million (US\$188.9 million). The acquisition of Beta involved the purchase of 53.0% of Beta's stock for approximately Ps.1,063.9 million (US\$98.4 million) in cash and the purchase of the remaining 47.0% of Beta's stock in exchange for 22.0 million of our common shares valued at Ps.977.6 million (US\$90.5 million). Following the acquisition, Beta was merged with and into Homex, with Homex being the surviving entity. As a result of the Beta acquisition, former Beta shareholders currently own approximately 6.6% of Homex's capital stock.

Beta was a housing development company located in the Mexico City area and focused on affordable entry-level and middle-income housing. During 2004, Beta sold 11,055 homes (affordable entry-level and residential combined) an increase of 79.5% over 2003 and during the six-month period ended June 30, 2005, Beta sold 5,846 homes (affordable entry-level), an increase of 16.4% over the same period in 2004.

For the year ended December 31, 2004, Beta had revenues of Ps.2,497.7 million (US\$231.9 million), an increase of 51.4% over the previous year. Its revenues for the six-month period ended June 30, 2005 were Ps.1,240.1 million (US\$115.1 million), an increase of 19.3% over the same period in 2004.

Critical Accounting Estimates

Revenue and Cost Recognition

We use the percentage-of-completion method of accounting to account for revenues and costs, measuring progress towards completion in terms of actual costs incurred versus budgeted expenditures for each stage of a development. Under the percentage-of-completion method of accounting, revenues for work completed are recognized prior to receipt of actual cash proceeds. We receive cash proceeds from the sale of a home at closing when title to the home is transferred to the buyer. We include revenues in excess of billings as accounts receivable on our balance sheet, and any cash proceeds we receive as advance payments prior to completion of the actual work related to the payments, including customer down payments, are included in current liabilities as advances from customers. Please see Note 3 to the consolidated financial statements.

The percentage-of-completion method of accounting requires us to determine on a monthly basis the percentage of completion of each stage of a development based on actual expenditures incurred to date versus budgeted expenditures. To the extent that the estimated costs of a development stage differ from the actual costs incurred, our recognized revenues could change. In addition, to the extent that estimated revenues derived from home sales per development stage differ from revenues derived from home deliveries per development stage, our recognized revenues could change.

We apply the percentage-of-completion method to recognize revenues from our housing development subject to the following conditions:

- we establish that the home buyer will obtain the required financing from the mortgage lender;
- the home buyer has submitted all required documents in order to obtain financing from the mortgage lender;

- the home buyer has signed a purchase agreement; and
- the home buyer has made a down payment, where down payments are required.

Beta, which we acquired on July 1, 2005, uses a similar percentage-of-completion method.

Income Taxes

We recognize deferred tax assets and liabilities based on the differences between the financial statements carrying amounts and the tax bases of assets and liabilities. We regularly review our deferred tax assets for recoverability and, if necessary, establish a valuation allowance based on historical taxable income, projected future taxable income and the expected timing of the reversals of existing temporary differences. If these estimates and related assumptions change in the future, we may be required to record a valuation allowance against deferred tax assets resulting in additional income tax expense. Please see Notes 3 and 16 to our consolidated financial statements.

Results of Operations

We operated in 25 cities and 17 states across Mexico as of June 30, 2005. Sales volumes for the six-month period ended June 30, 2005 totaled 10,536 homes, a 30.3% increase from the same period during the previous year. This was primarily driven by a 21.4% increase in affordable entry-level homes sold from 7,645 in the six-month period ended June 30, 2004 to 9,284 in the six-month period ended June 30, 2005. The middle-income home segment contributed 1,252 homes in the six-month period, representing a 182.6% increase over the 443 homes sold in the same period of the prior year. We also describe home sales volumes of Beta, which we acquired on July 1, 2004, in “Summary—Recent Developments.”

Results of Operations for the Six Months Ended June 30, 2005 Compared to the Six Months Ended June 30, 2004

Revenues

Total revenues increased 43.8% to Ps.2,863.3 million in the six months ended June 30, 2005 from Ps.1,990.8 million in the six months ended June 30, 2004 primarily due to a 30.3% increase in the number of homes sold, an increase of 6.3% in the average price of our affordable entry-level homes, and additional revenue recognized in connection with increased sales of middle-income housing, where the revenue per home sold is greater than in the affordable entry-level housing market.

Total revenues for Beta were Ps. 1,240.1 million for the six months ended June 30, 2005.

Costs and Gross Profit

Costs increased 44.7% to Ps.1,972.8 million in the six months ended June 30, 2005 from Ps.1,363.3 million in the six months ended June 30, 2004 primarily due to increased sales, driven by an increase in our participation in the middle-income home segment which results in higher costs than the affordable entry-level home segment. Gross profit increased 41.9% to Ps.890.5 million in the six months ended June 30, 2005 from Ps.627.6 million for the six months ended June 30, 2004 primarily due to an increase in sales for that period. Our gross profit margin decreased to 31.1% in the six months ended June 30, 2005 from 31.5% for the six months ended June 30, 2004.

Beta's costs and gross profit were Ps.947.7 million and Ps.292.4 million in the six months ended June 30, 2005, respectively.

Selling and Administrative Expenses

Selling and administrative expenses increased 46.8% to Ps.274.0 million for the six months ended June 30, 2005 from Ps.186.6 million for the six months ended June 30, 2004 primarily due to additional marketing and fixed expenses relating to the opening of seven new branches during the twelve month period ended June 30, 2005, for which we have incurred start-up costs, have not reached full revenue generation capacity and also due to seasonality.

Beta's selling and administrative expenses were Ps.95.3 million for the six months ended June 30, 2005.

Income from Operations

Income from operations increased 39.8% from Ps.441.0 million in the six months ended June 30, 2004 to Ps.616.5 million in the six months ended June 30, 2005 due principally to the reasons described above.

Beta's income from operations was Ps.197.1 million for the six months ended June 30, 2005.

Net Comprehensive Financing Cost

Net comprehensive financing cost (comprised of interest income, interest expense, monetary position gains and losses), and foreign exchange gains and losses increased 19.5% to Ps.68.5 million for the six months ended June 30, 2005 from Ps.57.4 million for the six months ended June 30, 2004. Net comprehensive financing cost as a percentage of sales decreased 16.9% for the six months ended June 30, 2005 from 2.9% for the six months ended June 30, 2004. Net interest expense increased 41.4% to Ps.73.0 million for the six months ended June 30, 2005 from Ps.51.6 million for the six months ended June 30, 2004. Interest expense increased 54.9% to Ps.95.8 million for the six months ended June 30, 2005 from Ps.61.8 million for the six months ended June 30, 2004 primarily due to an increase in our indebtedness, principally as a result of our commercial paper issued in the first quarter of 2005.

Beta's net comprehensive financing income was Ps.5.1 million for the six months ended June 30, 2005.

Income Tax Expense

Income tax expense increased 30.5% to Ps.173.8 million in the six months ended June 30, 2005 from Ps.133.2 million in the six months ended June 30, 2004 due principally to increased revenues and income before taxes. The effective income tax rate decreased by 3.9% from a rate of 32.0% in the six months ended June 30, 2004 to a rate of 30.8% in the six months ended June 30, 2005. Such decrease was primarily a result of an amendment to Mexican corporate tax law effective in the first quarter of 2005 that reduced our Mexican corporate tax rate from 33% to 30% and an increase in tax loss carry forwards to Ps.1,555.4 million in the six months ended June 30, 2005 from Ps.771.3 million for the same period in 2004. The tax loss carry forwards were obtained from the purchase of new land that helped offset payable tax income.

Beta's income taxes and employee statutory profit-sharing expense were Ps.49.5 million for the six months ended June 30, 2005.

Net Income

Net income increased 32.4% to Ps.390.8 million in the six months ended June 30, 2005 from Ps.295.1 million in the six months ended June 30, 2004, as a result of the factors described above.

Beta's net income was Ps.152.7 million for the six months ended June 30, 2005.

Results of Operations for the Year Ended December 31, 2004 Compared to the Year Ended December 31, 2003

Revenues

Total revenues increased 82.5% to Ps.5,369.4 million in 2004 from Ps.2,942.1 million in 2003 primarily due to a 57.2% increase in the number of homes sold, an increase of 6.8% in the average price of our affordable entry-level homes, and additional revenue recognized in connection with increased sales of middle-income homes, for which the revenue per home sold is substantially greater than for affordable entry-level homes. We sold 1,912 middle-income homes in 2004, compared to 463 middle-income homes sold in 2003, and sold 19,141 affordable entry-level homes in 2004, as compared to 12,933 affordable entry-level homes in 2003.

Total revenues for Beta were Ps.2,497.7 million in 2004.

Costs and Gross Profit

Costs increased 77.7% to Ps.3,738.7 million in 2004 from Ps.2,104.4 million in 2003, almost exclusively as a result of increased volume, as described above. Gross profit increased by 94.7% to Ps.1,630.7 million in 2004 from Ps.837.7 million in 2003. Our gross profit margin improved to 30.4% in 2004 from 28.5% in 2003.

Beta's costs and gross profits were Ps.1,867.1 million and Ps.630.6 million in 2004, respectively.

Selling and Administrative Expenses

Selling and administrative expenses increased 62.5% to Ps.438.0 million in 2004 from Ps.269.5 million in 2003. This increase was due principally to increases in aggregate sales commissions resulting from the increase in the number of homes sold, the increase in the number of administrative personnel required to support our expanding operations. As a percentage of sales, selling and administrative expenses improved by decreasing from 9.2% in 2003 to 8.2% in 2004. The decrease in selling and administrative expenses as a percentage of sales was attributable to restrained growth in the number of our fixed-salary personnel in relation to our significantly increased sales.

Beta's selling and administrative expenses were Ps.132.2 million in 2004.

Net Comprehensive Financing Cost

Net comprehensive financing cost (comprised of interest income, interest expense, monetary position gains and losses, and foreign exchange gains and losses) increased by 25.0% from Ps.128.9 million in 2003 to Ps.161.3 million in 2004. Net comprehensive financing cost as a percentage of sales decreased from 4.4% in 2003 to 3.0% in 2004. Net interest expense decreased by 23.2% from Ps.112.4 million in 2003 to Ps.86.3 million in 2004. This decrease was primarily due to a decline in average interest rates on our outstanding indebtedness, a reduction in amounts outstanding under our credit facilities and the prepayment of outstanding debt with increased cash due in part to proceeds of the initial public offering. Interest income increased by 618.2% to Ps.47.3 million in 2004 from Ps.6.6 million in 2003 due to higher cash balances throughout the year. We had a foreign exchange gain of Ps.7.2 million in 2004 as a result of a peso appreciation of approximately 0.8% against the U.S. dollar during 2004, compared to a foreign exchange gain of Ps.1.3 million in 2003 as a result of the dollar balance that we held following capital contributions by our principal shareholders and a peso depreciation of approximately 7.0% against the U.S. dollar during the first two months of 2003. Monetary position loss increased from Ps.17.8 million in 2003 to Ps.82.1 million in 2004 as a result of an increase in our net monetary asset position and an increase in inflation.

Beta's net comprehensive financing cost was Ps.13.9 million in 2004.

Income Tax Expense and Employee Statutory Profit-Sharing Expense

Income tax expense increased 85.2% from Ps.185.3 million in 2003 to Ps.343.2 million in 2004 due principally to increased revenues and income before taxes. The effective income tax rate decreased by 12.5% from a rate of 36.0% in 2003 to 32.0% in 2004. Such decrease was primarily a result of inflation, reduction in the statutory income tax rate on deferred income taxes and an increase in tax loss carry forwards from Ps.542.6 million in the year ended December 31, 2003 to Ps.1942.7 million in the year ended December 31, 2004. The tax loss carry forwards were obtained from the purchase of new land that helped offset payable tax income. Employee statutory profit-sharing expense increased from Ps.0.2 million in 2003 to Ps.8.6 million in 2004 as a result of the increase in revenue and income before taxes.

Beta's income taxes and employee statutory profit-sharing expense were in aggregate Ps. 149.0 million and Ps. 3.3 million, respectively, in 2004.

Net Income

Net income increased by 117.6% to Ps.723.2 million in 2004 from Ps.332.3 million in 2003 as a result of the factors described above.

Beta's net income was Ps.485.9 million in 2004.

Results of Operations for the Year Ended December 31, 2003 Compared to the Year Ended December 31, 2002

Revenues

Total revenues increased by 114.4% to Ps.2,942.1 million in 2003 from Ps.1,372.1 million in 2002 primarily due to an 85.9% increase in the number of homes sold, an increase of 7.9% in the average price of our affordable entry-level homes, and additional revenue recognized in connection with sales of middle-income housing, where the revenue per home sold is substantially greater than in the affordable entry-level housing market. We sold 13,396 homes in 2003, as compared to 7,206 homes sold in 2002.

Costs and Gross Profit

Costs increased by 118.8% to Ps.2,104.4 million in 2003 from Ps.961.6 million in 2002, almost exclusively as a result of increased volume, as described above. Gross profit increased by 104.0% to Ps.837.7 million in 2003 from Ps.410.5 million in 2002. Our gross profit margin was 28.5% in 2003 compared to 29.9% in 2002. Our gross profit margin decreased slightly in 2003 as a result of Ps.16.7 million of expenses that we incurred during the year for repairs on houses in Chiapas to repair damages caused by unauthorized home modifications by homeowners. Our gross profit margin also decreased as a result of expenses related to the completion and closing of operations in two cities.

Selling and Administrative Expenses

Selling and administrative expenses increased by 59.1% to Ps.269.5 million in 2003 from Ps.169.3 million in 2002. This increase was due principally to the increase in the number of administrative personnel required to support our expanding operations, the opening of new offices in the cities of Tapachula and Tijuana, pre-opening expenses in Estado de México and the cities of Acapulco and Monterrey, and a rise in the aggregate amount of sales commissions due to the growth in the number of homes sold. As a percentage of sales, selling and administrative expenses decreased from 12.3% in 2002 to 9.2% in 2003. The decrease in selling and administrative expenses as a percentage of sales was attributable to restrained growth in the number of our fixed-salary personnel in relation to our significantly increased sales.

Net Comprehensive Financing Cost

Net comprehensive financing cost (comprised of interest income, interest expense, monetary position gains and losses, and foreign exchange gains and losses) decreased 14.6% from Ps.150.9 million in 2002 to Ps.128.9 million in 2003. Net comprehensive financing cost as a percentage of sales decreased from 11.0% in 2002 to 4.4% in 2003. Interest expense decreased by 10.7% from Ps.133.2 million in 2002 to Ps.119.0 million in 2003. This decrease was due to reduction of approximately Ps.58.5 million in average debt during 2003 resulting from an increase in cash flow due to a greater number of home deliveries beginning during the last quarter of 2002 and continuing during 2003, as well as a reduction in interest rates and lending commissions due to the issuance of commercial paper used to retire more expensive bridge loans. Average outstanding debt in the amount of Ps.434.2 million during 2003 was lower than average debt outstanding during 2002 notwithstanding a substantial increase in debt at the end of 2003 incurred to fund additional land purchases. Interest income increased by 254.7% to Ps.6.6 million in 2003 from Ps.1.9 million in 2002 due to higher cash balances. We had a foreign exchange gain of Ps.1.3 million in 2003, compared to a foreign exchange loss of Ps.0.1 million in 2002, as a result of the dollar balance that we held following capital contributions by our principal shareholders and a peso depreciation of approximately 7.0% against the U.S. dollar during the first two months of 2003. Monetary position loss decreased from Ps.19.4 million in 2002 to Ps.17.8 million in 2003.

Income Tax Expense and Employee Statutory Profit-Sharing Expense

Income tax expense increased from Ps.54.2 million in 2002 to Ps.185.3 million in 2003 due to increased revenues. However, the effective income tax rate decreased from 61.2% in 2002 to 36.0% in 2003 as a result of a smaller difference between the book and tax effects of inflation due to lower inflation in 2003. Substantially all of the income tax expense is derived from the non-cash deferred tax provision resulting from an increase in taxable temporary differences primarily associated with unbilled revenues on developments in progress and the cost of inventories deducted for tax purposes. See Note 18 to our consolidated financial statements. Employee statutory profit-sharing expense decreased from Ps.1.6 million in 2002 to Ps.0.3 million in 2003 as a result of reduced earnings for employee statutory profit-sharing purposes at the employee services subsidiaries level.

Net Income

Net income increased by 914.2% to Ps.332.3 million in 2003 from Ps.32.8 million in 2002 as a result of the factors described above.

Government Policy and Available Financing

The size of the developer-built market depends on the availability of mortgage financing. Due to liquidity and general economic crises occurring in the last twenty years, Mexico has experienced fluctuations in the availability of mortgage financing, particularly from private sector sources. As a result, the supply of affordable entry-level and middle-income housing has also remained low during this period.

During the 1980s, Mexican government policy focused on encouraging investment by the private sector, reducing development costs, and stimulating construction. Government-sponsored funds provided mortgage loan guarantees and direct payment and savings procedures. In 1994, Mexico experienced an economic crisis that led to the devaluation of the Mexican peso and a steep rise in interest rates. Smaller housing development companies went out of business, and the industry experienced a sharp fall in home sales between 1995 and 1996 due to diminished commercial bank lending.

Following the 1994 economic crisis, government policy sought to counterbalance the shortage of available financing and the increases in interest rates that resulted by focusing primarily on providing

mortgages and construction financing via government-sponsored funds in the affordable entry-level sector. Government funds no longer provided development or sales activities and functioned instead as true savings-and-loan programs. Legislative reforms with regard to community-owned agricultural territories *ejidos*, which made it possible to sell these formerly restricted properties, also increased the potential supply of land available for development. During this period, the government authorized sofoles that underwrite mortgages with funds and guarantees provided by government agencies, private investment, national, foreign or development bank loans, or through the Mexican capital markets. Furthermore, the government encouraged industry growth and private sector lending by supporting consolidation in the housing development industry.

Between 1997 and 1998, home sales stabilized, growing slightly in 1997 due to improving economic conditions. During 1999 and 2000, mortgage financing increased due to stabilizing economic conditions. The level of available financing has continued to grow as a result of Mexican government policies implemented following the crisis and the current Mexican presidential administration's goal to provide 750,000 new mortgages per year by 2006 pursuant to its national housing plan. The administration set forth four objectives to achieve this growth:

- make more adequate land available, including infrastructure such as sewage and utilities;
- increase deregulation of the home building industry;
- encourage consolidation within the industry; and
- increase financing opportunities available to qualified home buyers.

In conjunction with these efforts, the Mexican legislature amended existing tax regulations in order to allow individuals to deduct a portion of their mortgage loan interest payments from their personal income taxes beginning in 2003, which the administration expects will lead to increased mortgage financing activity.

In the last four years, the developer-built market has continued to expand due to higher levels of available mortgage financing, especially through government-sponsored funds such as Infonavit, SHF and Fovissste. Between 1998 and 2000 according to the Housing Development Agency (*Comisión Nacional de Fomento a la Vivienda*), or Conafovi, the housing stock in Mexico increased by 2.4 million homes, 37% of which (900,000 homes) were built by developers, with the remainder being self-built. Between 2001 and 2003, Conapo estimates that the housing stock increased by another 2.5 million homes, 46% of which (1.1 million homes) were built by developers, with the remainder being self-built.

Changes in the availability of mortgage financing from government agencies could adversely affect us. See "Risk Factors—Risk Factors Related to our Business—Decreases in the Amount of Mortgage Financing Provided by Mexican Government-Sponsored Agencies on which We Depend, or Disbursement Delays, Could Result in a Decrease in Our Sales and Revenues."

New Accounting Pronouncements

Mexican GAAP

In May 2004, the Mexican Institute of Public Accountants, or IMCP (*Instituto Mexicano de Contadores Públicos*) issued Bulletin B-7, "Business Acquisitions," whose application is mandatory for fiscal years beginning on or after January 1, 2005. Bulletin B-7 provides updated rules for the accounting treatment of business acquisitions and investments in associated entities. Bulletin B-7 establishes that the purchase method shall be applied in accounting method for business combinations; eliminates the amortization of goodwill, which is currently subject to the impairment rules; establishes rules for the accounting treatment of asset transfers or share exchanges among entities under common control as well as for the acquisition of minority interests based on the provisions of Bulletin B-8, "Consolidated and combined financial statements and valuation of permanent investments in shares." Management believes that the adoption of Bulletin B-7 has not had and will not have significant effects on our financial position or results of operations.

In April 2004, the IMCP issued Bulletin C-10, “Derivative instruments and hedging activities,” whose application is mandatory for fiscal years beginning on or after January 1, 2005. Bulletin C-10 establishes that any variances in the fair value, both of the derivative and the underlying, for fair value hedges must be reflected in current earnings when such variances occur; for cash flow hedges, the effective portion of fair value variances must be recognized in other comprehensive income in stockholders’ equity, while the ineffective portion must affect current earnings.

Bulletin C-10 establishes the conditions that must be met for an instrument to be considered as a derivative financial instrument. Bulletin C-10 also provides for regulation of hedging activities, including, among others, the formal documentation at the inception of each hedge and a measurement of its effectiveness during its term. In addition, Bulletin C-10 classifies hedges into three categories: a) fair value hedges, b) cash flow hedges and c) foreign currency hedges, and provides for specific regulation with respect to valuation, recognition, presentation and disclosure for each category of hedge. Management believes that the adoption of Bulletin C-10 has not had and will not have significant effects on our financial position or results of operations.

In April 2004, the IMCP issued Amendment to Bulletin C-2, “Financial instruments,” whose application is mandatory for fiscal years beginning on or after January 1, 2005, although early adoption is encouraged. Amendment to Bulletin C-2 establishes that any variance in the fair value of financial instruments classified as available for sale must be recognized in other comprehensive income and reclassified to current earnings upon sale of such instruments. In addition, Amendment to Bulletin C-2 provides for the reclassification of certain financial instruments by category, provided that conditions and rules for their accounting recognition are met, and that impairment rules are applicable to financial instruments available for sale, establishing rules for their recognition. Management believes that the adoption of Amendment to Bulletin C-2 has not had and will not have significant effects on our financial position or results of operations.

In January 2004, the IMCP issued revised Bulletin D-3, “Labor obligations,” which replaces the concept of unforeseen severance payments that are recognized as earnings in the period in which the payment decision is made, with that of “severance payments at the end of the work relationship,” defined as payments granted to employees upon termination of the labor relationship prior to retirement age, for which the valuation and disclosure rules applicable to pension and seniority premium payments must be followed.

Bulletin D-3 is mandatory as of January 1, 2005, but provides that earnings from a transition asset or liability may be immediately recognized or amortized over the average remaining labor life of employees. Management believes that the adoption of this Bulletin D-3 has not had and will not have significant effects on our financial position or results of operations.

U.S. GAAP

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123 (revised 2004), Share-Based Payments, or SFAS No. 123R. SFAS No. 123R eliminates the optional application of intrinsic value measurement provisions pursuant to Accounting Principles Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees to stock compensation awards issued to employees. Rather, SFAS No. 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Such cost will be recognized over the period during which an employee is required to provide services in exchange for the award, or the requisite service period (usually the vesting period). SFAS No. 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. SFAS No. 123R is effective for fiscal years beginning on or after January 1, 2006. Management believes that the future adoption of SFAS No. 123R will not have significant effects on our financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 153, Exchange of Nonmonetary Assets, which amends APB Opinion No. 29, Accounting for Non-monetary Transactions to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. SFAS No. 153 is effective for non-monetary asset exchanges occurring in fiscal years beginning on or after January 1, 2006. Management believes that the future adoption of SFAS No. 153 will not have significant effects on our financial position, results of operations or cash flows.

In January 2003, FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, FIN 46. In December 2003, FIN 46 was replaced by FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, or FIN 46(R). FIN 46(R) clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46(R) requires an enterprise to consolidate a variable interest entity if that enterprise will absorb a majority of the entity's expected losses, is entitled to receive a majority of the entity's expected residual returns, or both. We have applied FIN 46 and FIN 46(R) as of January 1, 2004 to analyze investments in potential variable interest entities formed after January 31, 2003 and potential variable interests in variable interest entities previously defined as Special Purpose Entities, or SPEs, created before February 1, 2003. We have also applied FIN 46 and FIN 46(R) to determine whether we hold potential interests in variable interest entities not previously defined as SPEs for the period ending December 31, 2004. The adoption of FIN 46(R) did not have a material impact on our financial position, results of operations or cash flows.

On January 1, 2004, we adopted SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with both liability and equity characteristics and requires that certain financial instruments be classified as liabilities that were previously considered equity. SFAS No. 150 were effective for financial instruments entered into or modified after May 31, 2003. For pre-existing instruments, we adopted SFAS No. 150 on January 1, 2004. The adoption of SFAS No. 150 did not have a material impact on our financial position, results of operations or cash flows.

Liquidity and Capital Resources

We have experienced, and expect to continue to experience, substantial liquidity and capital resource requirements, principally to finance development and construction of homes and for land inventory purchases.

As of June 30, 2005, we had Ps.405.6 million of cash and temporary investments and Ps.1,164.5 million of outstanding indebtedness for money borrowed (none of which was construction financing provided by sofoles for developments under construction). After giving effect to our acquisition of Beta (including our assumption of its total debt of Ps.612.2 million), on a pro forma basis at June 30, 2005, including the Ps.1,081.0 million financing, we would have had Ps.464.5 million of cash and temporary investments and Ps.2,857.6 million (US\$265.3 million) of outstanding indebtedness for money borrowed.

As of December 31, 2004, we had Ps.516.5 million of cash and temporary investments and Ps.583.4 million of outstanding indebtedness for money borrowed (none of which was construction financing provided by sofoles for developments under construction), as compared to Ps.222.5 million and Ps.69.7 million of cash and temporary investments and Ps.679.1 million and Ps.421.3 million of outstanding indebtedness (of which Ps.145.7 million and Ps.286.1 million were construction financing provided by sofoles for developments under construction) as of December 31, 2003 and 2002, respectively.

Although we do not commence construction of any development until the availability of mortgage financing for qualified homebuyers is assured, we do acquire land and perform licensing, permitting, and certain infrastructure development activities prior to receiving confirmation of the availability of mortgage financing. Historically, we have financed our development and construction activities through internally generated funds, commercial paper programs, and bridge loans.

Our primary sources of liquidity are:

- cash flow from operations;
- our domestic commercial paper programs;
- financing from sellers of land and, to a lesser extent, suppliers of materials;
- commercial banks, sofoles, and other financial institutions; and
- down payments from home buyers.

The table below sets forth information regarding our outstanding debt and also the debt of Beta and its subsidiaries as of June 30, 2005. We acquired Beta on July 1, 2005.

Debt Outstanding

	Aggregate Lender Principal Amount (in thousands of pesos)	Interest Rate(1)	Maturity
Homex			
GMAC Hipotecaria, S.A. de C.V.	91,038	TIIE+2.5	May 15, 2006
Multivalores Casa de Bolsa, S.A. de C.V. commercial paper(2)	250,000	TIIE+2.25	Nov 8, 2005
Multivalores Casa de Bolsa, S.A. de C.V. commercial paper(2)	500,000	TIIE+1.5	March 1, 2006
IXE Banco, S.A.	20,000	TIIE+2	May 3, 2006
BBVA Bancomer, S.A.	54,900	TIIE+1.80	Nov 26, 2005
BBVA Bancomer, S.A.	30,000	TIIE + 1.80	Nov. 26, 2005
Banamex, S.A.	147,428	TIIE+1.60	Dec 20, 2005
Santander Serfin, S.A.	47,167	TIIE+1.90	May 4, 2008
Arrendadora Navistar, S.A. de C.V.	20,935	0%	July 10, 2006
Paccar Arrendadora Financiera, S.A. de C.V.	3,048	0%	July 1, 2006
Total Homex Debt	1,164,515		
Beta			
Scotia Bank Inverlat, S.A.; Medium term debt certificates .	271,221	TIIE+2.7	July 8, 2009
Banamex, S.A.	5,579	TIIE+3.375	Sept 23, 2005
Banamex, S.A.	16,643	TIIE+3.0	Nov 30, 2006
Banamex, S.A.	26,661	TIIE+3.0	Apr 25, 2006
Banco Mercantil del Norte, S.A.	74,622	TIIE+3.0	Nov 8, 2006
Banco Mercantil del Norte, S.A.	15,000	TIIE+2.75	Sept 1, 2005
Banco Mercantil del Norte, S.A.	15,611	TIIE+2.75	May 17, 2007
Metrofinanciera, S.A. de C.V.	2,721	TIIE+3.5	June 10, 2006
Hipotecaria Su Casita, S.A. de C.V., Sofol	17,288	TIIE+3.75	Dec 8, 2006
Hipotecaria Su Casita, S.A. de C.V., Sofol	8,125	TIIE+3.75	Jan 16, 2006
Hipotecaria Su Casita, S.A. de C.V., Sofol	17,208	TIIE+3.0	June 23, 2007
Hipotecaria Su Casita, S.A. de C.V., Sofol	71,827	TIIE+2.75	April 21, 2007
Hipotecaria Su Casita, S.A. de C.V., Sofol	49,289	TIIE+2.75	March 9, 2007
Scotiabank Inverlat, S.A.	354	TIIE+3.5	Dec 31, 2005
Caterpillar Credito, S.A. de C.V.	2,576	13.6%	June 28, 2006
Capita Servicios, S.A. de C.V.	11,101	10.0%	Dec 31, 2005
Outinord Universal, S.A.	6,349	6.0%	Aug 31, 2006
Total Beta Debt	612,174		
Combined Homex and Beta Debt	1,776,690		

(1) TIIE refers to the 28-day Mexican interbank rate (*Tasa de Interés Interbancaria de Equilibrio*), which was 9.9850% as of June 30, 2005.

(2) *Certificados bursátiles de corto plazo.*

Our total indebtedness increased 99.6% to Ps.1,164.5 million as of June 30, 2005 from Ps.583.4 million as of December 31, 2004 mainly as a result of our local commercial paper issue for Ps.500 million launched March 2005.

On July 1, 2005, the date we completed our Beta acquisition, we obtained a bridge loan from HSBC for Ps.1,081.0 million (US\$100.4 million), as part of our financing for the acquisition. On September 8, 2005 we established a new HSBC Ps.1,081.0 million (US\$100.4 million) unsecured credit facility which we used to repay the HSBC bridge loan. The new credit facility has an interest rate of TIIE plus 1% and a term of five years. The payment of interest is on a quarterly basis. The payment of principal is on a semi-annual basis, with the first payment being made in March 2008.

We expect to repay all amounts outstanding under our debt facilities, other than approximately Ps.581.8 million (US\$54.0 million), with proceeds from this offering.

As of June 30, 2005, we had Ps.750 million outstanding under our commercial paper program. During the six-month period ended June 30, 2005, we repaid Ps.114.9 million of commercial paper from internally generated cash and subsequently re-issued this amount at a lower interest rate. We use our commercial paper program as a lower-cost alternative to financing from commercial banks and sofoles.

We have not paid dividends since we were formed in 1998 and we do not currently expect to pay dividends in the foreseeable future.

Capital Expenditures

Our operations do not require substantial capital expenditures, as we lease, on a short-term basis, most of the construction equipment we use and subcontract a substantial portion of the services necessary to build the infrastructure of our developments. In 2004, we spent Ps.220.7 million on capital expenditures, primarily to purchase construction equipment. In the six-month period ended June 30, 2005 we spent Ps.33.0 million on capital expenditures, primarily to purchase construction equipment to support our growth. Our purchases of land are treated as additions to inventory and not as capital expenditures.

Contractual Obligations

The following table sets forth information regarding our contractual obligations as of December 31, 2004.

Contractual Obligations	Payment Due by Period				
	Total	Less than 1 Year	1-3 Year	3-5 Years	More than 5 Years
	(thousands of pesos)				
Short-Term Debt Obligations	Ps. 368,791	Ps. 368,791	—	—	—
Long-Term Debt Obligations	142,601	—	142,601	—	—
Estimated Interest	45,719	13,234	32,485	—	—
Capital (Finance) Lease	51,684	32,485	19,199	—	—
Operating Lease	10,010	10,010	—	—	—
Purchase Obligations	758,509	738,209	20,300	—	—
Other Long-Term Liabilities Reflected on our Balance Sheet under Mexican GAAP	—	—	—	—	—
Total	Ps. 1,377,314	Ps. 1,162,729	Ps. 214,584	—	—

Contractual obligations increased by 62.19% from Ps.1,377,313 as of December 31, 2004 to Ps.2,233,912 as of June 30, 2005. This change was principally due to a 196.5% increase in short-term debt obligations, offset in part by a 66.9% decrease in long-term debt obligations.

Market Risk Disclosures

Interest Rate Risk

In connection with our business activities, we have issued and hold financial instruments that currently expose us to market risks related to changes in interest rates. Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. At June 30, 2005, we had outstanding indebtedness of Ps.1,164.5 million, the majority of which bore interest at variable interest rates. The interest rate on our variable rate debt is determined primarily by reference to TIIE. TIIE increases would, consequently, increase our interest payments.

A hypothetical, instantaneous and unfavorable change of 1.5% (150 basis points) in the average interest rate applicable to floating-rate liabilities held at December 31, 2004 would have increased our interest expense in 2004 by approximately Ps.15.9 million, or 26.5%, over a twelve-month period.

We manage our exposure to changes in interest rates by efficiently timing construction and delivery of our homes and payments to our suppliers, thereby allowing us to reduce our borrowing needs. We have also reduced our interest expense and lending commissions through the issuance of commercial paper with more favorable interest rates.

Exchange Rate Risk

We generally do not have any material foreign currency denominated assets or liabilities and therefore are not exposed to significant losses resulting from exchange rate fluctuations. Upon issuance of the notes, however, we will enter into an instrument to limit exchange rate risk associated with our payment obligations under the notes. We further discuss foreign currency denominated assets and liabilities in Note 13 to our Financial Statements.

Recent Developments

On July 1, 2005, we acquired Beta, which, prior to its acquisition, was the sixth largest homebuilder in Mexico as measured by units sold. For the year ended December 31, 2004, Beta had revenues of Ps.2,497.7 million (US\$231.9 million) an increase of 51.4% over the previous year. Its revenues for the six-month period ended June 30, 2005 were Ps.1,240.1 million (US\$115.1 million) an increase of 19.3% over the same period in 2004.

For a further information regarding Beta and our acquisition of this Mexican homebuilder, see “Business—Recent Developments—Acquisition of Controladora Casas Beta, S.A. de C.V.”

EBITDA Reconciliation

We provide a reconciliation of net income to EBITDA computed from our U.S. GAAP financial information in the table below.

	Year Ended December 31,		
	2004	2003	2002
	(thousands of pesos)		
Net income	426,628	248,918	65,000
Depreciation	24,498	11,182	6,843
Comprehensive financing cost	(28,618)	23,600	(17,738)
Income tax expense	207,594	159,257	37,933
EBITDA	630,102	442,957	92,038

We provide a reconciliation of notes payable to financial institutions to net debt derived from our Mexican GAAP financial information in the table below.

	As of June 30, 2005(1)	As of December 31,				
		2004	2003	2002	2001	2000
		(thousands of pesos)				
Short-term notes payable to financial institutions .	1,117,348	401,276	679,078	421,390	489,488	506,571
Long-term notes payable to financial institutions .	47,167	161,800	—	—	—	—
Total notes payable to financial institutions	1,164,515	563,076	679,078	421,390	489,488	506,570
Cash and temporary investments	405,555	516,500	222,458	69,349	47,921	20,733
Net debt	758,960	46,576	456,620	352,041	441,567	485,797

(1) Financial information as of the six-month period ended June 30, 2005 is unaudited.

We provide a reconciliation of net income (loss) to EBITDA computed from our Mexican GAAP financial information in the tables below.

	Six Month Ended June 30,		Year Ended December 31,				
	2005(1)	2004(1)	2004	2003	2002	2001	2000
			(thousands of pesos)				
Net income (loss)	390,797	295,115	723,181	332,346	32,770	(18,406)	33,265
Depreciation net	25,877	5,058	24,498	11,182	6,843	7,403	7,728
Comprehensive financing cost	68,545	57,366	161,286	128,907	150,880	131,905	127,979
Income tax expense and employee statutory profit- sharing expense . . .	173,782	134,693	351,768	185,548	55,764	17,206	57,519
EBITDA	659,001	492,232	1,260,733	657,983	246,257	138,108	226,491

(1) Financial information for the six-month periods ended June 30, 2004 and 2005 is unaudited.

BUSINESS

Our Company

We are a vertically-integrated home development company specializing in affordable entry-level and middle-income housing in Mexico. During 2004 we sold 21,053 homes, an increase of 57.2% over 2003, and during the six-month period ended June 30, 2005 we sold 10,536 homes, an increase of 30.3% over the same period in 2004. As of June 30, 2005 we had 52 developments under construction in 25 cities located in 17 Mexican states. We had total land reserves under title of approximately 10.4 million square meters as of June 30, 2005 on which we estimate we could build approximately 45,000 affordable entry-level homes and approximately 6,800 middle-income homes. As of June 30, 2005 we also had approximately 2.7 million square meters of land for which we had signed purchase agreements and made partial payment, and for which title was in the process of being transferred. We estimate that we could build approximately 12,000 affordable entry-level homes and 1,200 middle-income homes on this land.

Even before taking into account our recent acquisition of Beta described below, we believe that we have grown faster than the three other largest publicly traded Mexican home development companies over the past three year period ended December 31, 2004, based on:

- number of homes sold, reflected by our compounded annual growth rate of 43.0% versus a 6.0% average compounded annual growth rate for these other three companies;
- revenues, reflected by our compounded annual growth rate of 57.6% versus a 10.3% average compounded annual growth rate for these other three companies; and
- net income, reflected by our average compounded annual growth rate of 180.5% versus a 23.5% average compounded annual growth rate for these other three companies.

In addition, we believe our geographic diversity is one of the strongest among home builders in Mexico, reflected by our operations as of June 30, 2005 in 25 cities located in 17 Mexican states. In addition, our sales are not concentrated in a limited number of areas, compared to our competitors, with only one city (Guadalajara) in which we operate providing approximately 23% of our revenues and no other city providing more than 10% of our revenues for the six-month period ended June 30, 2005.

Our Products

Mexico's developer-built housing industry is divided into three tiers according to cost: affordable entry-level, middle-income, and residential. We consider affordable entry-level homes to range in price between Ps.165,000 and Ps.400,000 (US\$15,300 and US\$37,100), middle-income homes to range in price between Ps.400,000 and Ps.1,300,000 (US\$37,100 and US\$120,600) and residential homes to have a price above Ps.1,300,000 (US\$120,600). We currently focus on providing affordable entry-level and middle-income housing for our clients.

Our affordable entry-level developments range in size from 500 to 20,000 homes and are developed in stages typically comprising 300 homes each. During 2004 and the six-month period ended June 30, 2005, our affordable entry-level homes had an average sales price of approximately Ps.234,000 (US\$21,727). A typical affordable entry-level home consists of a kitchen, living-dining area, one to three bedrooms, and one bathroom. We are able to deliver a completed affordable entry-level home in approximately seven to ten weeks from the time a buyer obtains a mortgage approval. Currently, our largest affordable entry-level housing developments are located in the cities of Guadalajara, Monterrey, Culiacán, and Nuevo Laredo.

Our middle-income developments range in size from 400 to 2,000 homes and are developed in stages typically comprising 200 homes each. During the six-month period ended June 30, 2005, our

middle-income homes had an average sales price of approximately Ps.551,000 (US\$51,160). A typical middle-income home consists of a kitchen, dining room, living room, two or three bedrooms, and two bathrooms. We are able to deliver a completed middle-income home in approximately twelve to fourteen weeks from the time a buyer obtains a mortgage approval. In response to the increase in demand for middle-income housing in Mexico and the higher margins generally obtainable from middle-income housing developments, we launched ten middle-income developments in 2004 in the cities of Atizapán, Culiacán, La Paz, Metepec, Guadalajara, Puerto Vallarta, Tijuana, and Tuxtla Gutiérrez. In 2004, 21.8% of our revenue was attributable to sales of middle-income housing compared to 9.8% in 2003 and during the six-month period ended June 30, 2005, 24.1% of our revenue was attributable to sales of middle-income housing compared to 15.5% in the same period in 2004.

Land Reserve

We have developed specific procedures to identify land that is suitable for our needs and perform ongoing market research to determine regional demand for housing. Suitable land must be located near areas with sufficient demand, generally in areas where at least 500 homes can be built, and must be topographically amenable to housing development. We also consider the feasibility of obtaining required governmental licenses, permits, authorizations, and adding necessary improvements and infrastructure, include sewage, roads and electricity in balance with a purchase price that will maximize margins within the limits of available mortgage financing. We conduct engineering and environmental assessments, and in some cases urbanization and land composition studies, of land we consider for purchase in order to determine that it is suitable for construction. We budget the majority of our land purchases for the second half of the year to coincide with peak cash flow. As a result, our total land reserves fluctuate between our targeted 18 to 24 months of future home deliveries depending upon the time of year.

As of June 30, 2005, we had total land reserves under title of approximately 10.4 million square meters on which we estimate we could build approximately 45,000 affordable entry-level homes and 6,800 middle-income homes. We also had approximately 2.7 million square meters of land for which we had signed purchase agreements and made partial payment, and for which title was in the process of being transferred. We estimate that we could build approximately 12,000 affordable entry-level homes and 1,200 middle-income homes on this land.

Our Relationship with Equity International Properties, Ltd.

Beginning in 1999, private investors, including in 2002, Equity International Properties, Ltd., or EIP, a privately held investment company specializing in real estate investments outside the United States and particularly in Mexico, made a number of equity investments in Homex in an aggregate amount of US\$32.0 million. EIP is affiliated with Equity Group Investments, L.L.C., or EGI, a privately held investment company founded by Samuel Zell, chairman of EIP. EGI, together with its affiliates, is one of the largest real estate investment companies in the United States. EIP participates on our board of directors.

Business Strengths

Standardized Business Processes

Over several years, we have developed and refined scalable and standardized business processes that allow us to enter new markets rapidly and efficiently. We have designed proprietary information technology systems that integrate and monitor every aspect of our operations, including land acquisition, construction, payroll, purchasing, sales, quality control, financing, delivery, and maintenance. Our systems connect every one of our branch locations and help us monitor and control the home building process, to administer our client relations, and to oversee the financing process for

our clients. This standardized model drives our growth, geographic diversification, and profitability, and is an integral component of our culture.

Efficient Working Capital Management

Our standardized processes allow us to time the construction and delivery of our homes and payment to our suppliers efficiently, which has allowed us to reduce our borrowing needs and minimize working capital requirements. We do not commence construction on a development stage until prospective buyers representing at least 10% of the planned number of homes in that stage have qualified to receive mortgage financing. We seek to maintain a short construction period of less than ten weeks for affordable entry-level housing and less than fourteen weeks for middle-income housing by using our systems to maximize the efficiency of our standardized methods. This speed allows us to maximize our working capital by minimizing overhead and coordinating payables with receivables, which greatly reduces our borrowing needs and to minimize our costs.

Geographic Diversification

We believe that we are one of the most geographically diversified home development companies in Mexico. As of June 30, 2005, our operations included 52 developments in 25 cities located in 17 Mexican states, which states represent 68% of Mexico's population, according to the Mexican Institute of Statistics, Geography and Computer Sciences, or Inegi (*Instituto Nacional de Estadística, Geografía e Informática*). Many of our developments are located in markets where no major competitors currently operate. In addition, our sales are not concentrated in limited areas, compared to our competitors. For instance, only one city (Guadalajara) in which we operate accounted for approximately 23% of our revenues and no other city accounted for more than 10% of our revenues for the six-month period ended June 30, 2005. We believe that this geographic diversification reduces our risk profile as compared to our less-diversified competitors.

Experienced and Committed Management Team

Eustaquio Tomás de Nicolás Gutiérrez, our chairman, co-founded Homex predecessor in 1989, and Gerardo de Nicolás Gutiérrez, our CEO, joined us in 1993. Our senior management team is comprised of executives with an average of 15 years experience in their respective areas of responsibility. Senior management owns an aggregate of 16.37% of our common shares. Consistent with our standardized business processes and geographic diversification, we delegate significant managerial responsibility to our seasoned team of branch managers. Upon completion of a development, we typically relocate our branch managers to another development in order to capitalize on their significant experience.

Business Strategies

Maintain a Conservative Financial Position

We operate our business with the goal of reducing our exposure to interest rate and financing risk. We begin construction only when an approved buyer has qualified for a mortgage and, if applicable, made a down-payment, thereby reducing our working capital needs. We believe the resulting financial flexibility enhances our ability to respond quickly to market opportunities and minimizes any negative effects that might result from a downturn in the economy.

Focus on Growth Consolidation and High-Margin Opportunities

Our strategy is to consolidate our growth and to identify and target high margin opportunities such as middle-income home sales. For the six-month period ended June 30, 2005, 24.1% of our revenue came from middle-income home sales as compared to 15.5% in the same period in the prior year. We have developed an operating model that we believe allows us to enter underserved markets quickly and

efficiently in order to take advantage of attractive opportunities offered by increased availability of public and private sector mortgage financing. In response to these opportunities, during the last three calendar years and the six-month period ended June 30, 2005 we launched 32 new affordable entry-level developments in 16 cities. Increased availability of private sector financing has also allowed us to expand our presence in the middle-income sector, which provides higher margins than affordable entry-level homes. We launched eight new middle-income developments in 2004 and three new middle-income developments in three cities in the first six months of 2005. We expect to continue to expand our operations in the higher margin middle-income sector.

Maintain Appropriate and Balanced Land Reserves

Our ability to identify, acquire, and improve land is critical to our success. Because the success of our operations depends, among other things, on managing our reserves efficiently, we continually review our portfolio and seek new development opportunities. We balance our need for additional land for growth with our desire to minimize leverage and avoid excessive land inventory. Our current goal is to maintain sufficient land reserves for a minimum of 18 to 24 months of future home deliveries. This time period allows us to undertake the lengthy processes necessary to prepare land for development, including identifying suitable parcels, locating adequate water supplies, obtaining required governmental permits and authorizations, and incorporating parcels into existing urban zones. We generally purchase large parcels of land in order to amortize our acquisition and infrastructure costs over a large number of homes, minimize competition, and take advantage of economies of scale. As of June 30, 2005, we had total land reserves of approximately 10.4 million square meters, which had an estimated aggregate capacity of approximately 45,000 affordable entry-level homes and approximately 6,800 middle-income homes. As of June 30, 2005, we also had approximately 2.7 million square meters of land for which we had signed purchase agreements and made partial payment, and for which title was in the process of being transferred. We estimate that we could build approximately 12,000 affordable entry-level homes and 1,200 middle-income homes on this land.

Continue to Build and Contribute to Successful Communities

We seek to foster brand loyalty by enhancing the quality and value of our communities through building and donating schools, day care facilities, parks and churches, and by providing other social services to residents of the housing we develop. We are committed to fulfilling our clients' needs by responding to and meeting their demands. Through market studies, for example, we determine that home buyers prefer larger home sizes over higher-priced finishing details. We allow our clients to improve these details at their own expense in order to offer more square footage per house than similarly priced homes offered by our competitors. At the same time, we seek to become the best employer to our employees through training and educational opportunities. We seek to hire and keep talented employees and invest in training our workforce at all levels by offering programs such as middle-school equivalency courses for our construction laborers. We are committed to becoming the best customer to our suppliers by offering various payment alternatives and opportunities for cooperative growth, and through our factoring structure and other initiatives, including electronic ordering and payment systems. We believe that these factors make us a preferred home builder, employer, and customer and ultimately enhance our overall business.

Our Markets

We operate in geographically diverse markets throughout Mexico, from Tijuana in the north to Tapachula in the south, which represent 17 states as of June 30, 2005. Since December 31, 2004, we began work on two middle income developments in the city of León in the State of Guanajuato and in the city of Guadalajara in the State of Jalisco and one affordable entry-level development in the border city of Nuevo Laredo in the State of Tamaulipas. Only one city (Guadalajara) in which we operate

accounted for approximately 23% of our revenues and no other city accounted for more than 10% of our revenues for the six-month period ended June 30, 2005. In the year ended December 31, 2004, our developments in Guadalajara represented 27% of our revenues. We anticipate that in the future, revenues attributable to our developments in Guadalajara will represent an even smaller portion of our total revenues. We expanded into Guadalajara, the capital of the state of Jalisco and Mexico's second-largest city, because the financing available from government-sponsored lenders such as Infonavit during 2003 significantly exceeded the construction capacity of existing developers in the area. We seek to continue operations in markets where we have a strong presence and to expand into underserved markets where demand for housing is high.

Total Homes Sold

The following table sets forth information on our historical sales by state. During 2002, all of the homes we sold were affordable entry-level homes. No middle-income homes were sold in 2002. During 2003, 96.5% of the homes we sold were affordable entry-level homes and 3.5% of the homes we sold were middle-income homes. During 2004, 91% of the homes we sold were affordable entry-level homes and 9% of the homes we sold were middle-income homes. During the six-month period ended June 30, 2005, 72.4% of the homes we sold were affordable entry-level homes and 24.1% of the homes we sold were middle-income homes.

State	Six Months Ended June 30, 2005		Year Ended December 31,				
			2004		2003		2002
	Affordable entry-level	Middle- income	Affordable entry-level	Middle- income	Affordable entry-level	Middle- income	Affordable entry-level
Baja California	68	109	220	389	—	—	—
Baja California Sur	332	1	1,180	—	584	84	865
Chiapas	828	9	1,317	18	391	6	174
Chihuahua	221	—	1,171	—	980	—	824
Guanajuato	438	—	783	—	356	—	308
Estado de México	48	350	30	262	—	115	—
Guerrero	264	—	867	—	—	—	—
Hidalgo	21	125	—	31	—	—	—
Jalisco	3,026	475	5,264	501	6,341	121	1,406
Michoacán	501	—	686	—	388	—	313
Nayarit	—	—	367	—	444	—	204
Nuevo León	695	39	1,691	—	—	—	—
Oaxaca	203	—	246	—	—	—	—
Sinaloa	1,304	46	2,092	464	1,412	108	2,017
Sonora	318	—	751	247	603	29	477
Tamaulipas	942	24	2,471	—	1,434	—	589
Veracruz	75	74	5	—	—	—	—
Yucatán	—	—	—	—	—	—	29
Total	<u>9,284</u>	<u>1,252</u>	<u>19,141</u>	<u>1,912</u>	<u>12,933</u>	<u>463</u>	<u>7,206</u>

The Mexican Housing Market

We have obtained the following information from public sources, including publications and materials from the Mexican Ministry of Social Development, or Sedesol (*Secretaría de Desarrollo Social*), the Mexican Population Council, or Conapo (*Consejo Nacional de Población*), Inegi, Infonavit, SHF, the Mexican Home Building and Development Industry Chamber of Commerce, or Canadevi (*Cámara Nacional de la Industria de Desarrollo y Promoción de la Vivienda*), and Conafovi. We have not independently verified any of the information provided in this section.

General

The housing market in Mexico is influenced by several social, economic, industry, and political factors, including demographics, housing supply, market segmentation, government policy, and available financing.

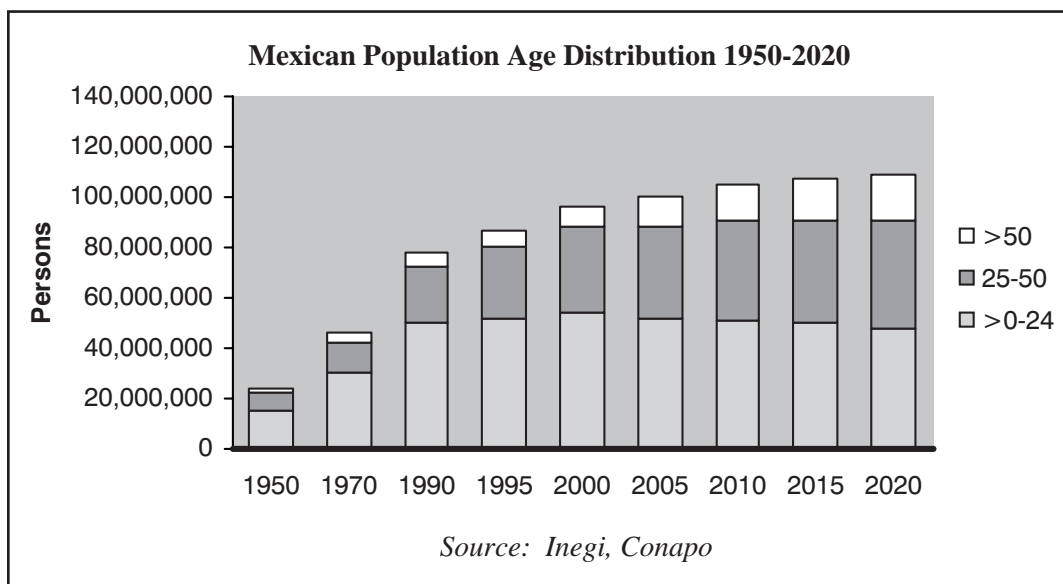
Demographics

National demographic trends drive demand for housing in Mexico. These trends include:

- sustained growth of a relatively young population;
- a high rate of new household formation;
- a high urban area growth rate; and
- a decrease in number of occupants per home.

According to Inegi, Mexico had a population of approximately 97.5 million in 2000, or approximately 22.3 million households. Conapo estimates that there will be 27.5 million households by the end of 2004.

Mexico experienced a period of particularly high population growth during the 1970s and 1980s. The children born during this boom are contributing to the current increased demand for housing. The target consumer group for our homes is typically between 25 and 49 years old. In 2000, the 25-49 year old age group represented approximately 31 million people or 32% of Mexico's total population. Conapo estimates that by 2020, this age group will represent 46 million or 38% of Mexico's total population. The growth of this group is expected to contribute to increased housing demand in Mexico.



Housing Supply

In 2001, Conafovi housing statistics indicated there was a shortage of 4.3 million homes in Mexico. This figure included the need for:

- 1.8 million new homes to accommodate multiple households currently living in a single home and households living in homes that must be replaced; and
- 2.5 million substandard homes in need of extensive repair and possible replacement. In addition, there is expected to be approximately 27.5 million households in Mexico by the end of 2004 and 32.9 million households by 2010.

These estimates suggest that Mexico will have to increase its housing stock by 5.3 million units between 2004 and 2010. Conafovi estimates that the growth of the Mexican population will generate a sustained demand for new homes of at least 766,000 units per year into the near future. To address the immediate shortage of 4.3 million homes as well as the anticipated new demand, the Mexican government has committed to financing and/or building at least 750,000 units a year by 2006.

Market Sectors

In general, Mexico's developer-built (as opposed to self-built) housing market is divided into three sectors according to cost: affordable entry-level, middle-income and residential. The developer-built housing market includes homes built by contractors and developers, which are generally financed by mortgage providers. These homes are built with official permits, have municipal services, and are located on land that is registered and titled by the buyer. Developers must obtain proper zoning permits, install infrastructure, obtain any necessary financing commitments from lenders, and clear title to the land.

We categorize Mexico's developer-built housing market in the table below:

Housing Market Sectors

Sector	Cost	Size	Characteristics
Affordable entry-level .	between Ps.165,000 and Ps.400,000 (US\$15,300-US\$37,100)	45m ² -76m ² (484 ft ² -818 ft ²)	kitchen; living-dining area; 1-3 bedrooms; 1 bath; parking; titled; all utilities available
Middle-income	between Ps.400,000 and Ps.1,300,000 (US\$37,100-US\$120,600)	76m ² -172m ² (818 ft ² -1,851 ft ²)	kitchen; family room; living-dining room; 2-4 bedrooms; 2-4 baths; 1-4 parking; service quarters; titled; all utilities available
Residential	More than Ps.1,300,000 (US\$120,600)	more than 172m ² (1,851 ft ²)	kitchen; family room; living room; dining room; 3-4 bedrooms; 3-5 baths; 3-6 parking; service quarters; titled; all utilities available

Government Policy and Available Financing

The size of the developer-built market depends on the availability of mortgage financing. Due to liquidity crises occurring in the last twenty years, Mexico has experienced fluctuations in the availability of mortgage financing, particularly from private sector sources. As a result, the supply of affordable entry-level and middle-income housing has also remained low during this period.

During the 1980s, Mexican government policy focused on encouraging investment by the private sector, reducing development costs, and stimulating construction. Government-sponsored funds provided mortgage loan guarantees and direct payment and savings procedures. In 1994, Mexico experienced an economic crisis that led to the devaluation of the Mexican peso and a steep rise in interest rates. Smaller housing development companies went out of business, and the industry experienced a sharp fall in home sales between 1995 and 1996 due to diminished commercial bank lending.

Following the 1994 economic crisis, government policy sought to counterbalance the shortage of available financing and the increases in interest rates that resulted by focusing primarily on providing

mortgages and construction financing via government-sponsored funds in the affordable entry-level sector. Government funds no longer provided development or sales activities and functioned instead as true savings-and-loan programs. Legislative reforms with regard to community-owned agricultural territories (*ejidos*), which made it possible to sell these formerly restricted properties, also increased the potential supply of land available for development. During this period, the government authorized sofoles that underwrite mortgages with funds and guarantees provided by government agencies, private investment, national, foreign or development bank loans, or through the Mexican capital markets. Furthermore, the government encouraged industry growth and private sector lending by supporting consolidation in the housing development industry.

Between 1997 and 1998, home sales stabilized, growing slightly in 1997 due to improving economic conditions. During 1999 and 2000, mortgage financing increased due to stabilizing economic conditions. The level of available financing has continued to grow as a result of Mexican government policies implemented following the crisis and the current Mexican presidential administration's goal to provide 750,000 new mortgages per year by 2006 pursuant to its national housing plan. The administration set forth four objectives to achieve this growth:

- make more adequate land available, including infrastructure such as sewage and utilities;
- increase deregulation of the home building industry;
- encourage consolidation within the industry; and
- increase financing opportunities available to qualified home buyers.

In conjunction with these efforts, the Mexican legislature amended existing tax regulations in order to allow individuals to deduct a portion of their mortgage loan interest payments from their personal income taxes beginning in 2003, which the administration expects will lead to increased mortgage financing activity.

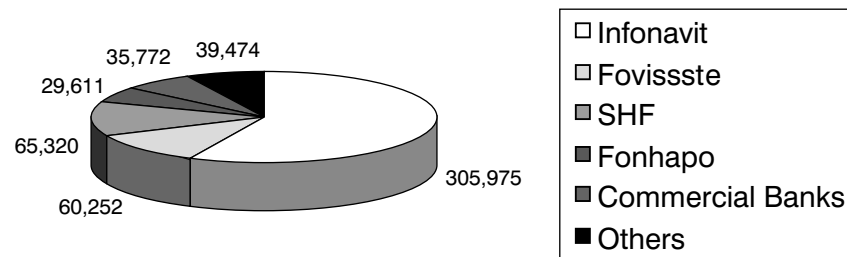
In the last four years, the developer-built market has continued to expand due to higher levels of available mortgage financing, especially through government-sponsored funds such as Infonavit, SHF, and Fovissste. Between 1998 and 2000, the housing stock in Mexico increased by 2.4 million homes, 37% of which (900,000 homes) were built by developers, with the remainder being self-built. Between 2001 and 2003, Conapo estimates that the housing stock increased by another 2.5 million homes, 46% of which (1.1 million homes) were built by developers, with the remainder being self-built.

Sources of Mortgage Financing

Four principal sources provide mortgage financing for Mexico's housing market:

- Mortgage providers financed by mandatory employer or member contributions to public funds, including:
 - Infonavit, serving private sector employees,
 - Fovissste, serving public sector employees, and
 - the Mexican Armed Forces Social Security Institute, or Issfam (*Instituto de Seguridad Social para las Fuerzas Armadas Mexicanas*), serving military personnel;
- SHF, which provides financing to credit-qualified homebuyers through financial intermediaries such as commercial banks or sofoles through funds from the World Bank, the Mexican government, and its own portfolio;
- Commercial banks and sofoles using their own funds; and
- Direct subsidies from public housing agencies and state housing trusts, including the Mexican Fund for Popular Housing, or Fonhapo (*Fideicomiso Fondo Nacional de Habitaciones Populares*).

According to Conafovi, these mortgage providers originated 536,404 home mortgages in 2004, as follows:



Infonavit

Infonavit was established by the Mexican government, labor unions, and private sector employees in 1972 as a mutual fund for the benefit of private sector employees. Infonavit functions as a savings and loan that provides financing primarily for affordable entry-level housing to credit-qualified home buyers. Infonavit makes loans for home construction, acquisition, or improvement to workers whose individual monthly earnings are generally less than five times the minimum monthly wage. It is funded through payroll contributions by private sector employers on behalf of their employees equal to 5% of their employees' gross wages.

Home buyers qualify for Infonavit loans according to a point system whereby points are awarded based on income, age, amount of monthly contributions, and number of dependents, among others. Infonavit is phasing in a requirement that mortgage loan applicants make a down payment of between 5% to 10% of a home's total value, depending on price. The total loan amount may equal 100% of the cost of a home up to a maximum of between 300 and 350 times the monthly minimum wages, depending on geographical region. Repayment is calculated based on the borrower's wages, for a term of up to thirty years, and is made by direct wage deductions by employers. Infonavit generally grants loans at variable annual interest rates, which are indexed to inflation and based on a borrower's income. Infonavit allows for a one-year grace period with no interest or principal payments in the event of job loss and seeks direct repayment from the borrower after this period.

Infonavit has a program called *Apoyo Infonavit* that is directed at assisting higher income borrowers obtain mortgage financing. *Apoyo Infonavit* customers can use the amounts contributed via payroll deductions to their Infonavit accounts as collateral for mortgage loans held by private sector lenders. In addition, these clients can apply their monthly Infonavit contributions toward the monthly mortgage payments owed to private sector lenders.

Infonavit recently inaugurated a new program called *Cofinanciamiento*, or *Cofinavit*, which is meant to assist high-income borrowers in a manner similar to the *Apoyo Infonavit* program. This new program enables *Cofinavit* customers to obtain a mortgage loan granted by Infonavit in conjunction with a commercial bank or a sofol. In addition, the customers can use their individual contributions in their Infonavit accounts as part of the financing or as collateral for the mortgage loan.

In addition, during late 2004 and early 2005, Infonavit initiated a new mortgage financing system, enabling Infonavit to expedite the issuance of mortgages in response to public demand by reducing documentation necessary for initial processing, permitting Infonavit to achieve its year-end goals. In addition, this new system enhances transparency and quality of service in connection with mortgage services. Mortgage financing is expected to increase 25% to approximately 375,000 mortgages granted in 2005 from approximately 305,000 mortgages granted in 2004 partially as a results of the implementation of the new mortgage financing system.

Infonavit has made a commitment to provide 375,000 new mortgages in 2005 and 435,000 new mortgages in 2006. In addition, this agency has agreed to guarantee mortgage loans granted to

employees by commercial banks and sofoles in the case of job loss. Infonavit expects to continue to modernize its operations and increase available financing by focusing on reducing payment defaults, participating more closely with the private sector, and implementing a voluntary savings program. Infonavit has also recently begun securitizing its loan portfolio in order to contribute to the growth of the secondary mortgage market in Mexico and expand its available sources of funds.

Infonavit provided approximately 56.6% of all mortgage financing in Mexico during the year ended December 31, 2004.

Fovissste

The Mexican government established Fovissste in 1972 as a pension fund on behalf of public sector employees to provide financing for affordable housing. Fovissste obtains funds from Mexican government contributions equal to 5% of public sector employee wages. The Mexican government administers Fovissste similarly to Infonavit and permits Fovissste to co-finance mortgage loans with private sector lenders in order to maximize available funds.

Fovissste mortgage financing is typically available for housing ranging from the affordable entry-level sector through the lower end of the middle-income sector. Eligible applicants can obtain Fovissste mortgage loans to purchase new or used homes, remodel or repair existing homes, finance construction of self-built homes, and make down payments on homes not financed through Fovissste. Fovissste loans are granted based on seniority within the public sector and allocated on a first-come first-served basis that also takes into account wages, number of dependents, and geographic location. Once the program establishes a number of approved applicants, it allocates mortgage loans by state based on historical demand.

Fovissste generally grants loans at variable interest rates, indexed to inflation, for a maximum amount of approximately US\$40,000. Repayment is calculated based on the borrower's wages, for a term of up to thirty years, and is made by direct wage deductions.

Fovissste has publicly announced that it is seeking to increase the total number of mortgage loans it grants to 50,000 in 2005 and 62,000 in 2006.

Fovissste provided approximately 11.3% of all mortgage financing in Mexico during the year ended December 31, 2004.

SHF

SHF was created in 2002 as a public sector development bank. SHF obtains funds from the World Bank, the Mexican government, and SHF's own portfolio and provides financing through intermediaries such as commercial banks and sofoles. In turn, financial intermediaries administer SHF-sponsored mortgage loans, including disbursement and servicing.

Traditionally, SHF has been an important source of construction financing for housing developers by providing loans to commercial banks and sofoles (which in turn make direct bridge loans to developers). As of September 1, 2004, however, SHF provided funding for bridge loans only for homes with a purchase price of up to UDI 166,667 (approximately US\$53,000 as of June 30, 2005). In lieu of funding bridge loans for homes with a higher purchase price (up to UDI 500,000 (approximately US\$160,000 as of June 30, 2005)), SHF will provide guarantees to support efforts by commercial banks and sofoles to raise capital for the financing of bridge loans to build such homes.

In addition, SHF makes financing available to commercial banks and sofoles for the purpose of providing individual home mortgages for affordable entry-level and middle-income homes. Historically, SHF has only financed a total amount equal to 80% to 90% of a home's value, generally for a maximum of approximately UDI 500,000 (approximately US\$160,000 as of June 30, 2005). Beginning in

2005, however, in order to maximize the availability of affordable entry-level mortgages, SHF has replaced its financing of mortgages for homes with a purchase price greater than UDI 150,000 (approximately US\$50,000 as of June 30, 2005) with credit enhancements and loan guarantees for commercial banks and sofoles to support their capital-raising efforts for the financing of such individual mortgage loans.

In terms of total homes financed, SHF (through commercial banks and sofoles) provided approximately 19% of all mortgage financing in Mexico during the year ended December 31, 2004.

Commercial Banks and Sofoles

Commercial banks generally target the middle-income and residential markets while sofoles generally target the affordable entry-level housing market and a portion of the middle-income housing market using SHF financing, and the balance of the middle-income housing market as well as the residential housing market using other sources of funding. Sofoles provide mortgage loans to borrowers using funds from securities offerings on the Mexican stock market, loans from Mexican and foreign lenders, their own portfolios, and public agencies such as SHF. They are not allowed to accept deposits from the public.

Although commercial banks and sofoles provide mortgage financing directly to home buyers, the financing is commonly coordinated through the home builder. In order to obtain funding for construction, a home builder must submit proposals, including evidence of title to the land to be developed, architectural plans, necessary licenses and permits, and market studies demonstrating demand for the proposed housing. On approval, lenders provide construction financing and disburse funds as each stage of the housing development advances.

Commercial bank and sofol mortgage loans are typically available for housing ranging from the upper tier of the affordable sector through the residential sector. Home buyers qualifying for these private sector mortgages are generally assumed to be those purchasing homes with a value in excess of US\$35,000. Private sector lenders require down payments of approximately 20% of a home's total value and make loans at fixed or variable annual interest rates based on consumer indices and inflation. Commercial bank and sofol mortgage loans generally mature in ten to thirty years, and payments are sometimes adjusted for increases in the monthly minimum wage and rates of inflation.

Commercial banks and sofoles (not including SHF financing) provided approximately 6.7% of all mortgage financing in Mexico during the year ended December 31, 2004.

Other Public Housing Agencies

Other public housing agencies such as Fonhapo and the Mexican Housing and Social and Urban Development Trust Fund, or Fividesu (*Fideicomiso para Promover y Realizar Programas de Vivienda y Desarrollo Social y Urbano*), operate at the federal and local levels and target mainly non-salaried workers earning less than 25 times the minimum annual wage, often through direct subsidies. These agencies lend directly to organizations such as state and municipal housing authorities, housing cooperatives, and credit unions representing low-income beneficiaries, as well as to individual borrowers. Financing is made available to both the self-built and developer-built markets. The total amount of available funds depends on the Mexican government budget.

Other public housing agencies provided approximately 6.4% of all mortgage financing in Mexico during the year ended December 31, 2004.

Competition

The Mexican home development and construction industry is highly fragmented and includes a large number of regional participants and a few companies with a more national market presence,

including Corporación GEO, S.A. de C.V., Consorcio ARA, S.A. de C.V., URBI Desarrollos Urbanos, S.A. de C.V., and Grupo SADASI. We estimate that approximately 1,200 different companies operate approximately 3,000 new home developments in Mexico at any one time. The following table sets forth approximate operating information on the largest home builders in Mexico with which we compete based on public information and our estimates.

Competitor	2004 Home Sales	2004 Sales (millions of US\$)	Location in Mexico	Sector
GEO	33,228	US\$708	National	AEL(1)
URBI	21,793	592	North and border	AEL(1), M,(2) R(3)
ARA	17,104	521	National	AEL(1), M,(2) R(3)
SADASI	15,000	345	Center-Southeast	AEL(1)
SARE	7,783	243	Mexico City region	AEL(1), M,(2) R(3)
Pulte-Mexico* . .	7,332	189	North and Center	AEL(1), M,(2)
Metta	6,000	180	Mexico City region and Northwest	AEL(1), M,(2) R(3)
Ruba	7,332	152	North	AEL(1)
Hogar	3,721	87	West-Northwest	AEL(1)

Source: Mexican Housing Overview 2005

* Pulte-Mexico is a subsidiary of Pulte Homes.

- (1) AEL refers to affordable entry-level housing.
- (2) M refers to middle-income housing.
- (3) R refers to residential housing.

We believe that we are well positioned to capture future growth opportunities in the affordable entry-level and middle-income housing sectors because of our principal business strengths and strategies, as described above.

Seasonality

The Mexican affordable entry-level housing industry experiences significant seasonality during the year, principally due to the operational and lending cycles of Infonavit and Fovissste. The programs, budgets, and changes in the authorized policies of these mortgage lenders are approved during the first quarter of the year. Payment by these lenders for home deliveries is slow at the beginning of the year and increases gradually through the second and third quarters with a rapid acceleration in the fourth quarter. We build and deliver affordable entry-level homes based on the seasonality of this cycle because we do not begin construction of these homes until a mortgage provider commits mortgage financing to a qualified home buyer in a particular development. Accordingly, we also tend to recognize significantly higher levels of revenue in the third and fourth quarters and our debt levels tend to be highest in the first and second quarters. We budget the majority of our land purchases for the second half of the year to coincide with peak cash flows. As a result, our total land reserves fluctuate between our targeted 18 to 24 months of future home deliveries depending upon the time of year. We anticipate that our quarterly results of operations and our level of indebtedness will continue to experience variability from quarter to quarter in the future. Mortgage commitments from commercial banks and sofoles for middle-income housing are generally not subject to significant seasonality. We expect that as the percentage of our sales from middle-income housing increases, the overall seasonality of our results of operations should diminish.

We acquire land and plan the development of the homes we build through Proyectos Inmobiliarios de Culiacán, S.A. de C.V. or PICSA. Desarrolladora de Casas del Noroeste S.A. de C.V. or DECANO builds the developments that PICSA plans and promotes. We also receive executive and administrative services from Administradora PICSA, S.A. de C.V. and Altos Mandos de Negocios, S.A. de C.V. Homex Atizapán, S.A. de C.V., which we operate and control as a joint venture with strategic partners in the region, owns one of our middle-income developments in the Mexico City area. AeroHomex, S.A. de C.V. provides transportation services to us. Through AAA Homex Trust, a Mexican trust, we establish factoring facilities for the settlement of trade payables to many of our suppliers. See “—Materials and Suppliers.”

Marketing

We develop customer awareness through our marketing and promotion efforts and referrals from satisfied customers. Through surveys we conduct through our marketing department and with sales agents, we gather demographic and market information to help us gauge the feasibility of new developments. We use these surveys to target groups of customers who share common characteristics or have common needs and offer packages of services, including housing models and financing sources, tailored to these groups.

We conduct advertising and promotional campaigns principally through print media, including billboards, fliers, and brochures designed specifically for the target market, as well as local radio and television. Moreover, we complement these campaigns with additional advertising efforts, including booths at shopping centers and other high traffic areas, to promote open houses and other events. In some locations, we work with local employers and other groups to offer our homes to their employees or members and rely on positive word-of-mouth from satisfied customers for a large percentage of our sales. We also employ specially-trained salespeople to market our middle-income housing developments.

Sales

In general, we make sales either at sales offices or model homes. Using data we gather through our marketing efforts, we open sales offices in areas where we identify demand. As of December 31, 2004, we operated 25 sales offices, one in each of the cities where we have established a housing development. Similarly, once we have purchased land and planned a development in regions we have identified as underserved, we build and furnish model homes to display to prospective customers. We have sales offices in each of our branches where trained corporate sales representatives are available to provide customers with relevant information about our products, including financing, technical development characteristics, and information about our competitors and their products. We provide the same information through trained corporate sales representatives at model homes. We recently changed our method of compensating our sales agents to an exclusively performance-based commission method, typically 1.4% of the total home price.

We provide our customers with assistance through our sales departments from the moment they contact us, during the process of obtaining financing, and through the steps of establishing title on their new home. We have specialized sales areas in each of our offices that advise customers on financing options, collecting necessary documentation, and applying for a loan. We also help to design down payment plans tailored to each customer's economic situation. Once houses are sold and delivered, our specialized teams are available to respond to technical questions or problems during the twelve-month warranty period following the delivery.

Customer Financing

We assist qualified homebuyers in obtaining mortgage financing by participating in all the stages of applying for and securing mortgage loans from government-sponsored mortgage lenders, commercial banks, and sofoles.

For sales of affordable entry-level homes, the process of obtaining customer financing generally occurs as follows:

- a potential home buyer enters into a purchase agreement and furnishes the necessary documentation to us;
- we review the documentation to determine whether all the requirements of the relevant mortgage provider have been met;
- we create an electronic credit file for each home buyer and submit it to the relevant mortgage provider for approval;
- we supervise and administer each client file via our database through all the phases of its processing and arrange for signing the required documentation once approval has been obtained;
- the home buyer makes any required down payment;
- once the home has been completed, the buyer signs the deed of transfer of title and the mortgage agreement; and
- we deliver the home to the buyer and register the title.

For sales of middle-income housing, the process of obtaining customer financing occurs as above, except that we collect a down payment of between 10% to 25% of a home's total sales price immediately following the execution of the purchase agreement, and the buyer signs the deed of transfer of title and the mortgage agreement when the home is 90% complete.

In all cases, the procedures and requirements for obtaining mortgage financing are determined by the mortgage provider. We grant no direct financing to home buyers for the purchase of our homes.

In general, the purchase agreement we enter into with a potential buyer binds the buyer to purchase the relevant home at the time that the home is completed. We collect an origination fee at the time that a buyer enters into a purchase agreement, which is returned (less a processing fee) if the sale does not close as a result of a buyer's breach or if a lender declines a mortgage financing application. We have not experienced and do not expect to experience losses resulting from breaches of buyer purchase agreements because we generally have been able to locate other buyers immediately in these cases.

The purchase price of the homes we sell is denominated in pesos and is either fixed in the purchase agreement or is subject to an upward adjustment for the effects of inflation. In cases where the price of a home is subject to adjustment and increases due to inflation, any difference is payable by the buyer.

Design

We internally develop all the construction designs that we use. Our architects and engineers are trained to design structures to maximize efficiency and minimize production costs. Our standardized modular designs, which focus on quality and size of construction, allow us to build our homes quickly

and efficiently. By allowing our clients to upgrade finishing details on a custom basis after homes are delivered, we experience savings that allow us to build larger homes than our competitors.

We use advanced computer-assisted design systems and combine market research data in order to plan potential developments. We believe that our comprehensive design and planning systems, which are intended to reduce costs, maintain competitive prices, and increase sales, constitute a significant competitive advantage in the affordable entry-level housing market. In order to further enhance the residential nature of our communities, we often design our developments as gated communities, install infrastructure for security surveillance, and arrange street layouts to foster road safety. We continue to invest in the development of design and planning construction systems to further reduce costs and continue to meet client needs.

Construction

We manage the construction of each development directly, coordinate the activities of our laborers and suppliers, oversee quality and cost controls, and assure compliance with zoning and building codes. We have developed efficient, durable, and low-cost construction techniques, based on standardized tasks, which we are able to replicate at all of our developments. We pay each laborer according to the number of tasks completed. We generally subcontract preliminary site work and infrastructure development such as roads, sewage, and utilities. Currently, we also subcontract the construction of a limited number of multi-unit middle-income apartment buildings in the Mexico City area.

Our designs are based on modular forms with defined parameters at each stage of construction, which are closely controlled by our central information technology systems. Our methods result in low construction costs and high quality products. We use substantially similar materials to build our middle-income homes, with higher quality components for certain finishing details and fixtures.

Materials and Suppliers

We maintain strict control over our building materials through use of a sophisticated electronic barcode identification system that tracks deliveries and monitors all uses of supplies. In general, we reduce costs by negotiating supply arrangements at the corporate level for the basic materials used in the construction of our homes, including concrete, concrete block, steel, bricks, windows, doors, roof tiles, and plumbing fixtures. We take advantage of economies of scale in contracting for materials and services in every situation and seek to establish excellent working relationships with our suppliers. In order to better manage our working capital, we also arrange lines of credit for many of our suppliers through a factoring program sponsored by Nacional Financiera, S.N.C., or NAFIN, a Mexican government-owned development bank, as well as certain additional financial institutions. We guarantee a portion of the financing provided to some of our suppliers for materials we buy from them during construction and repay these lenders directly with funds received when homes are delivered, which allows us to ensure suppliers are paid on time while minimizing our need to secure construction financing.

Our main suppliers include Cemex, S.A. de C.V., Capeco, S.A. de C.V., Electroferretera Orvi, S.A. de C.V., Mercon de Nuevo Laredo, S.A. de C.V., Kuroda, S.A. de C.V., Prefabricados y Sistemas, S.A. de C.V., Cemex Concretos, S.A. de C.V., Lámina y Placa Comercial S.A. de C.V., Sanitarios Lamosa S.A. de C.V. and Grupo Porcelanite, S.A. de C.V.

Substantially all of the materials that we use are manufactured in Mexico and are delivered to our sites from suppliers' local facilities on a time-efficient basis devised to keep low levels of inventory on hand. Our principal materials and supplies are readily available from multiple sources and we have not experienced any shortages or supply interruptions.

Labor

As of June 30, 2005, we had a total of approximately 8,559 employees including 6,963 unionized and 1,596 non-unionized full- and part-time employees. All of these employees were employed in Mexico. Total employees for 2004, 2003 and 2002 were 7,911, 1,286 and 856, respectively. Approximately 3,520 of our employees as of June 30, 2005 were administrative and managerial personnel.

We hire local labor forces for specific housing developments in each region that we operate in addition to experienced in-house personnel for supervisory and highly skilled work. We have an efficient information technology system that controls payroll costs. Our systems, using barcoded identification cards, track the number of tasks completed by each employee according to the parameters of our modular construction designs, assign salaries according to tasks and homes completed, and award incentives for each stage of the development based on team performance. We also streamline governmental and social security costs for our workforce using a strict attendance control system that captures information fed via our system through laborers' identification cards.

We have implemented programs throughout Homex to assist our employees in obtaining elementary and middle-school equivalency degrees. We believe that these programs enhance our ability to attract and retain high quality employees. In 2004 and 2003 we were named as one of the top 50 "Great Places to Work" in Mexico by the Great Place to Work Institute, which is based in the United States.

As of June 30, 2005, approximately 81% of our employees were members of a national labor union of construction workers. The economic terms of our collective bargaining agreements are negotiated on an annual basis. All other terms and conditions of these agreements are negotiated every other year. We believe that we have an excellent working relationship with our workforce. We have not experienced a labor strike or any significant labor-related delay to date.

As of June 30, 2005, Beta had a total of 2,558 employees, including 808 administrative and managerial personnel and 1,750 construction personnel, all of which are non-unionized full- and part-time employees. All of these employees were employed in Mexico.

Customer Services and Warranties

Our quality control department oversees strict pre-delivery quality control inspections and responds to post-delivery customer needs. We respond to client requests during the construction phase and coordinate every legal aspect that our clients must fulfill when purchasing our products, including signing deeds, obtaining permits, and securing funding. We provide a twelve-month warranty following delivery of the home. Historically, we have spent immaterial amounts in warranty claims. In the past three years, we have spent an aggregate of less than 0.4% of our total revenues in warranty claims.

Community Services

We seek to foster brand loyalty after construction is complete by strengthening community relations in the developments we build. As part of agreements with potential clients and governmental authorities, we donate land and build community infrastructures such as schools, day-care centers, churches, and green areas, often amounting to 10% to 15% of the total land area of the developments we construct. For a period of eighteen months, we also provide for community development specialists to assist in promoting community relations in certain developments by organizing neighborhood events such as competitions for beautiful homes and gardens.

Regulation

General

Our operations are subject to Mexican federal, state, and local regulation as any other corporation doing business in Mexico. Some of the most relevant statutes, regulations, and agencies that govern our operations include the following:

- The Mexican General Human Settlements Act (*Ley General de Asentamientos Humanos*) regulates urban development, planning, and zoning and delegates to the Mexico City and state governments the authority to promulgate urban development laws and regulations within their jurisdiction, including the Urban Development Act (*Ley de Desarrollo Urbano*) of each state where we operate, which regulates state urban development.
- The Mexican Federal Housing Act (*Ley Federal de Vivienda*) coordinates the activities of states, municipalities, and the private sector within the context of the housing industry. As in effect, the Federal Housing Act seeks to encourage and promote the construction of affordable entry-level housing.
- Local Building Regulations (*Reglamentos de Construcción*) and urban development plans promulgated by the states, Mexico City, and local municipalities control building construction, establish the required licenses and permits, and define local zoning and land-use requirements.
- The Mexican Infonavit Act (*Ley del Instituto del Fondo Nacional de la Vivienda para los Trabajadores*) requires that construction financing provided by Infonavit be granted only to registered developers that participate in public Infonavit bidding processes.
- The Federal Mortgage Society Organizational Act (*Ley Orgánica de la Sociedad Hipotecaria Federal*) encourages the development of the primary and secondary home mortgage markets by authorizing SHF to grant home mortgage loans pursuant to the Federal Mortgage Society General Financing Conditions (*Condiciones Generales de Financiamiento de Sociedad Hipotecaria Federal*), which regulate the general terms and conditions on which these loans may be granted.
- The Mexican Federal Consumer Protection Act (*Ley Federal de Protección al Consumidor*) promotes and protects consumer rights and seeks to establish equality and legal certainty in relationships between consumers and commercial suppliers.

Environmental

Our operations are subject to the Mexican General Environmental Protection Act (*Ley General del Equilibrio Ecológico y la Protección al Ambiente*), the Mexican General Waste Prevention and Management Act (*Ley General para la Prevención y Gestión Integral de los Residuos*), and the related regulations. The Mexican Ministry of the Environment and Natural Resources (*Secretaría del Medio Ambiente y Recursos Naturales*) and the Mexican Federal Environmental Protection Agency (*Procuraduría Federal de Protección al Ambiente*) are the federal governing authorities responsible for enforcing environmental regulations in Mexico, including environmental impact studies, which are required for obtaining land-use permits, investigations, and audits, as well as to provide guidelines and procedures regarding the generation, handling, disposal, and treatment of hazardous and non-hazardous waste.

We are committed to conducting our business operations in a manner that minimizes environmental impact. Our business processes include procedures that are intended to ensure compliance with the Mexican General Environmental Protection Act, the Mexican General Waste Prevention and Management Act, and the related regulations. In accordance with these laws, we build

our homes with metal instead of wooden beams and treat waste water for use in irrigating common areas in our developments. We plant trees on the land of homes we sell and provide plantings on land that we donate to our communities. Our internal teams conduct environmental studies for each project and produce environmental reports that are intended to identify environmental issues and assist in project planning in order to minimize adverse environmental effects, such as limiting the felling of trees during the process of urbanizing rural land for use in our developments. Our costs include the cost of complying with applicable environmental regulations. To date, the cost of complying and monitoring compliance with environmental regulations applicable to us has been immaterial.

Legal Proceedings

As of the date of this offering circular, we, including the Beta entities and operations we acquired on July 1, 2005, are involved in certain legal proceedings incidental to the normal operation of our business. We do not believe that liabilities resulting from these proceedings are likely to have a material adverse effect on our financial condition, cash flows or results of operations.

Significant Subsidiaries

We are a holding company and conduct our operations through subsidiaries. The table below sets forth our principal subsidiaries as of June 30, 2005.

<u>Name of Company</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage Owned</u>	<u>Products/ Services</u>
Proyectos Inmobiliarios de Culiacán, S.A. de C.V.	Mexico	100.00%	Development of housing complexes
Desarrolladora de Casas del Noroeste, S.A. de C.V.	Mexico	95.86%(1)	Construction of housing complexes
Administradora Picsa, S.A. de C.V. .	Mexico	100.00%	Rendering of administrative services to and professional services for affiliated companies
Altos Mandos de Negocios, S.A. de C.V.	Mexico	100.00%	Rendering of administrative services to affiliated companies
Homex Atizapán, S.A. de C.V.	Mexico	67.00%(2)	Development of housing complexes
AeroHomex S.A. de C.V.	Mexico	100.00%	Rendering of transportation services to Homex
AAA Homex Trust, Nacional Financiera, S.N.C., as trustee(3) .	Mexico	100.00%	Purchase of receivables

- (1) The balance of the shares of Desarrolladora de Casa de Noroeste, which we refer to as DECANO, are held by the former owners of Econoblock, which merged into DECANO in 2004.
- (2) The balance of the shares of Homex Atizapán is held by the individual who owns the land being developed by Homex Atizapán.
- (3) Under the trust agreement, we hold beneficiary rights for residual interests and NAFIN, as Creditor, has first priority rights. Through this trust, we establish factoring facilities for the settlement of trade payables to many of our suppliers.

In addition, the table below sets forth Beta's major subsidiaries as of June 30, 2005.

<u>Name of Company</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage Owned</u>	<u>Products/ Services</u>
Casas Beta del Centro, S.A. de C.V. . .	Mexico	100%	Development of housing complexes
Casas Beta del Noroeste, S.A. de C.V.	Mexico	100%	Development of housing complexes
Casas Beta del Norte, S.A. de C.V. . .	Mexico	100%	Development of housing complexes
Edificaciones Beta, S.A. de C.V.	Mexico	100%	Construction of housing complexes
Edificaciones Beta del Noroeste, S.A. de C.V.	Mexico	100%	Construction of housing complexes
Edificaciones Beta del Norte, S.A. de C.V.	Mexico	100%	Construction of housing complexes

Recent Developments

Acquisition of Controladora Casas Beta, S.A. de C.V.

On July 1, 2005, we acquired Controladora Casas Beta S.A. de C.V., or Beta, which, prior to its acquisition by us was the sixth largest homebuilder in Mexico measured by units sold in 2004. After giving effect to the acquisition, we believe we are now the largest homebuilder in Mexico in terms of operating income on a pro forma basis for 2004.

We believe that our acquisition of Beta will provide significant economies of scale and further expand our geographic reach. Together with Beta, we have approximately a 7.8% share of the Mexican housing market in terms of units sold in 2004. Our Beta acquisition also strengthens our presence in the top four Mexican home-building markets: Estado de México, Guadalajara, Monterrey and Tijuana.

As of June 30, 2005, Beta had 12 developments under construction in Estado de México, Nuevo León, Baja California and Mexico City, areas that together represent approximately 28.7% of the population of Mexico. Additionally, as of such date, Beta had land reserves under title of approximately 4.6 million square meters, with an estimated capacity to build approximately 23,300 affordable entry-level houses and 6,200 middle-income homes. As of June 30, 2005, Beta was in the process of acquiring additional land of approximately 870,000 square meters, with an estimated capacity to build approximately 6,200 affordable entry-level homes.

The purchase price for Beta was approximately Ps.2,041.5 million (US\$188.9 million). The acquisition of Beta involved the purchase of 53.0% of Beta's stock for approximately Ps.1,063.9 million (US\$98.4 million) in cash and the purchase of the remaining 47.0% of Beta's stock in exchange for 22.0 million of our common shares valued at Ps.977.6 million (US\$90.5 million). On the date of the acquisition we incurred financing of Ps.1,081.0 million (US\$100.4 million). Following the acquisition, Beta was merged with and into Homex, with Homex being the surviving entity. As a result of the Beta acquisition, former Beta shareholders own approximately 6.6% of Homex's capital stock.

Beta was a housing development company located in the Mexico City area that focused on affordable entry-level and middle-income housing. During 2004, Beta sold 11,055 homes, an increase of 79.5% over 2003 and during the six-month period ended June 30, 2005, Beta sold 5,846 homes, an increase of 16.4% over the same period in 2004.

For the year ended December 31, 2004, Beta had revenues of Ps.2,497.7 million (US\$231.9 million), an increase of 51.4% from the previous year. Its revenues for the six-month period ended June 30, 2005 were Ps.1,240.1 million (US\$115.1 million), an increase of 19.3% over the same period in 2004. For 2004, 97.0% of Beta's revenue was attributable to affordable entry-level home sales, with 3.0% of revenue attributable to sales of residential homes. For the six-month period ended June 30, 2005, 100% of Beta's revenue was attributable to affordable entry-level home sales.

For the year ended December 31, 2004, Beta had operating income of Ps.498.4 million (US\$46.3 million), an increase of 132.4% from the previous year. Its operating income for the six-month period ended June 30, 2005 was Ps.197.1 million (US\$18.3 million), an increase of 27.5% over the same period in 2004.

For the year ended December 31, 2004, Beta had net income of Ps.331.0 million (US\$30.7 million), an increase of 185.5% from the previous year. Its net income for the six-month period ended June 30, 2005 was Ps.152.7 million (US\$14.2 million), an increase of 57.4% over the same period in 2004.

For the year ended December 31, 2004, Beta had total indebtedness of Ps.478.3 million (US\$44.5 million), an increase of 68.1% from the previous year. Its total indebtedness for the six-month period ended June 30, 2005 was Ps.612.2 million (US\$56.8 million), an increase of 28.0% over June 30, 2004.

Beta's consolidated financial statements as of December 31, 2003 and 2004 and for each of the three years ended December 31, 2002, 2003 and 2004, and as of June 30, 2005 and for the six-month periods ended June 30, 2004 and 2005 are included in this offering circular beginning on page A-1. Unaudited pro forma condensed combined financial statements reflecting the combined accounts of Homex and Beta on a pro forma basis for the year ended December 31, 2004 and as of and for the six-month period ended June 30, 2005 are also included in this offering circular, beginning on page B-1. Certain selected unaudited pro forma condensed combined financial information reflecting the combined accounts of Homex and Beta are also included in this offering circular in "Unaudited Pro Forma Consolidated Combined Financial Information."

MANAGEMENT

Directors and Executive Officers

Our board of directors currently consists of ten members and is responsible for managing our business. Each director is elected for a term of one year or until a successor has been appointed. Our board of directors meets quarterly. Pursuant to Mexican law, at least 25% of the members of the board of directors must be independent, as the term independent is defined by the Mexican Securities Market Law. As required by New York Stock Exchange regulations, a majority of the members of our board of directors are independent.

As of the date of this offering circular, the members of our board of directors are as follows:

Name	Born	Position	Alternate
Eustaquio Tomás de Nicolás Gutiérrez . .	1961	Chairman	Ana Luz de Nicolás Gutiérrez
Gerardo de Nicolás Gutiérrez	1968	Chief Executive Officer	Juan Carlos Torres Cisneros
José Ignacio de Nicolás Gutiérrez	1964	Director	Julián de Nicolás Gutiérrez
Luis Alberto Harvey McKissack*	1960	Director	Arturo J. Saval Pérez
Gary R. Garrabrant*	1957	Vice Chairman	Thomas J. McDonald
Matthew M. Zell*	1966	Director	Jeffrey D. Klein
Z. Jamie Behar*	1957	Director	Ira Chaplik
Wilfrido Castillo Sánchez-Mejorada*	1941	Director	Samuel Campos Velarde
Edward Lowenthal*	1944	Director	Christopher J. Fiegen
Carlos Romano y Micha*	1948	Director	Roberto Langenauer Neuman

* Independent directors

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. He has served as regional chairman and regional vice chairman of the Mexican Federation of Industrial Housing Promoters, or Provivac (*Federación 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 has served as CEO since 1997. Prior to becoming CEO, Mr. de Nicolás served as regional manager, systems manager, and construction manager supervisor. Currently, Mr. de Nicolás participates in overseeing our main operations, focusing on sales and construction.

Jose Ignacio de Nicolás Gutiérrez is founder and chairman of the board of directors of Hipotecaria Crédito 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 regional director of Fianzas Monterrey and a state director of NAFIN.

Luis Alberto Harvey McKissack is co-founder and managing principal of ZN Mexico Capital Management, L.L.C. and managing principal of ZN Mexico Capital Management II, L.L.C., which both sponsor private equity funds. He is also the managing director of Nexxus Capital, S.C., an investment banking boutique based in Mexico City. Mr. Harvey is a member of the board of directors of Industrias Innopack, S.A. de C.V., Aerobal, S.A. de C.V., Distribuidora Ybarra, S.A. de C.V., Grupo Mantenimiento de Giros Comerciales Internacional, S.A. de C.V. (Grupo Mágico), Crédito Inmobiliario, S.A. de C.V., and Nexxus Capital, S.C.

Gary R. Garrabrant is vice chairman of our board of directors and CEO of EIP, which invests in real estate-related companies outside of the United States. He has been associated with EIP since inception in 1999 and oversees all of the company's activities and investment portfolio. Mr. Garrabrant

is also executive vice president of EGI, the privately-held investment company founded and led by Samuel Zell. Mr. Garrabrant joined EGI in 1996. He is a member of the board of directors of Fondo de Valores Inmobiliarios S.A.C.A., a Latin American real estate company, EIP and various portfolio companies. Mr. Garrabrant is also a member of the Real Estate Advisory Board at Cambridge University.

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 of GP Strategies, a global performance improvement company providing corporate education strategies, training, engineering, consulting, and technical services to leading organizations in the automotive, steel, power, chemical, energy, pharmaceutical and food & beverage industries, as well as the government sector. Mr. Zell is the son of Samuel Zell.

Z. Jamie Behar is a portfolio manager with General Motors Investment Management Corporation, or GMIMCo. She manages GMIMCo clients' real estate investment portfolios, including both privately-negotiated and publicly-traded security investments, as well as their alternative investment portfolios. Ms. Behar is a member of the board of directors of Sunstone Hotel Investors, Inc., a publicly listed hotel company operating in the United States, Hospitality Europe B.V., a private European hotel company, and FountainGlen Properties, L.L.C., a private senior housing company. She also serves on the advisory committees of several domestic and international private real estate investment entities.

Wilfrido Castillo Sánchez-Mejorada is CFO of Qualitas Cía. de Seguros, S.A. 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, Actinver, S.A. de C.V., Sociedad Operadora de Sociedades de Inversión, Ficsac, Unión de Esfuerzo para el Campo, Fundación Mexicana de Psicoanálisis, I. A. P., and Industrias Innopack, S.A. de C.V., where he also serves as chairman of the audit committee.

Edward Lowenthal is president of Ackerman Management L.L.C., 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. American Campus Communities, a publicly traded Real Estate Investment Trust which focuses solely on student housing in the United States, and Ark Restaurants Corp., a company that engages in the ownership and operation of restaurants, fast food concepts, catering operations, and wholesale and retail bakeries.

Carlos Romano y Micha joined the Homex board of directors in July 2005, becoming its most recent member. Mr. Romano is a founding partner of Casas Beta and served as its Chairman of the Board until Beta's merger with Homex. Since 1970, he has also been a founding partner in the firm Carlos Romano y Asociados. He holds a master's degree in Public Administration from Florida International University and an undergraduate degree in Law from the Universidad Nacional Autónoma de México.

Eustaquio Tomás de Nicolás Gutiérrez, Gerardo de Nicolás Gutiérrez, and José Ignacio de Nicolás Gutiérrez are brothers.

Secretary

As of June 30, 2005, the secretary of the board of directors is Jaime Cortés Rocha and Gerardo Gaxiola Díaz is an alternate secretary of the board of directors. Neither Mr. Cortes nor Mr. Gaxiola are members of the board of directors.

Senior Management

As of the date of this offering circular, our senior management is as follows:

Name	Born	Position
Eustaquio Tomás de Nicolás Gutiérrez . .	1961	Chairman
Gerardo de Nicolás Gutiérrez	1968	Chief Executive Officer
Roberto Carrillo Herrera	1965	Chief Financial Officer
Rubén Izábal González	1968	Vice President—Construction
Alberto Menchaca Valenzuela	1969	Vice President—Operations
Josemaría Antón Vlasich de la Rosa . . .	1978	Vice President—Sales, Marketing and Regional Offices
Paulo Cesar Piña Verdugo	1970	Corporate Director, Administration
Mónica Lafaire Cruz	1964	Vice President—Regional Offices

Roberto Carrillo Herrera was appointed Chief Financial Officer in July 2005. Prior to his current position, he served as CFO at Beta from 2001 to July 2005. Mr. Carrillo's previous experience includes Senior Equity Analyst covering Cement and Construction at ING Barings in Mexico and the U.K. as well as Director of Investment Banking for Latin American Cement and Construction at Deutsche Bank in Mexico and the United States. Mr. Carrillo holds a master's degree in business administration from the London Business School in the United Kingdom and an undergraduate degree in business administration from Instituto Tecnológico y de Estudios Superiores de Monterrey in Mexico.

Alberto Menchaca Valenzuela has served as Vice President—Operations since 2000. Prior to becoming COO, Mr. Menchaca served as finance manager. His prior experience includes work at Banco Mexicano, Invermexico, and Banca Confía. Currently, Mr. Menchaca oversees our main operations, with a focus on home deliveries. Mr. Menchaca earned an undergraduate degree in agricultural engineering from Universidad Autónoma Agraria Antonio Narro in Saltillo, Coahuila.

Rubén Izábal González has served as Vice President—Construction since 1997. Prior to joining Homex, Mr. Izábal served at different construction companies as Gómez y Gonzales Constructores, Provisur, S.A. de C.V., Promotoría de Vivienda del Pacífico, S.A. de C.V., and Constructor Giza, S.A. de C.V. Currently, Mr. Izábal oversees our construction operation, with a focus on the home-building process. Mr. Izábal earned an undergraduate degree in Architecture from Instituto Tecnológico y de Estudios Superiores del Occidente in Guadalajara, Jalisco.

Josemaría Antón Vlasich de la Rosa has served as Vice President—Sales and Marketing since March 2004. From 2002 to March 2004, he served as Vice President—Regional Offices. His prior experience includes work at Cemex, S.A. de C.V., Banco Nacional de México, S.A., American Express, and Universidad Panamericana. Currently, he coordinates our sales and marketing activities. He holds a master's degree in business administration and an undergraduate degree in marketing and management, both from Universidad Panamericana, Mexico City.

Paulo Cesar Piña Verdugo has served as Corporate Director—Administration since May 2005. Prior to his current position, Mr. Piña joined Homex in 1998 and started as Finance Executive, later serving as Finance Director from 2000 to 2003 and as Finance and Corporate Finance Director from 2004 to 2005. His previous experience also includes serving as the General Director of Ahome Village S.A, a food processing company from 1995-1998. Currently he oversees the operations of the following Homex departments: Human Resources, Treasury, IT systems and General Services. Mr. Piña holds an

undergraduate degree in marketing and management from Instituto Tecnológico y de Estudios Superiores de Monterrey.

Mónica Lafaire Cruz has served as Vice President—Regional Offices since February 2005. Miss Lafaire joined Homex in 2001 and prior to her current position she served as Director of Strategic Planning and diverse managing positions in the Finance division. Her prior experience includes work as full-time professor at Universidad Panamericana. Currently, she coordinates the activities of our branch offices and their directors. Miss Lafaire holds a master's degree in business administration from Universidad La Salle in Mexico City and an undergraduate degree in economics from Universidad de Monterrey.

Compensation of Directors and Senior Management

Each member of the board of directors is paid a fee of US\$12,500 for each board meeting that he or she attends, subject to an annual cap of US\$45,000 per member of the board of directors.

For 2004, the aggregate amount of compensation paid to all directors, alternate directors, executive officers and audit committee members was approximately US\$127,859.

We offer a bonus plan to our directors and senior management that is based on individual performance and on the results of our operations. This variable compensation can range from 30% to 50% of annual base compensation, depending upon the employee's level.

Share Ownership

The following table sets forth the beneficial ownership of our capital stock by our directors and senior management as of July 1, 2005 following our acquisition of Beta on such date.

<u>Name</u>	<u>Number of Common Shares Owned</u>	<u>Percentage of Common Shares Outstanding</u>
Eustaquio Tomás de Nicolás Gutiérrez	34,348,250	10.2%
José Ignacio de Nicolás Gutiérrez	34,348,250	10.2%
Gerardo de Nicolás Gutiérrez	20,608,950	6.1%
Carlos Romano y Micha	10,786,399	3.2%
Roberto Carrillo Herrera	*	*
Rubén Izábal González	*	*
Alberto Menchaca Valenzuela	*	*
Josemaria Antón Vlasich de la Rosa	*	*
Luis Alberto Harvey McKissack	*	*
Gary R. Garrabrant	*	*
Matthew M. Zell	*	*
Z. Jamie Behar	*	*
Wilfrido Castillo Sánchez-Mejorada	*	*
Edward Lowenthal	*	*
Monica Lafaire Cruz	*	*
Paulo Cesar Piña Verdugo	*	*

* Beneficially owns less than one percent of the outstanding shares of our capital stock.

THE PRINCIPAL SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Principal Shareholders

As of July 1, 2005 following our acquisition of Beta, there were 335,869,550 common shares issued and outstanding, with shares held in the United States in the form of American Depositary Shares by six record holders. The remaining shares were held in Mexico. Because certain of the shares are held by nominees, the number of record holders may not be representative of the number of beneficial holders.

The table below sets forth information concerning the percentage of our capital stock owned by any person known to us to be the owner of 5% or more of any class of our voting securities, our directors and officers as a group and our other shareholders as of July 1, 2005 following our acquisition of Beta. The company's major shareholders do not have different or preferential voting rights with respect to the shares they own.

Identity of Owner	As of July 1, 2005(1)	
	Number of Shares	% of Share Capital
de Nicolás family(2)	137,393,001	40.9%
Equity International Properties, Ltd.(3)	68,142,301	20.3%
Total(4)	335,869,550	100.0%

- (1) Following our acquisition of Beta. For a description of the terms of our acquisition of Beta, including the exchange of 22.0 million of our common shares, see "Business—Recent Developments."
- (2) Held by Ixe Banco, S.A. as trustee of Trust No. F/466, for the benefit of the de Nicolás family, including Eustaquio de Nicolás Vera, Eustaquio Tomás de Nicolás Gutiérrez, José Ignacio de Nicolás Gutiérrez, Gerardo de Nicolás Gutiérrez, and Julián de Nicolás Gutiérrez. Voting and dispositive control over these shares is directed by a Technical Committee comprised of Eustaquio de Nicolás Vera, Eustaquio Tomás de Nicolás Gutiérrez, José Ignacio de Nicolás Gutiérrez, Gerardo de Nicolás Gutiérrez, and Julián de Nicolás Gutiérrez.
- (3) Held by EIP Investment Holdings L.L.C., BVBA, an indirect subsidiary of EIP. Voting control over these shares is shared by EIP's senior management team, headed by Samuel Zell, chairman of EIP, and Gary R. Garrabrant, CEO of EIP and one of our directors. EIP is located at Two North Riverside Plaza, Chicago, IL, 60606.
- (4) Includes public shareholders and former Beta shareholders that in the aggregate hold 32.2% and 6.6% of our share capital, respectively. No single shareholder in either of the above-referenced groups holds 5% or more of our capital stock.

Related Party Transactions

We have engaged, and in the future may engage, in transactions with our shareholders and companies affiliated with our shareholders. We believe that the transactions in which we have engaged with these parties have been made on terms that are no less favorable to us than those that could be obtained from unrelated third parties. Recently, we began requiring that transactions with our shareholders and companies affiliated with our shareholders be approved by our board of directors after considering the recommendation of our audit committee and, in certain cases, after an independent fairness opinion, as required by the Mexican Securities Market Law.

Hipotecaria Crédito y Casa, S.A. de C.V.

Eustaquio Tomás de Nicolás Gutiérrez, our chairman, and José Ignacio de Nicolás Gutiérrez, brother of Eustaquio Tomás de Nicolás Gutiérrez and chairman of Hipotecaria Crédito y Casa, S.A. de C.V, or Crédito y Casa, collectively own a 29.4% ownership interest in this sofol, the principal business of which is providing mortgage financing and bridge loan financing. Eustaquio Tomás de Nicolás Gutiérrez and José Ignacio de Nicolás Gutiérrez are both members of the de Nicolás family, which collectively owns 43.8% of our share capital. Crédito y Casa has provided bridge loan financing to us and mortgages under SHF-sponsored programs to our clients. During 2002, 2003 and 2004, Crédito y Casa provided mortgages with respect to certain of the homes sold by us. We expect to continue to sell homes to buyers who obtain mortgages from Crédito y Casa.

We estimate that in 2004 less than 19% of the mortgages obtained by our home buyers were provided by related parties. We estimate that during the six-month period ended June 30, 2005 less than 13% of the mortgages obtained by our home buyers were provided by related parties.

During 2004, the largest aggregate outstanding balances owed to Crédito y Casa were Ps.61.8 million and UDI 5.1 million. There were no amounts outstanding as of December 31, 2004. These loans bore interest at varying rates and matured at various dates through 2005. During 2004, we made aggregate interest payments of Ps.2.7 million and UDI 322,122.

During 2003, the largest aggregate outstanding balances owed to Crédito y Casa were Ps.132.2 million and UDI 55.1 million. The aggregate amounts outstanding as of December 31, 2003 were Ps.92.7 million and UDI 7.3 million. These loans bore interest at varying rates and matured at various dates through 2004. During 2003, we made aggregate interest payments of Ps.4.0 million and UDI 3.6 million.

During 2002, the largest aggregate outstanding balances owed to Crédito y Casa were Ps.60.1 million and UDI 47.3 million. The aggregate amount outstanding as of December 31, 2002 was Ps.45.1 million and UDI 45.1 million. These loans bore interest at varying rates and matured at various dates through 2003. During 2002, we made aggregate interest payments of Ps.3.1 million and UDI 3.7 million.

As of June 30, 2005 no amounts were outstanding to Crédito y Casa, but may receive additional financing from Crédito y Casa in the future.

Crédito Inmobiliario, S.A. de C.V.

EIP acquired a 24.64% interest in this sofol on December 1, 2003. Also on December 1, 2003, Crédito Inmobiliario, S.A. de C.V., or Crédito Inmobiliario, acquired the entirety of the loan portfolio of Terras Hipotecaria, S.A. de C.V., or Terras Hipotecaria. Prior to this acquisition, Terras Hipotecaria provided construction financing to us via bridge loans and mortgage financing to our clients via SHF-sponsored programs.

As of June 30, 2005, no amounts were outstanding under these lines of credit.

We have no amounts outstanding to Crédito Inmobiliario, but may receive additional financing from Crédito Inmobiliario in the future. Crédito Inmobiliario provided mortgages with respect to certain of the homes sold by us and we expect to continue to sell homes to buyers who obtain mortgages from Crédito Inmobiliario.

Econoblock, S.A. de C.V.

Effective May 15, 2004, our DECANO subsidiary entered into an agreement with Gerardo de Nicolás Gutiérrez, our Chief Operating Officer, Josefina Gutiérrez Pando de de Nicolás, his mother, and José Ignacio de Nicolás, his brother, to merge Econoblock, S.A. de C.V. with DECANO.

Prior to June 1, 2004, we purchased cement block, concrete, and asphalt from Econoblock in the cities of Culiacán, Mazatlán, Guadalajara, Ciudad Juárez, and Laredo. Gerardo de Nicolás Gutiérrez, Josefina Gutiérrez Pando de de Nicolás and José Ignacio de Nicolás collectively owned a 100% interest in Econoblock prior to June 1, 2004, when Econoblock merged with and into DECANO.

Prior to June 1, 2004, we purchased materials from Econoblock in an aggregate amount of Ps.31.0 million in 2004, Ps.63.0 million in 2003 and Ps.27.7 million in 2002. These purchases represented 3.7% of our total purchases of construction materials and services during 2004, and 7.1% during 2003 and 5.7% during 2002.

Econoblock had revenues of Ps.40.0 million for the six-month period ended June 1, 2004, approximately three-fourths of which came from sales to us. As of June 1, 2004, Econoblock had a net loss of Ps.1 million. For the six months ended June 1, 2004, Econoblock had net assets of Ps.15.0 million. We believe that in the near future, our operations will utilize all of the products that Econoblock can supply.

In consideration for their shares of Econoblock, the former shareholders of Econoblock received common shares of DECANO representing 4.1% of DECANO's outstanding share capital. We continue to own the remaining 95.9% of the shares of DECANO. We have an option to purchase the shares of DECANO owned by the former shareholders of Econoblock at book value. As of December 31, 2004, the book value of these remaining shares was Ps.6.7 million. We intend to exercise this purchase right, although we cannot assure you of the timing of this exercise.

Concurrent with the DECANO merger and as additional consideration for their sale of the Econoblock shares to DECANO, certain members of the de Nicolás family were issued 8,481,673 of our common shares and made a capital contribution of Ps.4.3 million in our company. These common shares have a value of approximately US\$393,443.

These values were arrived at by negotiations between Homex, EIP, ZN Mexico Trust, on the one hand and the shareholders of Econoblock, on the other hand, and the transaction was approved in accordance with the bylaws of the Company.

After giving effect to the transactions described above, we own all of the share capital of Econoblock, and the members of the de Nicolás family owns an additional 8,481,673 of our common shares.

Land Purchases from Related Parties

On November 5, 2004, Proyectos Inmobiliarios de Culiacán, S.A. de C.V., or PICSA, our wholly owned subsidiary, purchased from Anixter de México, S.A. de C.V., a wholly owned subsidiary of Anixter Internacional, whose main shareholder is Equity Investment Properties, parent company of EIP, 50,664.8 square meters of land located in Xalapa, Veracruz., for a purchase price of approximately Ps.4,904,690 (US\$455,318).

On June 15, 2005, PICSA sold to Mexico Retail Properties Fund I.S. de R.L. de C.V., a wholly owned subsidiary of MRP-EIP Retail Holding GP, which is a subsidiary of Equity Investment Properties, 7,928.88 square meters of a commercial land located in Santa Fe, Culiacán Sinaloa, for the total amount of Ps.5,550,222.30 (US\$515,245).

These transactions were authorized or ratified by our audit committee and our board of directors.

Service Companies

We previously compensated certain of our senior management through payments to certain limited partnerships in which they owned partnership interests. We paid an aggregate amount of Ps.47.5 million during 2004, Ps.51.1 million during 2003 and Ps.32.0 million during 2002 to these partnerships. This

arrangement was terminated effective March 31, 2004 in respect of compensation to our senior management.

Registration Rights Agreement

In connection with our initial public offering of stock, we and our existing shareholders entered into an equity registration rights agreement which provides our existing shareholders with registration rights relating to our common shares held by them immediately prior to the initial public offering and any common shares or ADSs they may acquire after the offering. Pursuant to this equity registration rights agreement, at any time beginning 180 days after the effective date of the registration statement relating to the share offering, subject to customary exceptions, these shareholders may request that we file a registration statement under the Securities Act covering their common shares or ADSs representing the common shares. These shareholders (with the de Nicolás family being treated as one shareholder for this purpose) may each request two demand registrations. In addition, at any time that we are eligible to use the SEC's short-form registration statement on Form F-3 (or any successor form), these shareholders may request that we register their common shares or ADSs for resale from time to time on a delayed or continuous basis. These shareholders also have certain "piggyback" registration rights with respect to their common shares and ADSs. Accordingly, if we propose to register any of our securities, either for our own account or for the account of other shareholders, with certain exceptions, we are required to notify these shareholders and to include in such registration all the common shares or ADSs requested to be included by these shareholders, subject to rejection of such shares under certain circumstances by an underwriter.

The equity registration rights agreement sets forth customary registration procedures, including an agreement by us to make available our senior management for roadshow presentations. All registration expenses incurred in connection with any registration, other than underwriting commissions, will be paid by us. In addition, we are required to reimburse the selling shareholders for the fees and disbursements of one outside counsel retained in connection with any such registration. The equity registration rights agreement also imposes customary indemnification and contribution obligations on us for the benefit of these shareholders and any underwriters, although these shareholders must indemnify us for any liabilities resulting from information provided by them.

The shareholders' rights under the equity registration rights agreement remain in effect with respect to the common shares and ADSs covered by the agreement until:

- those securities have been sold under an effective registration statement under the Securities Act;
- those securities have been sold to the public under Rule 144 under the Securities Act; or
- those securities have been transferred in a transaction where a subsequent public distribution of those securities would not require registration under the Securities Act.

DESCRIPTION OF NOTES

We will issue the Notes under an Indenture, to be dated the Issue Date, between us, the Subsidiary Guarantors and The Bank of New York, as Trustee (the “Trustee”). The terms of the Notes include those stated in the Indenture and those made a part of the Indenture by reference to the Trust Indenture Act of 1939 (the “TIA”). We summarize below certain provisions of the Indenture, but do not restate the Indenture in its entirety. We urge you to read the Indenture because it, and not this description, defines your rights. You can obtain a copy of the Indenture in the manner described under “Available Information,” and, for so long as the Notes are listed on Euro MTF, the alternative market of the Luxembourg Stock Exchange, at the office of the paying agent in Luxembourg.”

You can find the definition of capitalized terms used in this section under “Certain Definitions.” When we refer to:

- the Company in this section, we mean Desarrolladora Homex, S.A. de C.V., and not any of its subsidiaries; and
- Notes in this section, we mean the Notes originally issued on the Issue Date and Additional Notes.

General

The Notes will:

- be general unsecured obligations of the Company,
- rank equal in right of payment with all other existing and future Senior Indebtedness of the Company,
- rank senior in right of payment to all existing and future Subordinated Indebtedness of the Company, if any,
- be effectively subordinated to all existing and future secured Indebtedness of the Company,
- be unconditionally guaranteed on a general unsecured senior basis by all of the Company’s existing Restricted Subsidiaries that are Significant Subsidiaries and any future Restricted Subsidiaries that are (x) Wholly-Owned Subsidiaries and (y) Significant Subsidiaries; and
- be structurally subordinate to all existing and future Indebtedness and trade payables of the Company’s subsidiaries that do not guarantee the Notes.

As of June 30, 2005, on a pro forma basis after giving effect to the acquisition of Beta, this offering and the related transactions as described under “Use of Proceeds”:

- the Company and its Subsidiaries would have had consolidated total indebtedness of US\$304.0 million,
- the Company and the Subsidiary Guarantors would have had consolidated total indebtedness of US\$304.0 million, of which US\$3.9 million would have been secured,
- the Company’s Subsidiaries that are not Subsidiary Guarantors would have had no consolidated indebtedness.

Additional Notes

Subject to the limitations set forth under “Certain Covenants—Limitation on Incurrence of Additional Indebtedness,” the Company and its Subsidiaries may incur additional Indebtedness. At the Company’s option, this additional Indebtedness may consist of additional Notes (“Additional Notes”) issued by the Company in one or more transactions, which have identical terms (other than issue date

and issue price) as Notes issued on the Issue Date. Holders of Additional Notes would have the right to vote together with Holders of Notes issued on the Issue Date as one class.

Principal, Maturity and Interest

The Company will issue Notes in denominations of US\$2,000 and integral multiples of US\$1,000 in excess thereof. The Notes will mature on September 28, 2015. The Notes will not be entitled to the benefit of any mandatory sinking fund.

Interest on the Notes will accrue at the rate of 7.50% per annum and will be payable semi-annually in arrears on each March 28 and September 28, commencing on March 28, 2006. Payments will be made to the persons who are registered Holders at the close of business on March 15 and September 15, respectively, immediately preceding the applicable interest payment date.

Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the Issue Date. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. The redemption of Notes with unpaid and accrued interest to the date of redemption will not affect the right of Holders of record on a record date to receive interest due on an interest payment date.

Initially, the Trustee will act as Paying Agent and Registrar for the Notes. The Company may change the Paying Agent and Registrar without notice to Holders. If a Holder of US\$10.0 million or more in aggregate principal amount of Notes has given wire transfer instructions to the Company at least 10 Business Days prior to the applicable payment date, the Company will make all principal, premium and interest payments on those Notes in accordance with those instructions. All other payments on the Notes will be made at the office or agency of the Paying Agent and Registrar in New York City unless the Company elects to make interest payments by check mailed to the registered Holders at their registered addresses. Application has been made to list the Notes on Euro MTF, the alternative market of the Luxembourg Stock Exchange. As long as the Notes are listed on this market and as long as the rules of this exchange require, the Company will also maintain a Paying Agent and a transfer agent in Luxembourg.

Additional Amounts

We are required by Mexican law to deduct Mexican withholding taxes from payments of interest to investors who are not residents of Mexico for tax purposes, and will pay additional amounts on those payments to the extent described in this subsection.

The Company and the Subsidiary Guarantors will pay to holders of the Notes all additional amounts that may be necessary so that every net payment of interest (including any premium paid upon redemption of the Notes) or principal to the holder will not be less than the amount provided for in the Notes. By net payment, we mean the amount we or our paying agent pay the holder after deducting or withholding an amount for or on account of any present or future taxes, duties, assessments or other governmental charges imposed with respect to that payment by a Mexican taxing authority.

Our obligation to pay additional amounts is subject to several important exceptions, however. The Company and the Subsidiary Guarantors will not pay additional amounts to any holder for or solely on account of any of the following:

- any taxes, duties, assessments or other governmental charges imposed solely because at any time there is or was a connection between the holder or beneficial holder of the Note and Mexico (or any political subdivision or territory or possession thereof), including such Holder or beneficial owner (i) being or having been a citizen or resident thereof, (ii) maintaining or having maintained an office, permanent establishment, or branch subject to taxation therein, or

(iii) being or having been present or engaged in a trade or business therein (other than the mere receipt of a payment or the ownership or holding of a Note),

- any estate, inheritance, gift, transfer or similar tax, assessment or other governmental charge imposed with respect to the Notes,
- any taxes, duties, assessments or other governmental charges imposed solely because the holder or any other person fails to comply with any certification, identification, information, documentation or other reporting requirement concerning the nationality, residence, identity or connection with Mexico (or any political subdivision or territory or possession thereof) of the holder or any beneficial owner of the Note, if compliance is required by statute, regulation, officially published administrative practice of the taxing jurisdiction or by an applicable income tax treaty, which is in effect to which Mexico is a party, as a precondition to exemption from, or reduction in the rate of, the tax, assessment or other governmental charge and we have given the holders at least 30 days' notice that holders will be required to provide such information and identification,
- any tax, duty, assessment or other governmental charge payable otherwise than by deduction or withholding from payments on the Notes,
- any taxes, duties, assessments or other governmental charges with respect to such Note presented for payment more than 30 days after the date on which the payment became due and payable or the date on which payment thereof is duly provided for and notice thereof given to holders, whichever occurs later, except to the extent that the holders of such Note would have been entitled to such additional amounts on presenting such Note for payment on any date during such 30 day period, and
- any payment on the Note to a holder that is a fiduciary or partnership or a person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of the payment would not have been entitled to the additional amounts had the beneficiary, settlor, member or beneficial owner been the holder of the Note.

The limitations on our obligations to pay additional amounts stated in the third bullet point above will not apply if the provision of information, documentation or other evidence described in the applicable bullet point would be materially more onerous, in form, in procedure or in the substance of information disclosed, to a holder or beneficial owner of a Note, taking into account any relevant differences between U.S. and Mexican law, regulation or administrative practice, than comparable information or other reporting requirements imposed under U.S. tax law (including the United States-Mexico income tax treaty), regulation (including proposed regulations) and administrative practice.

Applicable Mexican regulations currently allow us to withhold at a reduced rate, provided we comply with certain information reporting requirements. Accordingly, the limitations on our obligations to pay additional amounts stated in the third bullet point above also will not apply and will not entitle us to require the information therein specified unless (a) the provision of the information, documentation or other evidence described in the applicable bullet point becomes expressly required by the applicable Mexican statutes, regulations and administrative practices, and (b) we otherwise would meet the requirements for application of the reduced Mexican tax rate.

In addition, such third bullet point does not require, and should not be construed as requiring, that any person, including any non-Mexican pension fund, retirement fund or financial institution, register with the Ministry of Finance and Public Credit to establish eligibility for an exemption from, or a reduction of, Mexican withholding tax.

Upon request, the Company and the Subsidiary Guarantors will provide the trustee with documentation satisfactory to the trustee evidencing the payment of Mexican taxes in respect of which we have paid any additional amount. We will make copies of such documentation available to the holders of the Notes or the relevant paying agent upon request.

Any reference in this offering circular, the indenture, or the Notes to principal, premium, interest or any other amount payable in respect of the Notes by us will be deemed also to refer to any additional amount that may be payable with respect to that amount under the obligations referred to in this subsection.

In the event that additional amounts actually paid with respect to the Notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder of such Notes, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, then such holder shall, by accepting such Notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to us. However, by making such assignment, the holder makes no representation or warranty that we will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto.

In the event of any merger or other transaction described and permitted under “—Limitation on Merger, Consolidation and Sale of Assets,” then all references to Mexico, Mexican law or regulations, and Mexican taxing authorities under this section “Additional Amounts” (other than the fourth and fifth paragraphs above) and under “Optional Redemption—Optional Redemption for Changes in Withholding Taxes” shall be deemed to also include the United States and any political subdivision therein or thereof, United States law or regulations, and any taxing authority of the United States or any political subdivision therein or thereof, respectively.

Note Guarantees

Each Subsidiary Guarantor will unconditionally guarantee the performance of all obligations of the Company under the Indenture and the Notes. The Obligations of each Subsidiary Guarantor in respect of its Note Guarantee will be limited to the maximum amount as will result in the Obligations not constituting a fraudulent conveyance, fraudulent transfer or similar illegal transfer under applicable law. See “Risk Factors—Risk Factors Related to the Notes—The Guarantees May Not be Enforceable.”

Each Subsidiary Guarantor will be released and relieved of its obligations under its Note Guarantee in the event:

- (1) there is a Legal Defeasance or a Covenant Defeasance of the Notes as described under “Legal Defeasance and Covenant Defeasance”;
- (2) there is a sale or other disposition of Capital Stock of such Subsidiary Guarantor following which such Subsidiary Guarantor is no longer a direct or indirect Subsidiary of the Company; or
- (3) such Subsidiary Guarantor is designated as an Unrestricted Subsidiary in accordance with “Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries”;

provided, that the transaction is carried out pursuant to and in accordance with all other applicable provisions of the Indenture.

If any Person that is a Wholly-Owned Restricted Subsidiary becomes a Significant Subsidiary (including upon a Revocation of the Designation of a Subsidiary as an Unrestricted Subsidiary), the Company will cause that Wholly-Owned Restricted Subsidiary (promptly following the determination in accordance with the terms of the Indenture that such Restricted Subsidiary is Wholly-Owned and a

Significant Subsidiary) concurrently to become a Subsidiary Guarantor on a senior basis by executing a supplemental indenture and providing the Trustee with an Officers' Certificate and Opinion of Counsel.

On the Issue Date, Proyectos Inmobiliarios de Culiacán, S.A. de C.V., or PICSA, Desarrolladora de Casas del Noroeste, S.A. de C.V., or DECANO, Casas Beta del Centro, S.A. de C.V., Casas Beta del Norte, S.A. de C.V., Casas Beta del Noroeste, S.A. de C.V., Edificaciones Beta, S.A. de C.V., Edificaciones Beta del Noroeste, S.A. de C.V., and Edificaciones Beta del Noroeste, S.A. de C.V. will be the Subsidiary Guarantors.

Not all of our "Restricted Subsidiaries" will guarantee the Notes and our Unrestricted Subsidiaries will not guarantee the Notes. In the event of a bankruptcy, liquidation or reorganization of these non-guarantor subsidiaries, these non-guarantor subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to us. In addition, holders of minority equity interests in Subsidiaries may receive distributions prior to or *pro rata* with the Company depending on the terms of the equity interests. See "Risk Factors—Risk Factors Related to the Notes—Certain of Our Subsidiaries are Not Guarantors and Our Obligations with Respect to the Notes Will Be Effectively Subordinated to All Liabilities of These Non-Guarantor Subsidiaries."

Optional Redemption

Optional Redemption. Except as stated below, the Company may not redeem the Notes prior to September 28, 2010. The Company may redeem the Notes, at its option, in whole at any time or in part from time to time, on and after September 28, 2010, at the following redemption prices, expressed as percentages of the principal amount thereof, if redeemed during the twelve-month period commencing on September 28 of any year set forth below:

<u>Year</u>	<u>Percentage</u>
2010	103.75%
2011	102.50%
2012	101.25%
2013 and thereafter	100.00%

Prior to September 28, 2010, the Company will have the right, at its option, to redeem any of the Notes, in whole or in part, at any time or from time to time prior to their maturity, on at least 30 days' but not more than 60 days' notice, at a redemption price equal to the greater of (1) 100% of the principal amount of such Notes and (2) the sum of the present value of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 50 basis points (the "Make-Whole Amount"), plus in each case accrued interest on the principal amount of the Notes to the date of redemption.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Comparable Treasury Issue" means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Notes.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Company.

“Comparable Treasury Price” means, with respect to any redemption date (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (2) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Reference Treasury Dealer” means Credit Suisse First Boston LLC or its affiliates which are primary United States government securities dealers and not less than two other leading primary United States government securities dealers in New York City reasonably designated by the Company; *provided, however*, that if any of the foregoing shall cease to be a primary United States government securities dealer in New York City (a “Primary Treasury Dealer”), the Company will substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked price for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 pm New York time on the third business day preceding such redemption date.

Optional Redemption upon Equity Offerings. At any time, or from time to time, on or prior to September 28, 2008 the Company may, at its option, use the net cash proceeds of one or more Equity Offerings to redeem in the aggregate up to 35% of the aggregate principal amount of the Notes issued under the Indenture at a redemption price equal to 107.50% of the principal amount thereof; *provided*, that:

- (1) after giving effect to any such redemption at least 65% of the aggregate principal amount of the Notes issued under the Indenture remains outstanding; and
- (2) the Company shall make such redemption not more than 90 days after the consummation of such Equity Offering.

“Equity Offering” means (i) an underwritten public offering of Qualified Capital Stock of the Company pursuant to a registration statement (other than a registration statement filed on Form S-4 or S-8) filed with the U.S. Securities and Exchange Commission in accordance with the Securities Act or in accordance with applicable Mexican laws, rules and regulations, (ii) a rights offering of Qualified Capital Stock of the Company made generally to the holders of such Qualified Capital Stock or (iii) any private placement of Qualified Capital Stock of the Company to any Person, in each case other than issuances upon exercise of options by employees of the Company or any of its Subsidiaries.

Optional Redemption for Changes in Withholding Taxes. If, as a result of any amendment to, or change in, the laws (or any rules or regulations thereunder) of Mexico or any political subdivision or taxing authority or other instrumentality thereof or therein affecting taxation, or any amendment to or change in an official interpretation or application of such laws, rules or regulations, which amendment to or change of such laws, rules or regulations becomes effective on or after the date on which the Notes we are offering are issued (which, in the case of a merger, consolidation or other transaction permitted and described under “—Limitation on Merger, Consolidation and Sale of Assets,” shall be treated for this purpose as the date of such transaction), we have become obligated, or will become obligated, in each case after taking all reasonable measures to avoid this requirement, to pay additional amounts in excess of those attributable to a Mexican withholding tax rate of 10% with respect to the Notes (see “—Additional Amounts” and “Taxation—Mexican Taxation”), then, at our option, all, but not less than all, of the Notes may be redeemed at any time on giving not less than 30 nor more than 60 days’ notice, at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest and any additional amounts due thereon up to but not including the date of redemption; *provided, however*, that (1) no notice of redemption for tax reasons may be given earlier than 90 days prior to the earliest date on which we would be obligated to pay these additional amounts

if a payment on the Notes were then due and (2) at the time such notice of redemption is given such obligation to pay such additional amounts remains in effect.

Prior to the publication of any notice of redemption pursuant to this provision, we will deliver to the Trustee:

- a certificate signed by one of our duly authorized representatives stating that we are entitled to effect the redemption and setting forth a statement of facts showing that the conditions precedent to our right to redeem have occurred, and
- an opinion of Mexican legal counsel (which may be our counsel) of recognized standing to the effect that we have or will become obligated to pay such additional amounts as a result of such change or amendment.

This notice, once delivered by us to the Trustee, will be irrevocable.

We will give notice to DTC pursuant to the provisions described under “—Notices” of any redemption we propose to make at least 30 days (but not more than 60 days) before the redemption date.

Optional Redemption Procedures. In the event that less than all of the Notes are to be redeemed at any time, selection of Notes for redemption will be made by the Trustee in compliance with the requirements of the principal national securities exchange, if any, on which Notes are listed or, if the Notes are not then listed on a national securities exchange, on a *pro rata* basis, by lot or by any other method as the Trustee shall deem fair and appropriate (subject to the procedures of DTC). If a partial redemption is made with the proceeds of an Equity Offering, selection of the Notes or portions thereof for redemption will, subject to the preceding sentence, be made by the Trustee only on a *pro rata* basis or on as nearly a *pro rata* basis as is practicable (subject to the procedures of DTC), unless the method is otherwise prohibited. No Notes of a principal amount of US\$1,000 or less may be redeemed in part and Notes of a principal amount in excess of US\$1,000 may be redeemed in part in multiples of US\$1,000 only.

Notice of any redemption will be mailed by first-class mail, postage prepaid, at least 30 but not more than 60 days before the redemption date to each Holder of Notes to be redeemed at its registered address. If Notes are to be redeemed in part only, the notice of redemption will state the portion of the principal amount thereof to be redeemed. For so long as the Notes are listed on Euro MTF, the alternative market of the Luxembourg Stock Exchange, the Company will cause notices of redemption also to be published as provided under “Certain Covenants—Notices.” A new Note in a principal amount equal to the unredeemed portion thereof (if any) will be issued in the name of the Holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate).

The Company will pay the redemption price for any Note together with accrued and unpaid interest thereon through the date of redemption. On and after the redemption date, interest will cease to accrue on Notes or portions thereof called for redemption as long as the Company has deposited with the Paying Agent funds in satisfaction of the applicable redemption price pursuant to the Indenture. Upon redemption of any Notes by the Company, such redeemed Notes will be cancelled.

Registration Rights

We and the initial purchasers will enter into a registration rights agreement pursuant to which we will agree, for the benefit of the holders of the Notes, at our cost to (i) use our reasonable best efforts to prepare and file, within 180 days after the settlement date, a registration statement (the “Exchange Registration Statement”) with respect to a registered offer to exchange (the “Registered Exchange Offer”) the Notes for a new series of notes (the “Exchange Notes”) having terms identical in all

material respects to the Notes (except that the Exchange Notes will not contain transfer restrictions); and (ii) use our reasonable best efforts to cause the registration to be effective within 240 days after the settlement date.

Promptly after the Exchange Registration Statement has been declared effective, we will commence the Registered Exchange Offer. We will keep the Registered Exchange Offer open for not less than 20 business days (or longer if required by applicable law) after the date on which notice, of the Registered Exchange Offer is mailed to the holders of the Notes. Interest on each Exchange Note will accrue from the last interest payment date on which interest was paid on the Notes surrendered in exchange therefor or, if no interest has been paid on such Note, from the date of its original issue. The Exchange Notes will vote together with the Notes on all matters on which holders of Notes or Exchange Notes are entitled to vote. We will use our reasonable best efforts to cause the exchange offer to be consummated within 270 days following the settlement date.

Under existing interpretations of the staff of the U.S. Securities and Exchange Commission (the “Commission”), the Exchange Notes would in general be freely tradable after the completion of the Registered Exchange Offer without further compliance with the registration and prospectus delivery requirements of the Securities Act. However, any participant in the Registered Exchange Offer who is our affiliate or who intends to participate in the Registered Exchange Offer for the purpose of distributing the Exchange Notes: (i) will not be able to rely on the interpretations of the staff of the Commission; (ii) will not be entitled to participate in the Registered Exchange Offer; and (iii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any sale or transfer of the Notes unless such sale or transfer is made pursuant to an exemption from such requirements.

Each holder of Notes who wishes to exchange Notes for Exchange Notes pursuant to the Registered Exchange Offer will be required to represent that (i) it is not our affiliate; (ii) the Exchange Notes to be received by it will be acquired in the ordinary course of its business; and (iii) at the time of the Registered Exchange Offer, it has no arrangement with any person to participate in the distribution (within the meaning of the Securities Act) of the Exchange Notes. In addition, in connection with any resales of Exchange Notes, any broker-dealer that acquired Notes for its own account as a result of market-making or other trading activities must deliver a prospectus meeting the requirements of the Securities Act.

If (i) any change in law or the applicable interpretations of the staff of the Commission do not permit us to effect the Registered Exchange Offer, (ii) for any other reason the Registered Exchange Offer is not completed within 270 days after the settlement date; or (iii) under certain other circumstances, we will, at our cost (1) file as promptly as practicable with the Commission a shelf registration statement covering resales of the Notes or Exchange Notes, as applicable; (2) use our reasonable best efforts to cause the shelf registration statement to be declared effective under the Securities Act within the later of (a) 270 days after the settlement date, or (b) 90 days after the obligation to file such shelf registration statement arises and (3) use our reasonable best efforts to keep the shelf registration statement effective until the earlier of (x) two years after its effective date, (y) the time when all of the Notes covered by the shelf registration statement can be sold pursuant to Rule 144(k), and (z) such time as all Notes eligible to be sold thereunder have been sold.

If (i) the Exchange Registration Statement is not declared effective or ceases to be effective within 240 days of the settlement date, (ii) the Registered Exchange Offer is not consummated within 270 days of the settlement date or (iii) if obligated to file a shelf registration statement pursuant to the immediately preceding paragraph, such shelf registration statement is not declared effective on or prior to the later of (a) 270 days after the settlement date, or (b) 90 days after the obligation to file such shelf registration statement arises, (each such event referred to in the preceding clauses (i) through (iii), a “Registration Default”), then we shall pay liquidated damages in respect of the securities to be

registered from and including the first date on which any such Registration Default arises, as applicable, to but excluding the date on which all Registration Defaults have been cured. Liquidated damages will accrue with respect to Registration Defaults at a rate of 0.25% per annum until the first anniversary of the settlement date and 0.50% per annum thereafter.

Change of Control

Upon the occurrence of a Change of Control, each Holder will have the right to require that the Company purchase all or a portion (in integral multiples of US\$1,000) of the Holder's Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon through the date of purchase (the "Change of Control Payment").

Within 30 days following the date upon which the Change of Control occurred, the Company must send, by first-class mail, a notice to each Holder, with a copy to the Trustee, offering to purchase the Notes as described above (a "Change of Control Offer") and publish the Change of Control Offer in a newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). The Change of Control Offer shall state, among other things, the purchase date, which must be no earlier than 30 days nor later than 60 days from the date the notice is mailed, other than as may be required by law (the "Change of Control Payment Date").

On the Change of Control Payment Date, the Company will, to the extent lawful:

- (1) accept for payment all Notes or portions thereof properly tendered and not withdrawn pursuant to the Change of Control Offer;
- (2) deposit with the Paying Agent funds in an amount equal to the Change of Control Payment in respect of all Notes or portions thereof so tendered; and
- (3) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Company.

If only a portion of a Note is purchased pursuant to a Change of Control Offer, a new Note in a principal amount equal to the portion thereof not purchased will be issued in the name of the Holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate).

The Company will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer, or (2) notice of redemption has been given pursuant to the Indenture as described above under the caption "—Optional Redemption," unless and until there is a default in payment of the applicable redemption price.

In the event that Holders of not less than 95% of the aggregate principal amount of the outstanding Notes accept a Change of Control Offer and the Company or a third party purchases all of the Notes held by such Holders, the Company will have the right, on not less than 30 nor more than 60 days' prior notice, given not more than 30 days following the purchase pursuant to the Change of Control Offer described above, to redeem all of the Notes that remain outstanding following such purchase at a purchase price equal to the Change of Control Payment plus, to the extent not included in the Change of Control Payment, accrued and unpaid interest, if any, on the Notes that remain outstanding, to the date of redemption (subject to the right of Holders on the relevant record date to receive interest due on the relevant interest payment date).

Other existing and future Indebtedness of the Company may contain prohibitions on the occurrence of events that would constitute a Change of Control or require that Indebtedness to be repurchased upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Company to repurchase the Notes upon a Change of Control would cause a default under such Indebtedness even if the Change of Control itself does not.

If a Change of Control Offer occurs, there can be no assurance that the Company will have available funds sufficient to make the Change of Control Payment for all the Notes that might be delivered by Holders seeking to accept the Change of Control Offer. In the event the Company is required to purchase outstanding Notes pursuant to a Change of Control Offer, the Company expects that it would seek third-party financing to the extent it does not have available funds to meet its purchase obligations and any other obligations in respect of Senior Indebtedness. However, there can be no assurance that the Company would be able to obtain necessary financing.

Holders will not be entitled to require the Company to purchase their Notes in the event of a takeover, recapitalization, leveraged buyout or similar transaction which does not result in a Change of Control.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations in connection with the purchase of Notes in connection with a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the “Change of Control” provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by doing so.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of “all or substantially all” of the properties or assets of the Company and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder to require the Company to repurchase its Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Company and its Subsidiaries taken as a whole to another Person or group may be uncertain.

Certain Covenants

Suspension of Covenants

During any period of time that (i) the Notes have Investment Grade Ratings from both Rating Agencies and (ii) no Default or Event of Default has occurred and is continuing (the occurrence of the events described in the foregoing clauses (i) and (ii) being collectively referred to as a “Covenant Suspension Event”), the Company and its Restricted Subsidiaries will not be subject to the provisions of the Indenture described under:

- “—Change of Control”;
- “—Limitation on Incurrence of Additional Indebtedness”;
- “—Limitation on Guarantees”;
- “—Limitation on Restricted Payments”;
- “—Limitation on Asset Sales and Sales of Subsidiary Stock”;
- “—Limitation on Designation of Unrestricted Subsidiaries”;
- “—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- “—Limitation on Layered Indebtedness”;

- clause (b) of “—Limitation on Merger, Consolidation or Sale of Assets”;
- “—Limitation on Transactions with Affiliates”; and
- “—Conduct of Business”

(collectively, the “Suspended Covenants”).

In the event that the Company and its Restricted Subsidiaries are not subject to the Suspended Covenants for any period of time as a result of the foregoing, and on any subsequent date (the “Reversion Date”) one of the Rating Agencies withdraws its Investment Grade Rating or downgrades its rating assigned to the Notes below an Investment Grade Rating, then the Company and its Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants. The period of time between the Suspension Date and the Reversion Date is referred to as the “Suspension Period.” Notwithstanding that the Suspended Covenants may be reinstated, no Default or Event of Default will be deemed to have occurred as a result of a failure to comply with the Suspended Covenants during the Suspension Period (or upon termination of the Suspension Period or after that time based solely on events that occurred during the Suspension Period).

On the Reversion Date, all Indebtedness incurred during the Suspension Period will be classified to have been incurred pursuant to the first paragraph of “—Limitation on Incurrence of Additional Indebtedness” below or one of the clauses set forth in the second paragraph of “—Limitation on Incurrence of Additional Indebtedness” below (to the extent such Indebtedness would be permitted to be incurred thereunder as of the Reversion Date and after giving effect to Indebtedness incurred prior to the Suspension Period and outstanding on the Reversion Date). To the extent such Indebtedness would not be so permitted to be incurred pursuant to the first or second paragraph of “—Limitation on Incurrence of Additional Indebtedness,” such Indebtedness will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (d) of the second paragraph of “—Limitation on Incurrence of Additional Indebtedness.” Calculations made after the Reversion Date of the amount available to be made as Restricted Payments under “—Limitation on Restricted Payments” will be made as though the covenant described under “—Limitation on Restricted Payments” had been in effect since the Issue Date and throughout the Suspension Period.

Limitation on Incurrence of Additional Indebtedness

- (1) The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, Incur any Indebtedness, including Acquired Indebtedness, except that:
 - (a) the Company and any Subsidiary Guarantor may Incur Indebtedness, including Acquired Indebtedness, and
 - (b) any Restricted Subsidiary may Incur Acquired Indebtedness not Incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation, if, at the time of and immediately after giving pro forma effect to the Incurrence thereof and the application of the proceeds therefrom, the Consolidated Fixed Charge Coverage Ratio of the Company is greater than 2.25 to 1.0.
- (2) Notwithstanding clause (1) above, the Company and its Restricted Subsidiaries, as applicable, may Incur the following Indebtedness (“Permitted Indebtedness”):
 - (a) Indebtedness in respect of the Notes excluding Additional Notes;
 - (b) Guarantees by any Subsidiary Guarantor of Indebtedness of the Company or any other Subsidiary Guarantor permitted under the Indenture *provided*, that if any such Guarantee is of Subordinated Indebtedness, then the Note Guarantee of such Subsidiary Guarantor shall be senior to such Subsidiary Guarantor’s Guarantee of such Subordinated Indebtedness;

- (c) Indebtedness Incurred by the Company or any Subsidiary Guarantor under Credit Facilities in an aggregate principal amount at any time outstanding not to exceed the greater of
 - (x) US\$100 million or (y) 10% of Consolidated Tangible Assets;
- (d) other Indebtedness of the Company and its Restricted Subsidiaries outstanding on the Issue Date, other than Indebtedness otherwise specified under any of the other clauses of this definition of Permitted Indebtedness;
- (e) Hedging Obligations entered into by the Company and its Restricted Subsidiaries in the ordinary course of business and not for speculative purposes;
- (f) intercompany Indebtedness between the Company and any Restricted Subsidiary or between any Restricted Subsidiaries; *provided* that:
 - (1) if the Company or any Subsidiary Guarantor is the obligor on such Indebtedness and the payee is not the Company or any Subsidiary Guarantor, such Indebtedness must be expressly subordinated to the prior payment in full of all obligations under the Notes and the Indenture, in the case of the Company, or such Subsidiary Guarantor's Note Guarantee, in the case of any such Subsidiary Guarantor, and
 - (2) in the event that at any time any such Indebtedness ceases to be held by the Company or a Restricted Subsidiary, such Indebtedness shall be deemed to be Incurred and not permitted by this clause (f) at the time such event occurs;
- (g) Indebtedness of the Company or any of its Restricted Subsidiaries arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (including daylight overdrafts paid in full by the close of business on the day such overdraft was Incurred) drawn against insufficient funds in the ordinary course of business; *provided*, that such Indebtedness is extinguished within five business days of Incurrence;
- (h) Indebtedness of the Company or any of its Restricted Subsidiaries represented by letters of credit for the account of the Company or any Restricted Subsidiary, as the case may be, in order to provide security for workers' compensation claims, payment obligations in connection with self-insurance or similar requirements in the ordinary course of business;
- (i) Indebtedness of the Company or any Restricted Subsidiary represented by Capitalized Lease Obligations or Purchase Money Indebtedness, in each case Incurred for the purpose of acquiring or financing all or any part of the purchase price or cost of construction or improvement of property or equipment used in the business of the Company or such Restricted Subsidiary in an aggregate amount at any time not to exceed the greater of
 - (x) US\$15 million or (y) 1.5% of Consolidated Tangible Assets;
- (j) Indebtedness in respect of bid, performance or surety bonds in the ordinary course of business for the account of the Company or any of its Restricted Subsidiaries, including Guarantees or obligations of the Company or any Restricted Subsidiary with respect to letters of credit supporting such bid, performance or surety obligations (in each case other than for the payment of borrowed money);
- (k) Refinancing Indebtedness in respect of:
 - (1) Indebtedness (other than Indebtedness owed to the Company or any Subsidiary of the Company) Incurred pursuant to clause (1) above (it being understood that no Indebtedness outstanding on the Issue Date is Incurred pursuant to such clause (1) above), or

- (2) Indebtedness Incurred pursuant to clause (a), (d) (excluding Indebtedness outstanding on the Issue Date deemed to be incurred under clause (c) above or Indebtedness owed to the Company or a Subsidiary of the Company) or (l) of this covenant;
 - (l) Permitted Acquisition Indebtedness in an aggregate principal amount not to exceed the greater of (x) US\$175 million and (y) 17.5% of Consolidated Tangible Assets at any one time outstanding, and
 - (m) Additional Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount not to exceed US\$15 million at any one time outstanding (which amount may, but need not, be Incurred, in whole or in part, under Credit Facilities).
- (3) For purposes of determining compliance with, and the outstanding principal amount of, any particular Indebtedness Incurred pursuant to and in compliance with this covenant, the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined in accordance with GAAP. Accrual of interest, the accretion or amortization of original issue discount, the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Disqualified Capital Stock in the form of additional Disqualified Capital Stock with the same terms will not be deemed to be an Incurrence of Indebtedness for purposes of this covenant; *provided* that any such outstanding additional Indebtedness or Disqualified Capital Stock paid in respect of Indebtedness Incurred pursuant to any provision of clause (2) of this covenant will be counted as Indebtedness outstanding thereunder for purposes of any future Incurrence under such provision. For purposes of determining compliance with this “Limitation on Incurrence of Additional Indebtedness” covenant, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (a) through (m) above, or is entitled to be incurred pursuant to paragraph (1) of this covenant, the Company will be permitted to classify such item of Indebtedness on the date of its incurrence and will only be required to include the amount and type of such Indebtedness in one of the above clauses, although the Company may divide and classify an item of Indebtedness in one or more of the types of Indebtedness and may later re-divide or reclassify all or a portion of such item of Indebtedness in any manner that complies with this covenant. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Issuer or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded as a result solely of fluctuations in exchange rates or currency values.

Limitation on Guarantees

The Company will not permit any Restricted Subsidiary of the Company that is not a Subsidiary Guarantor to Guarantee any Indebtedness of the Company or to secure any Indebtedness of the Company with a Lien on the assets of such Restricted Subsidiary, unless contemporaneously therewith (or prior thereto) effective provision is made to Guarantee or secure the Notes on an equal and ratable basis with such Guarantee or Lien for so long as such Guarantee or Lien remains effective, and in an amount equal to the amount of Indebtedness so Guaranteed or secured. Any Guarantee by any such Restricted Subsidiary of Subordinated Indebtedness of the Company will be subordinated and junior in right of payment to the contemporaneous Guarantee of the Notes by such Restricted Subsidiary.

Limitation on Restricted Payments

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, take any of the following actions (each, a “Restricted Payment”):

- (a) declare or pay any dividend or return of capital or make any distribution on or in respect of shares of Capital Stock of the Company or any Restricted Subsidiary to holders of such Capital Stock, other than:
 - dividends or distributions payable in Qualified Capital Stock of the Company,
 - dividends or distributions payable to the Company and/or a Restricted Subsidiary, or
 - dividends, distributions or returns of capital made on a *pro rata* basis to the Company and its Restricted Subsidiaries, on the one hand, and minority holders of Capital Stock of a Restricted Subsidiary, on the other hand (or on a less than *pro rata* basis to any minority holder);
- (b) purchase, redeem or otherwise acquire or retire for value:
 - any Capital Stock of the Company, or
 - any Capital Stock of any Restricted Subsidiary held by an Affiliate of the Company (other than a Restricted Subsidiary) or any Preferred Stock of a Restricted Subsidiary, except for Capital Stock held by the Company or a Restricted Subsidiary or purchases, redemptions, acquisitions or retirements for value of Capital Stock on a *pro rata* basis from the Company and/or any Restricted Subsidiaries, on the one hand, and minority holders of Capital Stock of a Restricted Subsidiary, on the other hand, according to their respective percentage ownership of the Capital Stock of such Restricted Subsidiary;
- (c) make any principal payment on, purchase, defease, redeem, prepay, decrease or otherwise acquire or retire for value, prior to any scheduled final maturity, scheduled repayment or scheduled sinking fund payment, as the case may be, any Subordinated Indebtedness (excluding (x) any intercompany Indebtedness between or among the Company and/or any Restricted Subsidiaries or (y) the purchase, repurchase or other acquisition of Indebtedness that is contractually subordinate to the Notes or any Note Guarantee, as the case may be, purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case within one year of such date of purchase, repurchase or acquisition); or
- (d) make any Investment (other than Permitted Investments);

if at the time of the Restricted Payment and immediately after giving effect thereto:

- (1) a Default or an Event of Default shall have occurred and be continuing;
- (2) the Company is not able to Incur at least US\$1.00 of additional Indebtedness pursuant to clause (1) of “—Limitation on Incurrence of Additional Indebtedness”; or
- (3) the aggregate amount (the amount expended for these purposes, if other than in cash, being the Fair Market Value of the relevant property) of the proposed Restricted Payment and all other Restricted Payments made subsequent to the Issue Date up to the date thereof, shall exceed the sum of:
 - (A) 50% of cumulative Consolidated Net Income of the Company or, if such cumulative Consolidated Net Income of the Company is a loss, minus 100% of the loss, accrued during the period, treated as one accounting period, beginning on the fiscal quarter beginning October 1, 2005 to the end of the most recent fiscal quarter for which consolidated financial information of the Company is available; *plus*

(B) 100% of the aggregate net cash proceeds received by the Company from any Person from any:

- contribution to the equity capital of the Company not representing an interest in Disqualified Capital Stock or issuance and sale of Qualified Capital Stock of the Company, in each case, subsequent to the Issue Date, or
- issuance and sale subsequent to the Issue Date (and, in the case of Indebtedness of a Restricted Subsidiary, at such time as it was a Restricted Subsidiary) of any Indebtedness of the Company or any Restricted Subsidiary that has been converted into or exchanged for Qualified Capital Stock of the Company,

excluding, in each case, any net cash proceeds:

- (x) received from a Subsidiary of the Company;
- (y) used to redeem Notes under “—Redemption—Optional Redemption Upon Equity Offerings”; or
- (z) applied in accordance with clause (2) or (3) of the second paragraph of this covenant below; *plus*

(C) any Investment Return; *plus*

(D) US\$15 million.

Notwithstanding the preceding paragraph, this covenant does not prohibit:

(1) the payment of any dividend or the consummation of any irrevocable redemption of Subordinated Indebtedness within 60 days after the date of declaration of such dividend or giving of the redemption notice, as the case may be, if the dividend or redemption would have been permitted on the date of declaration or notice pursuant to the preceding paragraph; *provided* that such redemption shall be included (without duplication for the declaration) in the calculation of the amount of Restricted Payments;

(2) the acquisition of any shares of Capital Stock of the Company,

- (x) in exchange for Qualified Capital Stock of the Company, or
- (y) through the application of the net proceeds received by the Company from a substantially concurrent sale of Qualified Capital Stock of the Company or a contribution to the equity capital of the Company not representing an interest in Disqualified Capital Stock, in each case not received from a Subsidiary of the Company;

provided, that the value of any such Qualified Capital Stock issued in exchange for such acquired Capital Stock and any such proceeds shall be excluded from clause (3)(B) of the first paragraph of this covenant (and were not included therein at any time);

(3) the voluntary prepayment, purchase, defeasance, redemption or other acquisition or retirement for value of any Subordinated Indebtedness solely in exchange for, or through the application of net proceeds of a substantially concurrent sale, other than to a Subsidiary of the Company, of:

- (x) Qualified Capital Stock of the Company, or
- (y) Refinancing Indebtedness for such Subordinated Indebtedness;

provided, that the value of any Qualified Capital Stock issued in exchange for Subordinated Indebtedness and any net proceeds referred to above shall be excluded from clause (3)(B) of the first paragraph of this covenant (and were not included therein at any time);

- (4) if no Default or Event of Default shall have occurred and be continuing, repurchases by the Company of Common Stock of the Company or options, warrants or other securities exercisable or convertible into Common Stock of the Company from any current or former employees, officers, directors or consultants of the Company or any of its Subsidiaries or their authorized representatives upon the death, disability or termination of employment or directorship of such employees, officers or directors, or the termination or retention of any such consultants, in an amount not to exceed US\$5 million in any calendar year (with unused amounts in any calendar year being permitted to be carried over into succeeding calendar years) plus the cash proceeds of key man life insurance policies received by the Company and its Restricted Subsidiaries;
- (5) the repurchase of Capital Stock deemed to occur upon the exercise of stock options or warrants to the extent such Capital Stock represents a portion of the exercise price of those stock options or warrants;
- (6) the declaration and payment of regularly scheduled or accrued dividends or distributions to holders of any class or series of Disqualified Capital Stock of the Company or any Restricted Subsidiary issued on or after the Issue Date in accordance with the test described pursuant to clause (1) of “—Limitation on Incurrence of Additional Indebtedness”;
- (7) upon the occurrence of a Change of Control and within 60 days after the completion of the offer to repurchase the Notes pursuant to the covenant described under “Change of Control” above, any repurchase, redemption or other acquisition or retirement for value of any Subordinated Indebtedness of the Company or any Subsidiary Guarantor required pursuant to the terms thereof as a result of such Change of Control; *provided* that (A) the terms of such purchase or redemption are substantially similar in all material respects to the comparable provision included in the Indenture, and (B) at the time of such purchase or redemption no Default or Event of Default shall have occurred and be continuing (or would result therefrom); and
- (8) if no Default or Event of Default shall have occurred and be continuing, the purchase by the Company of fractional shares arising out of stock dividends, splits or combinations or business combinations.

In determining the aggregate amount of Restricted Payments made subsequent to the Issue Date, amounts expended pursuant to clauses (1) (without duplication for the declaration of the relevant dividend), (4) and (7) above shall be included in such calculation and amounts expended pursuant to clauses (2), (3), (5),(6), and (8) above shall not be included in such calculation.

Limitation on Asset Sales and Sales of Subsidiary Stock

The Company will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

- (a) the Company or the applicable Restricted Subsidiary, as the case may be, receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets or Capital Stock sold or otherwise disposed of, and
- (b) at least 75% of the consideration received for the assets or Capital Stock sold by the Company or the Restricted Subsidiary, as the case may be, in the Asset Sale shall be in the form of cash or Cash Equivalents received at the time of such Asset Sale.

For purposes of the immediately preceding clause (b), each of the following will be deemed to be cash:

- (1) any securities, notes or other obligations received by the Company or any such Restricted Subsidiary from such transferee that are converted by the Company or such Restricted Subsidiary into cash or Cash Equivalents within 120 days of the receipt thereof (subject to ordinary settlement periods), to the extent of the cash or Cash Equivalents received in that conversion; and
- (2) any Capital Stock of a Person engaged in a Permitted Business that will become, upon purchase, a Restricted Subsidiary or assets (other than current assets as determined in accordance with GAAP or Capital Stock) to be used by the Company or any Restricted Subsidiary in a Permitted Business;

provided, that amounts received pursuant to clauses (1) and (2) shall not be deemed to constitute Net Cash Proceeds for purposes of making an Asset Sale Offer.

The Company or such Restricted Subsidiary, as the case may be, may apply the Net Cash Proceeds of any such Asset Sale within 365 days thereof to:

- (a) repay any Senior Indebtedness of the Company or a Restricted Subsidiary or Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor (including, in each case without limitation, Capital Lease Obligations), or
- (b) make capital expenditures in a Permitted Business, or
- (c) to purchase
 - (1) assets (other than current assets as determined in accordance with GAAP or Capital Stock) to be used by the Company or any Restricted Subsidiary in a Permitted Business, or
 - (2) all or substantially all of the assets of, or any Capital Stock of, a Person engaged in a Permitted Business if, after giving effect to any such acquisition of Capital Stock, the Permitted Business is or becomes a Restricted Subsidiary, or

from a Person other than the Company and its Restricted Subsidiaries.

In the case of clauses (1) and (2), the Company will have complied with its obligations if it enters into a binding commitment to acquire such assets or such Capital Stock within 365 days after receipt of such Net Cash Proceeds; *provided* that such binding commitment shall be subject only to customary conditions and that such acquisition is consummated within six months from the date of signing such binding commitment.

To the extent all or a portion of the Net Cash Proceeds of any Asset Sale are not applied within the 365 days of the Asset Sale as described in clause (a), (b) or (c) of the immediately preceding paragraph, the Company will make an offer to purchase Notes (the "Asset Sale Offer"), at a purchase price equal to 100% of the principal amount of the Notes to be purchased, plus accrued and unpaid interest thereon, to the date of purchase (the "Asset Sale Offer Amount"). The Company will purchase pursuant to an Asset Sale Offer from all tendering Holders on a *pro rata* basis, and, at the Company's option, on a *pro rata* basis with the holders of any other Senior Indebtedness with similar provisions requiring the Company to offer to purchase the other Senior Indebtedness with the proceeds of Asset Sales, that principal amount (or accreted value in the case of Indebtedness issued with original issue discount) of Notes and the other Senior Indebtedness to be purchased equal to such unapplied Net Cash Proceeds. The Company may satisfy its obligations under this covenant with respect to the Net Cash Proceeds of an Asset Sale by making an Asset Sale Offer prior to the expiration of the relevant 365-day period.

The purchase of Notes pursuant to an Asset Sale Offer will occur not less than 20 business days following the date thereof, or any longer period as may be required by law, nor more than 45 days following the 365th day following the Asset Sale. The Company may, however, defer an Asset Sale Offer until there is an aggregate amount of unapplied Net Cash Proceeds from one or more Asset Sales equal to or in excess of US\$15 million. At that time, the entire amount of unapplied Net Cash Proceeds, and not just the amount in excess of US\$15 million, will be applied as required pursuant to this covenant. Pending application in accordance with this covenant, Net Cash Proceeds will be applied to temporarily reduce revolving credit borrowings that can be reborrowed or Invested in Cash Equivalents.

Each notice of an Asset Sale Offer will be mailed first class, postage prepaid, to the record Holders as shown on the register of Holders within 20 days following such 365th day, with a copy to the Trustee offering to purchase the Notes as described above. Each notice of an Asset Sale Offer will state, among other things, the purchase date, which must be no earlier than 30 days nor later than 60 days from the date the notice is mailed, other than as may be required by law (the “Asset Sale Offer Payment Date”). Upon receiving notice of an Asset Sale Offer, Holders may elect to tender their Notes in whole or in part in integral multiples of US\$1,000 in exchange for cash.

On the Asset Sale Offer Payment Date, the Company will, to the extent lawful:

- (1) accept for payment all Notes or portions thereof properly tendered pursuant to the Asset Sale Offer;
- (2) deposit with the Paying Agent funds in an amount equal to the Asset Sale Offer Amount in respect of all Notes or portions thereof so tendered; and
- (3) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers’ Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Company.

To the extent Holders of Notes and holders of other Senior Indebtedness, if any, which are the subject of an Asset Sale Offer properly tender and do not withdraw Notes or the other Senior Indebtedness in an aggregate amount exceeding the amount of unapplied Net Cash Proceeds, the Company will purchase the Notes and the other Senior Indebtedness on a *pro rata* basis (based on amounts tendered). If only a portion of a Note is purchased pursuant to an Asset Sale Offer, a new Note in a principal amount equal to the portion thereof not purchased will be issued in the name of the Holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a global note will be made, as appropriate). Notes (or portions thereof) purchased pursuant to an Asset Sale Offer will be cancelled and cannot be reissued.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws in connection with the purchase of Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with the “Asset Sale” provisions of the Indenture, the Company will comply with these laws and regulations and will not be deemed to have breached its obligations under the “Asset Sale” provisions of the Indenture by doing so.

Upon completion of an Asset Sale Offer, the amount of Net Cash Proceeds will be reset at zero. Accordingly, to the extent that the aggregate amount of Notes and other Indebtedness tendered pursuant to an Asset Sale Offer is less than the aggregate amount of unapplied Net Cash Proceeds, the Company and its Restricted Subsidiaries may use any remaining Net Cash Proceeds for any purpose not otherwise prohibited by the Indenture.

In the event of the transfer of substantially all (but not all) of the property and assets of the Company and its Restricted Subsidiaries as an entirety to a Person in a transaction permitted under

“—Limitation on Merger, Consolidation and Sale of Assets,” the Surviving Entity will be deemed to have sold the properties and assets of the Company and its Restricted Subsidiaries not so transferred for purposes of this covenant, and will comply with the provisions of this covenant with respect to the deemed sale as if it were an Asset Sale. In addition, the Fair Market Value of properties and assets of the Company or its Restricted Subsidiaries so deemed to be sold will be deemed to be Net Cash Proceeds for purposes of this covenant.

If at any time any non-cash consideration received by the Company or any Restricted Subsidiary, as the case may be, in connection with any Asset Sale is converted into or sold or otherwise disposed of for cash (other than interest received with respect to any non-cash consideration), the conversion or disposition will be deemed to constitute an Asset Sale hereunder and the Net Cash Proceeds thereof will be applied in accordance with this covenant within 365 days of conversion or disposition.

Limitation on Designation of Unrestricted Subsidiaries

The Company may designate after the Issue Date any Subsidiary of the Company as an “Unrestricted Subsidiary” under the Indenture (a “Designation”) only if:

- (1) no Default or Event of Default shall have occurred and be continuing at the time of or after giving effect to such Designation and any transactions between the Company or any of its Restricted Subsidiaries and such Unrestricted Subsidiary are in compliance with “—Limitation on Transactions with Affiliates”;
- (2) at the time of and after giving effect to such Designation, the Company could Incur \$1.00 of additional Indebtedness pursuant to clause (1) of “—Limitation on Incurrence of Additional Indebtedness”;
- (3) the Company would be permitted to make an Investment at the time of Designation (assuming the effectiveness of such Designation and treating such Designation as an Investment at the time of Designation) as a Restricted Payment pursuant to the first paragraph of “—Limitation on Restricted Payments” or as a Permitted Investment in an amount (the “Designation Amount”) equal to the amount of the Company’s Investment in such Subsidiary on such date, and
- (4) at the time of such Designation, neither the Company nor any Restricted Subsidiary will:
 - (a) provide credit support for, subject any of its property or assets (other than the Capital Stock of any Unrestricted Subsidiary) to the satisfaction of, or Guarantee, any Indebtedness of such Subsidiary (including any undertaking, agreement or instrument evidencing such Indebtedness);
 - (b) be directly or indirectly liable for any Indebtedness of such Subsidiary; or
 - (c) be directly or indirectly liable for any Indebtedness which provides that the holder thereof may (upon notice, lapse of time or both) declare a default thereon or cause the payment thereof to be accelerated or payable prior to its final scheduled maturity upon the occurrence of a default with respect to any Indebtedness of such Subsidiary, except for any non-recourse Guarantee given solely to support the pledge by the Company or any Restricted Subsidiary of the Capital Stock of such Subsidiary.

The Company may revoke any Designation of a Subsidiary as an Unrestricted Subsidiary (a “Revocation”) only if:

- (1) No Default or Event of Default shall have occurred and be continuing at the time of and after giving effect to such Revocation; and

- (2) all Liens and Indebtedness of such Unrestricted Subsidiary outstanding immediately following such Revocation would, if Incurred at such time, have been permitted to be Incurred for all purposes of the Indenture.

The Designation of a Subsidiary of the Company as an Unrestricted Subsidiary shall be deemed to include the Designation of all of the Subsidiaries of such Subsidiary. All Designations and Revocations must be evidenced by resolutions of the Board of Directors of the Company, delivered to the Trustee certifying compliance with the preceding provisions.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (a) Except as provided in paragraph (b) below, the Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (1) pay dividends or make any other distributions on or in respect of its Capital Stock to the Company or any other Restricted Subsidiary or pay any Indebtedness owed to the Company or any other Restricted Subsidiary;
 - (2) make loans or advances to, or Guarantee any Indebtedness or other obligations of, or make any Investment in, the Company or any other Restricted Subsidiary; or
 - (3) transfer any of its property or assets to the Company or any other Restricted Subsidiary.
- (b) Paragraph (a) above will not apply to encumbrances or restrictions existing under or by reason of:
 - (1) applicable law rule, regulation or order;
 - (2) the Indenture, the Notes and the Note Guarantees;
 - (3) the terms of any Indebtedness outstanding on the Issue Date, and any amendment, modification, restatement, renewal, restructuring, replacement or refinancing thereof; *provided*, that any amendment, modification, restatement, renewal, restructuring, replacement or refinancing is not materially more restrictive, taken as a whole, with respect to such encumbrances or restrictions than those in existence on the Issue Date;
 - (4) customary non-assignment provisions of any contract and customary provisions restricting assignment or subletting in any lease governing a leasehold interest of any Restricted Subsidiary, or any customary restriction on the ability of a Restricted Subsidiary to dividend, distribute or otherwise transfer any asset which secures Indebtedness secured by a Lien, in each case permitted to be Incurred under the Indenture;
 - (5) any instrument governing Acquired Indebtedness not Incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person or the properties or assets of the Person so acquired;
 - (6) restrictions with respect to a Restricted Subsidiary of the Company imposed pursuant to a binding agreement which has been entered into for the sale or disposition of Capital Stock or assets of such Restricted Subsidiary; *provided*, that such restrictions apply solely to the Capital Stock or assets of such Restricted Subsidiary being sold;
 - (7) customary restrictions imposed on the transfer of copyrighted or patented materials;
 - (8) an agreement governing Indebtedness of the Company or any Restricted Subsidiaries permitted to be Incurred subsequent to the date of the Indenture in accordance with the

covenant described above under the caption “—Limitation in Incurrence of Additional Indebtedness” provided that the provisions relating to such encumbrance or restriction contained in such agreement are no more restrictive than those contained in the agreement referred to in clause (3) of this paragraph;

- (9) purchase money obligations for property (including Capital Stock) acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions on the property purchased or leased of the nature described in paragraph (a)(3) of this covenant;
- (10) Liens permitted to be incurred under the provisions of the covenant described below under the caption “—Limitation on Liens” that limits the right of the debtor to dispose of the assets securing such Indebtedness;
- (11) provisions limiting the payment of dividends in the organizational documents, shareholders’ agreements, joint venture agreements or similar documents of, or related to, Restricted Subsidiaries that are not Wholly Owned Subsidiaries and which have been entered into with the approval of the Company’s Board of Directors;
- (12) restrictions on cash deposited with banks in the ordinary course of business consistent with past practice to secure trade payable obligations and guarantees of such trade payable obligations of the Company and its Restricted Subsidiaries under Supplier Factoring Facilities; or
- (13) restrictions customarily granted in connection with securitization, factoring or discounting involving receivables that are imposed in connection with a Receivables Transaction.

Limitation on Layered Indebtedness

The Company will not, and will not permit any Subsidiary Guarantor to, directly or indirectly, Incur any Indebtedness that is subordinate in right of payment to any other Senior Indebtedness, unless such Indebtedness is expressly subordinate in right of payment to the Notes or, in the case of a Subsidiary Guarantor, its Note Guarantee to the same extent and on the same terms as such Indebtedness is subordinate to such other Indebtedness.

Limitation on Liens

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, Incur any Liens of any kind (except for Permitted Liens) against or upon any of their respective properties or assets, whether owned on the Issue Date or acquired after the Issue Date, or any proceeds therefrom, to secure any Indebtedness or trade payables unless contemporaneously therewith effective provision is made:

- (1) in the case of the Company or any Restricted Subsidiary other than a Subsidiary Guarantor, to secure the Notes and all other amounts due under the Indenture; and
- (2) in the case of a Subsidiary Guarantor, to secure such Subsidiary Guarantor’s Note Guarantee and all other amounts due under the Indenture;

in each case, equally and ratably with such Indebtedness or other obligation (or, in the event that such Indebtedness is subordinated in right of payment to the Notes or such Note Guarantee, as the case may be, prior to such Indebtedness or other obligation) with a Lien on the same properties and assets securing such Indebtedness or other obligation for so long as such Indebtedness or other obligation is secured by such Lien.

Limitation on Merger, Consolidation and Sale of Assets

The Company will not, in a single transaction or series of related transactions, consolidate or merge with or into any Person (whether or not the Company is the surviving or continuing Person), or sell, assign, transfer, lease, convey or otherwise dispose of (or cause or permit any Restricted Subsidiary to sell, assign, transfer, lease, convey or otherwise dispose of) all or substantially all of the Company's properties and assets (determined on a consolidated basis for the Company and its Restricted Subsidiaries), to any Person unless:

- (a) either:
 - (1) the Company shall be the surviving or continuing corporation, or
 - (2) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of the Company and of the Company's Restricted Subsidiaries substantially as an entirety (the "Surviving Entity"):
 - (A) shall be a corporation, organized and validly existing under the laws of Mexico or the United States of America, any State thereof or the District of Columbia, and
 - (B) shall expressly assume, by supplemental indenture (in form and substance satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of the principal of, and premium, if any, and interest on all of the Notes and the performance and observance of every covenant of the Notes and the Indenture on the part of the Company to be performed or observed;
- (b) immediately after giving effect to such transaction and the assumption contemplated by clause (a)(2)(B) above (including giving effect on a pro forma basis to any Indebtedness, including any Acquired Indebtedness, Incurred or anticipated to be Incurred in connection with or in respect of such transaction), the Company or such Surviving Entity, as the case may be:
 - (1) will be able to Incur at least US\$1.00 of additional Indebtedness pursuant to clause (1) of "—Limitation on Incurrence of Additional Indebtedness," or
 - (2) will have a Consolidated Fixed Charge Coverage Ratio of not less than the Consolidated Fixed Charge Coverage Ratio of the Company and its Restricted Subsidiaries immediately prior to such transaction;
- (c) immediately before and immediately after giving effect to such transaction and the assumption contemplated by clause (a)(2)(B) above (including, without limitation, giving effect on a pro forma basis to any Indebtedness, including any Acquired Indebtedness, Incurred or anticipated to be Incurred and any Lien granted in connection with or in respect of the transaction), no Default or Event of Default shall have occurred or be continuing;
- (d) each Subsidiary Guarantor (including Persons that become Subsidiary Guarantors as a result of the transaction) has confirmed by supplemental indenture that its Note Guarantee will apply for the Obligations of the Surviving Entity in respect of the Indenture and the Notes;
- (e) if the Company is organized under Mexican law and merges with a corporation, or the Surviving Entity is, organized under the laws of the United States, any State thereof or the District of Columbia or the Company is organized under the laws of the United States, any State thereof or the District of Columbia and merges with a corporation, or the Surviving Entity is, organized under the laws of Mexico, the Company or the Surviving Entity will have

delivered to the Trustee an Opinion of Counsel from each of Mexico and the United States to the effect that, as applicable:

- (i) the holders of the Notes will not recognize income, gain or loss for U.S. or Mexican income tax purposes as a result of the transaction and will be taxed in the holder's home jurisdiction in the same manner and on the same amounts (assuming solely for this purpose that no Additional Amounts are regarded to be paid on the Notes) and at the same times as would have been the case if the transaction had not occurred,
 - (ii) any payment of interest or principal under or relating to the Notes or any Note Guarantees will be paid in compliance with any requirements under the section "—Additional Amounts," and
 - (iii) no other taxes on income, including capital gains, will be payable by holders of the Notes under the laws of Mexico or the United States relating to the acquisition, ownership or disposition of the Notes, including the receipt of interest or principal thereon; *provided* that the holder does not use or hold, and is not deemed to use or hold the Notes in carrying on a business in Mexico or the United States, and
- (f) the Company or the Surviving Entity has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that the consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if required in connection with such transaction, the supplemental indenture, comply with the applicable provisions of the Indenture and that all conditions precedent in the Indenture relating to the transaction have been satisfied.

For purposes of this covenant, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Restricted Subsidiaries of the Company, the Capital Stock of which constitutes all or substantially all of the properties and assets of the Company (determined on a consolidated basis for the Company and its Restricted Subsidiaries), will be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

The provisions of clause (b) above will not apply to:

- (1) any transfer of the properties or assets of a Restricted Subsidiary to the Company or to a Subsidiary Guarantor;
- (2) any merger of a Restricted Subsidiary into the Company or a Subsidiary Guarantor; or
- (3) any merger of the Company into a Wholly Owned Subsidiary of the Company created for the purpose of holding the Capital Stock of the Company;

so long as, in each case the Indebtedness of the Company and its Restricted Subsidiaries taken as a whole is not increased thereby.

Upon any consolidation, combination or merger or any transfer of all or substantially all of the properties and assets of the Company and its Restricted Subsidiaries in accordance with this covenant, in which the Company is not the continuing corporation, the Surviving Entity formed by such consolidation or into which the Company is merged or to which such conveyance, lease or transfer is made will succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture and the Notes with the same effect as if such Surviving Entity had been named as such. For the avoidance of doubt, compliance with this covenant will not affect the obligations of the Company (including a Surviving Entity, if applicable) under "—Change of Control," if applicable.

Each Subsidiary Guarantor will not, and the Company will not cause or permit any Subsidiary Guarantor to, consolidate with or merge into, or sell or dispose of all or substantially all of its assets to, any Person (other than the Company) that is not a Subsidiary Guarantor unless:

- (1) such Person (if such Person is the surviving entity) assumes all of the obligations of such Subsidiary Guarantor in respect of its Note Guarantee by executing a supplemental indenture and providing the Trustee with an Officers' Certificate and Opinion of Counsel, and such transaction is otherwise in compliance with the Indenture;
- (2) such Note Guarantee is to be released as provided under "Note Guarantees"; or
- (3) such sale or other disposition of substantially all of such Subsidiary Guarantor's assets is made in accordance with "—Limitation on Asset Sales and Sales of Subsidiary Stock."

Limitation on Transactions with Affiliates

- (1) The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into any transaction or series of related transactions (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with, or for the benefit of, any of its Affiliates (each an "Affiliate Transaction"), unless:
 - (a) the terms of such Affiliate Transaction are no less favorable than those that could reasonably be expected to be obtained in a comparable transaction at such time on an arm's-length basis from a Person that is not an Affiliate of the Company;
 - (b) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value, in excess of US\$5 million, the terms of such Affiliate Transaction will be approved by a majority of the members of the Board of Directors of the Company (including a majority of the disinterested members thereof), the approval to be evidenced by a Board Resolution stating that the Board of Directors has determined that such transaction complies with the preceding provisions; and
 - (c) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value, in excess of US\$25 million, the Company will, prior to the consummation thereof, obtain a favorable opinion as to the fairness of such Affiliate Transaction to the Company and the relevant Restricted Subsidiary (if any) from a financial point of view from an Independent Financial Advisor and file the same with the Trustee.
- (2) Paragraph (1) above will not apply to:
 - (a) Affiliate Transactions with or among the Company and any Restricted Subsidiary or between or among Restricted Subsidiaries;
 - (b) reasonable fees and compensation paid to, and any indemnity provided on behalf of, officers, directors, employees, consultants or agents of the Company or any Restricted Subsidiary as determined in good faith by the Company's Board of Directors;
 - (c) Affiliate Transactions undertaken pursuant to any contractual obligations or rights in existence on the Issue Date and any amendment, modification or replacement of such agreement (so long as such amendment, modification or replacement is not materially more disadvantageous to the Holders of the Notes, taken as a whole, than the original agreement as in effect on the Issue Date);
 - (d) any Restricted Payments made in compliance with "Limitation on Restricted Payments" or any Permitted Investments;

- (e) loans and advances to officers, directors and employees of the Company or any Restricted Subsidiary for travel, entertainment, moving and other relocation expenses, in each case made in the ordinary course of business and not exceeding US\$2.5 million outstanding at any one time; and
- (f) any issuance of Capital Stock (other than Disqualified Stock) of the Company to Affiliates of the Company or to any director, officer, employee or consultant of the Company, and the granting and performance of registration rights.

Conduct of Business

The Company and its Restricted Subsidiaries will not engage in any business other than a Permitted Business.

Reports to Holders

The Indenture provides that, notwithstanding that the Company may not be required to file with the Commission information, documents, or reports pursuant to Section 13 or Section 15(d) of the Exchange Act, it will

- (i) file with the Commission (with a copy to the Trustee), to the extent permitted,
 - (A) annual reports on Form 20-F (or any successor form) containing the information required to be contained therein (or such successor form) within the time period required under the rules of the Commission for the filing of Form 20-F (or any successor form) by foreign private issuers subject thereto, and
 - (B) reports on Form 6-K (or any successor form) including, whether or not required, unaudited quarterly financial statements (which shall include at least a balance sheet, income statement and cash flow statement in each case prepared in accordance with Mexican GAAP) along with other financial information and a discussion of results in each case with a substantially similar level of information in all material respects as provided by the Company in its Form 6-K for the second quarter of 2005, within 45 days after the end of each of the first three fiscal quarters of each fiscal year, and
- (ii) to the extent not filed with the Commission provide the Trustee and the holders with the information, documents and reports referred to in clause (i) above within the periods specified above.

In addition, at any time when the Issuer is not subject to or is not current in its reporting obligations under clause (i) of the preceding paragraph, the Issuer will make available, upon request, to any holder and any prospective purchaser of Notes the information required pursuant to Rule 144A(d)(4) under the Securities Act.

So long as the Notes are listed on Euro MTF, the alternative market of the Luxembourg Stock Exchange, the Company will make available the information specified in the preceding paragraph at the specified office of the Luxembourg paying agent for the Notes.

Listing

In the event that the Notes are listed on Euro MTF, the alternative market of the Luxembourg Stock Exchange, the Company will use its reasonable best efforts to maintain such listing; *provided* that if, as a result of the European Union regulated market amended Directive 2001/34/EC (the “Transparency Directive”) or any legislation implementing the Transparency Directive the Company could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting

principles which the Company would otherwise use to prepare its published financial information, the Company may delist the Notes from the Euro MTF in accordance with the rules of the Luxembourg Stock Exchange and seek an alternative admission to listing, trading and/or quotation for the Notes on a different section of the Luxembourg Stock Exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as the Company may reasonably decide.

Notices

From and after the date the Notes are listed on the Euro MTF, the alternative market of the Luxembourg Stock Exchange and so long as it is required by the rules of such exchange, all notices to Holders of Notes will be published in English:

- (1) in a leading newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*); or
- (2) if such Luxembourg publication is not practicable, in one other leading English language newspaper being published on each day in morning editions, whether or not it shall be published in Saturday, Sunday or holiday editions.

Notices shall be deemed to have been given on the date of publication as aforesaid or, if published on different dates, on the date of the first such publication. In addition, notices will be mailed to holders of Notes at their registered addresses.

Events of Default

The following are “Events of Default”:

- (1) default in the payment when due of the principal of or premium, if any, on any Notes, including the failure to make a required payment to purchase Notes tendered pursuant to an optional redemption, Change of Control Offer or an Asset Sale Offer;
- (2) default for 30 days or more in the payment when due of interest, Additional Amounts or liquidated damages, if any, on any Notes;
- (3) the failure to perform or comply with any of the provisions described under “Certain Covenants—Merger, Consolidation and Sale of Assets”;
- (4) the failure by the Company or any Restricted Subsidiary to comply with any other covenant or agreement contained in the Indenture or in the Notes for 45 days or more after written notice to the Company from the Trustee or the Holders of at least 25% in aggregate principal amount of the outstanding Notes;
- (5) default by the Company or any Restricted Subsidiary under any Indebtedness which:
 - (a) is caused by a failure to pay principal of or premium, if any, or interest on such Indebtedness prior to the expiration of any applicable grace period provided in such Indebtedness on the date of such default; or
 - (b) results in the acceleration of such Indebtedness prior to its stated maturity;and the principal or accreted amount of Indebtedness covered by (a) or (b) at the relevant time, aggregates US\$15 million or more;
- (6) failure by the Company or any of its Restricted Subsidiaries to pay one or more final judgments against any of them, aggregating US\$15 million or more, which judgment(s) are not paid, discharged or stayed for a period of 60 days or more;
- (7) certain events of bankruptcy affecting the Company or any of its Restricted Subsidiaries; or

- (8) except as permitted by the Indenture, any Note Guarantee is held to be unenforceable or invalid in a judicial proceeding or ceases for any reason to be in full force and effect or any Subsidiary Guarantor, or any Person acting on behalf of any Subsidiary Guarantor, denies or disaffirms such Subsidiary Guarantor's obligations under its Note Guarantee.

If an Event of Default (other than an Event of Default specified in clause (7) above with respect to the Company) shall occur and be continuing, the Trustee or the Holders of at least 25% in principal amount of outstanding Notes may declare the unpaid principal of (and premium, if any) and accrued and unpaid interest on all the Notes to be immediately due and payable by notice in writing to the Company and the Trustee specifying the Event of Default and that it is a "notice of acceleration." If an Event of Default specified in clause (7) above occurs with respect to the Company, then the unpaid principal of (and premium, if any) and accrued and unpaid interest on all the Notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

At any time after a declaration of acceleration with respect to the Notes as described in the preceding paragraph, the Holders of a majority in principal amount of the Notes may rescind and cancel such declaration and its consequences:

- (1) if the rescission would not conflict with any judgment or decree;
- (2) if all existing Events of Default have been cured or waived, except nonpayment of principal or interest that has become due solely because of the acceleration;
- (3) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid; and
- (4) if the Company has paid the Trustee its reasonable compensation and reimbursed the Trustee for its reasonable expenses (including the fees and expenses of its counsel), disbursements and advances.

No rescission will affect any subsequent Default or impair any rights relating thereto.

The Holders of a majority in principal amount of the Notes may waive any existing Default or Event of Default under the Indenture, and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any Notes.

Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the Holders, unless such Holders have offered to the Trustee reasonable indemnity. Subject to all provisions of the Indenture and applicable law, the Holders of a majority in aggregate principal amount of the then outstanding Notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

No Holder of any Notes will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless:

- (1) such Holder gives to the Trustee written notice of a continuing Event of Default;
- (2) Holders of at least 25% in principal amount of the then outstanding Notes make a written request to pursue the remedy;
- (3) such Holders of the Notes provide to the Trustee satisfactory indemnity;
- (4) the Trustee does not comply within 60 days; and
- (5) during such 60 day period the Holders of a majority in principal amount of the outstanding Notes do not give the Trustee a written direction which, in the opinion of the Trustee, is inconsistent with the request;

provided, that a Holder of a Note may institute suit for enforcement of payment of the principal of and premium, if any, or interest on such Note on or after the respective due dates expressed in such Note.

Upon becoming aware of any Default or Event of Default, the Company is required to deliver to the Trustee written notice of events which would constitute such Defaults or Events of Default, their status and what action the Company is taking or proposes to take in respect thereof. In addition, the Company is required to deliver to the Trustee, within 105 days after the end of each fiscal year, an Officers' Certificate indicating whether the signers thereof know of any Default or Event of Default that occurred during the previous fiscal year. The Indenture provides that if a Default or Event of Default occurs, is continuing and is actually known to the Trustee, the Trustee must mail to each Holder notice of the Default or Event of Default within 90 days after the occurrence thereof. Except in the case of a Default or Event of Default in the payment of principal of, premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as a committee of its trust officers in good faith determines that withholding notice is in the interests of the Holders.

Legal Defeasance and Covenant Defeasance

The Company may, at its option and at any time, elect to have its obligations with respect to outstanding Notes and all obligations of the Subsidiary Guarantors under the Note Guarantees discharged ("Legal Defeasance"). Such Legal Defeasance means that the Company will be deemed to have paid and discharged the entire indebtedness represented by the outstanding Notes and Note Guarantees after the deposit specified in clause (1) of the second following paragraph, except for:

- (1) the rights of Holders to receive payments in respect of the principal of, premium, if any, and interest on the Notes when such payments are due;
- (2) the Company's obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payments;
- (3) the rights, powers, trust, duties and immunities of the Trustee and the Company's and the Subsidiary Guarantor's obligations in connection therewith; and
- (4) the Legal Defeasance provisions of the Indenture.

In addition, the Company may, at its option and at any time, elect to have its obligations and the obligations of the Subsidiary Guarantors released with respect to certain covenants (including, without limitation, obligations to make Change of Control Offers, Asset Sale Offers, the obligations described under "—Certain Covenants" and the cross-acceleration provisions and judgment default provisions described under "Events of Default") that are described in the Indenture ("Covenant Defeasance") and thereafter any omission to comply with such obligations will not constitute a Default or Event of Default with respect to the Notes or the Note Guarantees. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, reorganization and insolvency events) described under "Events of Default" will no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders cash in U.S. dollars, certain direct non-callable obligations of, or guaranteed by, the United States, or a combination thereof, in such amounts as will be sufficient without reinvestment, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants, to pay the principal of, premium, if any, and interest (including Additional Amounts) on the Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be;

- (2) in the case of Legal Defeasance, the Company has delivered to the Trustee an Opinion of Counsel from counsel in the United States reasonably acceptable to the Trustee (subject to customary exceptions and exclusions) and independent of the Company to the effect that:
 - (a) the Company has received from, or there has been published by, the Internal Revenue Service a ruling; or
 - (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law,

in either case to the effect that, and based thereon such Opinion of Counsel shall state that, the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (3) in the case of Covenant Defeasance, the Company has delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee (subject to customary exceptions and exclusions) to the effect that the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) in the case of Legal Defeasance or Covenant Defeasance, the Company has delivered to the Trustee:
 - (a) an Opinion of Counsel from counsel in Mexico reasonably acceptable to the Trustee (subject to customary exceptions and exclusions) and independent of the Company to the effect that, based upon Mexican law then in effect, Holders will not recognize income, gain or loss for Mexican tax purposes, including withholding tax except for withholding tax then payable on interest payments due, as a result of Legal Defeasance or Covenant Defeasance, as the case may be, and will be subject to Mexican taxes on the same amounts and in the same manner and at the same time as would have been the case if such Legal Defeasance or Covenant Defeasance, as the case may be, had not occurred, or
 - (b) a ruling directed to the Trustee received from the tax authorities of Mexico to the same effect as the Opinion of Counsel described in clause (a) above;
- (5) no Default or Event of Default shall have occurred and be continuing on the date of the deposit pursuant to clause (1) of this paragraph (except any Default or Event of Default resulting from the failure to comply with “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness” as a result of the borrowing of the funds required to effect such deposit);
- (6) the Trustee has received an Officers’ Certificate stating that such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under the Indenture or any other material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;
- (7) the Company has delivered to the Trustee an Officers’ Certificate stating that the deposit was not made by the Company with the intent of preferring the Holders over any other creditors of the Company or any Subsidiary of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company or others;
- (8) the Company has delivered to the Trustee an Officers’ Certificate and an Opinion of Counsel from counsel reasonably acceptable to the Trustee (subject to customary exceptions and

exclusions) and independent of the Company, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with; and

- (9) the Company has delivered to the Trustee an Opinion of Counsel from counsel reasonably acceptable to the Trustee and independent of the Company to the effect that the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the Notes, as expressly provided for in the Indenture) as to all outstanding Notes when:

- (1) either:
 - (a) all the Notes theretofor authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofor been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the Trustee for cancellation; or
 - (b) all Notes not theretofor delivered to the Trustee for cancellation have become due and payable, and the Company has irrevocably deposited or caused to be deposited with the Trustee funds or certain direct, non-callable obligations of, or guaranteed by, the United States sufficient without reinvestment to pay and discharge the entire Indebtedness on the Notes not theretofor delivered to the Trustee for cancellation, for principal of, premium, if any, and interest on the Notes to the date of deposit, together with irrevocable instructions from the Company directing the Trustee to apply such funds to the payment;
- (2) the Company has paid all other sums payable under the Indenture and the Notes by it; and
- (3) the Company has delivered to the Trustee an Officers' Certificate stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

Modification of the Indenture

From time to time, the Company, the Subsidiary Guarantors and the Trustee, without the consent of the Holders, may amend the Indenture, the Notes or the Note Guarantees for certain specified purposes, including curing ambiguities, defects or inconsistencies, to provide for uncertificated Notes in addition to or in place of certificated Notes; to provide for the assumption of the Company's or a Subsidiary Guarantor's obligations to Holders of Notes and Note Guarantees in the case of a merger or consolidation or sale of all or substantially all of the Company's or such Subsidiary Guarantor's assets, as applicable, to the extent permitted under the Indenture; to make any change that would provide any additional rights or benefits to the Holders or that does not adversely affect the legal rights under the Indenture of any such Holder; to comply with requirements of the SEC in order to effect or maintain the qualification of the Indenture under the Trust Indenture Act; to conform the text of the Indenture, the Note Guarantees or the Notes to any provision of this Description of the Notes to the extent that such provision in this Description of the Notes was intended to be a verbatim recitation of a provision of the Indenture, the Note Guarantees or the Notes; to allow any Subsidiary Guarantor to execute a supplemental indenture and/or a Note Guarantee with respect to the Notes and to release Subsidiary Guarantors from the Note Guarantee in accordance with the terms of the Indenture; to comply with the requirements of any applicable securities depositary; to provide for a successor Trustee

in accordance with the terms of the Indenture; to otherwise comply with any requirement of the Indenture; to issue Additional Notes; and make any other changes which do not adversely affect the rights of any of the Holders in any material respect. The Trustee will be entitled to rely on such evidence as it deems appropriate, including solely on an Opinion of Counsel and Officers' Certificate, and shall have no liability whatsoever in reliance upon the foregoing.

Other modifications and amendments of the Indenture or the Notes may be made with the consent of the Holders of a majority in principal amount of the then outstanding Notes issued under the Indenture, except that, without the consent of each Holder affected thereby, no amendment may (with respect to any Notes held by a non-consenting Holder):

- (1) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;
- (2) reduce the rate of or change or have the effect of changing the time for payment of interest, including defaulted interest, on any Notes;
- (3) reduce the principal of or change or have the effect of changing the fixed maturity of any Notes, or change the date on which any Notes may be subject to redemption, or reduce the redemption price therefor;
- (4) make any Notes payable in money other than that stated in the Notes;
- (5) make any change in provisions of the Indenture entitling each Holder to receive payment of principal of, premium, if any, and interest on such Note on or after the due date thereof or to bring suit to enforce such payment, or permitting Holders of a majority in principal amount of Notes to waive Defaults or Events of Default;
- (6) amend, change or modify in any material respect the obligation of the Company to make and consummate a Change of Control Offer in respect of a Change of Control that has occurred or make and consummate an Asset Sale Offer with respect to any Asset Sale that has been consummated;
- (7) eliminate or modify in any manner a Subsidiary Guarantor's obligations with respect to its Note Guarantee which adversely affects Holders in any material respect, except as contemplated in the Indenture;
- (8) make any change in the provisions of the Indenture described under "—Additional Amounts" that adversely affects the rights of any Holder or amend the terms of the Notes in a way that would result in a loss of exemption from Taxes; and
- (9) make any change to the provisions of the Indenture or the Notes that adversely affect the ranking of the Notes.

Governing Law; Jurisdiction

The Indenture and the Notes will be governed by, and construed in accordance with, the law of the State of New York but without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby. The Company and the Subsidiary Guarantors consent to the jurisdiction of the Federal and State courts located in the City of New York, Borough of Manhattan and have appointed an agent for service of process with respect to any actions brought in these courts arising out of or based on the Indenture or the Notes.

The Trustee

Except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Indenture. During the existence of an Event of Default, the Trustee will

exercise such rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Indenture and the provisions of the TIA contain certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payments of claims in certain cases or to realize on certain property received in respect of any such claim as security or otherwise. Subject to the TIA, the Trustee will be permitted to engage in other transactions; *provided*, that if the Trustee acquires any conflicting interest as described in the TIA, it must eliminate such conflict or resign.

No Personal Liability

An incorporator, director, officer, employee, stockholder or controlling person, as such, of the Company or of any Subsidiary Guarantor shall not have any liability for any obligations of the Company or such Subsidiary Guarantor under the Notes (including the Note Guarantees) or the Indenture or for any claims based on, in respect of or by reason of such obligations or their creation. By accepting a Note, each Holder waives and releases all such liability.

Currency Indemnity

The Company and each Subsidiary Guarantor will pay all sums payable under the Indenture or the Notes solely in U.S. Dollars. Any amount that you receive or recover in a currency other than U.S. Dollars in respect of any sum expressed to be due to you from the Company or any Subsidiary Guarantor will only constitute a discharge to us to the extent of the U.S. Dollar amount which you are able to purchase with the amount received or recovered in that other currency on the date of the receipt or recovery or, if it is not practicable to make the purchase on that date, on the first date on which you are able to do so. If the U.S. Dollar amount is less than the U.S. Dollar amount expressed to be due to you under any Note, the Company and the Subsidiary Guarantors will jointly and severally indemnify you against any loss you sustain as a result. In any event, the Company and the Subsidiary Guarantors will jointly and severally indemnify you against the cost of making any purchase of U.S. Dollars. For the purposes of this paragraph, it will be sufficient for you to certify in a satisfactory manner that you would have suffered a loss had an actual purchase of U.S. Dollars been made with the amount received in that other currency on the date of receipt or recovery or, if it was not practicable to make the purchase on that date, on the first date on which you were able to do so. In addition, you will also be required to certify in a satisfactory manner the need for a change of the purchase date.

The indemnities described above:

- constitute a separate and independent obligation from the other obligations of the Company and the Subsidiary Guarantors;
- will give rise to a separate and independent cause of action;
- will apply irrespective of any indulgence granted by any Holder; and
- will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for a full definition of all such terms, as well as any other terms used herein for which no definition is provided.

“Acquired Indebtedness” means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary or at the time it merges or consolidates with the

Company or any of its Restricted Subsidiaries or is assumed in connection with the acquisition of assets from such Person. Such Indebtedness will be deemed to have been Incurred at the time such Person becomes a Restricted Subsidiary or at the time it merges or consolidates with the Company or a Restricted Subsidiary or at the time such Indebtedness is assumed in connection with the acquisition of assets from such Person.

“Additional Amounts” has the meaning set forth under “—Additional Amounts” above.

“Additional Notes” has the meaning set forth under “—Additional Notes” above.

“Affiliate” means, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person. The term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. For purposes of this definition, the terms “controlling,” “controlled by” and “under common control with” have correlative meanings.

“Asset Acquisition” means:

- (1) an Investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person will become a Restricted Subsidiary, or will be merged with or into the Company or any Restricted Subsidiary;
- (2) the acquisition by the Company or any Restricted Subsidiary of the assets of any Person (other than a Subsidiary of the Company) which constitute all or substantially all of the assets of such Person or comprises any division or line of business of such Person or any other properties or assets of such Person other than in the ordinary course of business; or
- (3) any Revocation with respect to an Unrestricted Subsidiary.

“Asset Sale” means any direct or indirect sale, disposition, issuance, conveyance, transfer, lease, assignment or other transfer, including a Sale and Leaseback Transaction (each, a “disposition”) by the Company or any Restricted Subsidiary of:

- (a) any Capital Stock of any Restricted Subsidiary (but not Capital Stock of the Company); or
- (b) any property or assets (other than cash or Cash Equivalents or Capital Stock of the Company) of the Company or any Restricted Subsidiary;

Notwithstanding the preceding, the following items will not be deemed to be Asset Sales:

- (1) the disposition of all or substantially all of the assets of the Company and its Restricted Subsidiaries as permitted under “Certain Covenants—Merger, Consolidation and Sale of Assets;”
- (2) sales of homes and land in the ordinary course of business;
- (3) land, infrastructure and other properties donated to communities in connection with construction and development of housing complexes by the Company or its Restricted Subsidiaries in the ordinary course of business consistent with past practice;
- (4) sales, leases, conveyances or other dispositions, including, without limitation, exchanges or swaps of real estate, for the development of the Company’s or any of its Restricted Subsidiaries’ projects in the ordinary course of business;
- (5) sales, leases, sale-leasebacks or other dispositions of amenities, model homes and other improvements at the Company’s or its Restricted Subsidiaries’ projects in the ordinary course of business;

- (6) for purposes of “Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock” only, the making of a Restricted Payment permitted under “Certain Covenants—Limitation on Restricted Payments” or any Permitted Investment;
- (7) a disposition to the Company or a Restricted Subsidiary, including a Person that is or will become a Restricted Subsidiary immediately after the disposition;
- (8) any single transaction or series of related transactions that involves assets or Capital Stock of a Restricted Subsidiary having a Fair Market Value of less than US\$5 million;
- (9) a transfer of assets between or among the Company and any of its Restricted Subsidiaries;
- (10) an issuance or sale of Capital Stock by a Restricted Subsidiary of the Company to the Company or any of its Restricted Subsidiaries;
- (11) a disposition of accounts receivable in connection with a Receivables Transaction;
- (12) any sale or other disposition of damaged, worn-out, obsolete or no longer useful assets or properties in the ordinary course of business;
- (13) any sale of assets received by the Company or any of its Restricted Subsidiaries upon the foreclosure on a Lien in the ordinary course of business;
- (14) the good faith surrender or waiver of contract rights, tort claims or statutory rights in connection with a settlement.

“*Asset Sale Offer*” has the meaning set forth under “Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock.”

“*Asset Sale Transaction*” means any Asset Sale and, whether or not constituting an Asset Sale, (1) any sale or other disposition of Capital Stock, (2) any Designation with respect to an Unrestricted Subsidiary and (3) any sale or other disposition of property or assets excluded from the definition of Asset Sale by clause (2) of that definition.

“*Board of Directors*” means, as to any Person, the board of directors, management committee or similar governing body of such Person or any duly authorized committee thereof.

“*Board Resolution*” means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

“*Capitalized Lease Obligations*” means, as to any Person, the obligations of such Person under a lease that are required to be classified and accounted for as capital lease obligations under GAAP. For purposes of this definition, the amount of such obligations at any date will be the capitalized amount of such obligations at such date, determined in accordance with GAAP.

“*Capital Stock*” means:

- (1) with respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, including each class of Common Stock and Preferred Stock of such Person;
- (2) with respect to any Person that is not a corporation, any and all partnership or other equity or ownership interests of such Person; and
- (3) any warrants, rights or options to purchase any of the instruments or interests referred to in clause (1) or (2) above.

“Cash Equivalents” means:

- (1) marketable direct obligations issued by, or unconditionally guaranteed by, the United States government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition thereof;
- (2) *Certificados de la Tesorería de la Federación* (Cetes) or *Bonos de Desarrollo del Gobierno Federal* (Bondes), in each case, issued by the government of Mexico and maturing not later than one year after the acquisition thereof;
- (3) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either Standard & Poor’s Corporation (“S&P”) or Moody’s Investors Service, Inc. (“Moody’s”) or any successor thereto;
- (4) commercial paper maturing no more than one year from the date of creation thereof and, at the time of acquisition, having a rating of at least A-1 from S&P or at least P-1 from Moody’s;
- (5) demand deposits, certificates of deposit, time deposits or bankers’ acceptances maturing within one year from the date of acquisition thereof issued by (a) any bank organized under the laws of the United States of America or any state thereof or the District of Columbia, (b) any U.S. branch of a non-U.S. bank having at the date of acquisition thereof combined capital and surplus of not less than US\$500 million, or (c) in the case of Mexican peso deposits, any of the five top-rated banks (as evaluated by an internationally recognized rating agency) organized under the laws of Mexico;
- (6) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (1) above entered into with any bank meeting the qualifications specified in clause (5) above; and
- (7) investments in money market funds which invest substantially all of their assets in securities of the types described in clauses (1) through (6) above.

“Change of Control” means the occurrence of one or more of the following events:

- (1) any Person or Group other than the Permitted Holders is or becomes the beneficial owner (as defined below), directly or indirectly, in the aggregate of more than 50% of the total voting power of the Voting Stock of the Company (including a Surviving Entity, if applicable);
- (2) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Company, together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of the Company was approved by a vote of a majority of the directors of the Company then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board of Directors of the Company then in office;
- (3) the Company consolidates with, or merges with or into, another Person, or the Company sells, conveys, assigns, transfers, leases or otherwise disposes of all or substantially all of the assets of the Company, determined on a consolidated basis, to any Person, other than a transaction where the Person or Persons that, immediately prior to such transaction “beneficially owned” the outstanding Voting Stock of the Company are, by virtue of such prior ownership, or Permitted Holders are, the “beneficial owners” in the aggregate of a majority of the total voting power of the then outstanding Voting Stock of the surviving or transferee person (or if such surviving or transferee Person is a direct or indirect wholly-owned subsidiary of another

Person, such Person who is the ultimate parent entity), in each case whether or not such transaction is otherwise in compliance with the Indenture; or

- (4) the approval by the holders of Capital Stock of the Company of any plan or proposal for the liquidation or dissolution of the Company, whether or not otherwise in compliance with the provisions of the Indenture.

For purposes of this definition:

- (a) “beneficial owner” will have the meaning specified in Rules 13d-3 and 13d-5 under the Exchange Act, except that any Person or Group will be deemed to have “beneficial ownership” of all securities that such Person or Group has the right to acquire, whether such right is exercisable immediately, only after the passage of time or, except in the case of the Permitted Holders, upon the occurrence of a subsequent condition.
- (b) “Person” and “Group” will have the meanings for “person” and “group” as used in Sections 13(d) and 14(d) of the Exchange Act; and
- (c) the Permitted Holders or any other Person or Group will be deemed to beneficially own any Voting Stock of a corporation held by any other corporation (the “parent corporation”) so long as the Permitted Holders or such other Person or Group, as the case may be, beneficially own, directly or indirectly, in the aggregate at least 50% of the voting power of the Voting Stock of the parent corporation and no other Person or Group beneficially owns an equal or greater amount of the Voting Stock of the parent corporation.

“*Change of Control Payment*” has the meaning set forth under “Change of Control.”

“*Change of Control Payment Date*” has the meaning set forth under “Change of Control.”

“*Commodity Agreement*” means any commodity or raw material futures contract, commodity or raw materials option, or any other agreement designed to protect against or manage exposure to fluctuations in commodity or raw materials prices.

“*Common Stock*” of any Person means any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common equity interests, whether outstanding on the Issue Date or issued after the Issue Date, and includes, without limitation, all series and classes of such common equity interests.

“*Consolidated EBITDA*” means, for any Person for any period, Consolidated Net Income for such Person for such period, plus the following, without duplication, to the extent deducted or added in calculating such Consolidated Net Income:

- (1) Consolidated Income Tax Expense for such Person for such period;
- (2) Consolidated Interest Expense for such Person for such period;
- (3) Consolidated Non-cash Charges for such Person for such period;
- (4) net after-tax losses from Asset Sale Transactions or abandonments or reserves relating thereto for such period;
- (5) any income or loss from discontinued operations;

less (x) all non-cash credits and gains increasing Consolidated Net Income for such Person for such period, other than any items which represent the reversal in such period of any accrual of, or cash reserve for, anticipated charges in any prior period where such accrual or reserve is no longer required under GAAP and (y) all cash payments made by such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) during such period relating to non-cash charges that were added back in determining Consolidated EBITDA in any prior period.

Notwithstanding the foregoing, the items specified in clauses (1) and (3) above for any Subsidiary (Restricted Subsidiary in the case of the Company) will be added to Consolidated Net Income in calculating Consolidated EBITDA for any period:

- (a) in proportion to the percentage of the total Capital Stock of such Subsidiary (Restricted Subsidiary in the case of the Company) held directly or indirectly by such Person at the date of determination, and
- (b) to the extent that a corresponding amount would be permitted at the date of determination to be distributed to such Person by such Subsidiary (Restricted Subsidiary in the case of the Company) pursuant to its charter and bylaws and each law, regulation, agreement or judgment applicable to such distribution.

“*Consolidated Fixed Charge Coverage Ratio*” means, for any Person as of any date of determination, the ratio of the aggregate amount of Consolidated EBITDA of such Person for the four most recent full fiscal quarters for which financial statements are available ending prior to the date of such determination (the “Four Quarter Period”) to Consolidated Fixed Charges for such Person for such Four Quarter Period. For purposes of this definition, “Consolidated EBITDA” and “Consolidated Fixed Charges” will be calculated after giving effect on a pro forma basis in accordance with Regulation S-X under the Securities Act of 1933 for the period of such calculation to:

- (1) the Incurrence or repayment or redemption of any Indebtedness (including Acquired Indebtedness) of such Person or any of its Subsidiaries (Restricted Subsidiaries in the case of the Company), and the application of the proceeds thereof, including the Incurrence of any Indebtedness (including Acquired Indebtedness), and the application of the proceeds thereof, giving rise to the need to make such determination, occurring during such Four Quarter Period or at any time subsequent to the last day of such Four Quarter Period and on or prior to such date of determination, to the extent, in the case of an Incurrence, such Indebtedness is outstanding on the date of determination, as if such Incurrence and the application of the proceeds thereof, repayment or redemption occurred on the first day of such Four Quarter Period; and
- (2) any Asset Sale Transaction or Asset Acquisition by such Person or any of its Subsidiaries (Restricted Subsidiaries, in the case of the Company), including any Asset Sale Transaction or Asset Acquisition giving rise to the need to make such determination occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to such date of determination, as if such Asset Sale Transaction or Asset Acquisition occurred on the first day of the Four Quarter Period.

Furthermore, in calculating “Consolidated Fixed Charges” for purposes of determining the denominator (but not the numerator) of this “Consolidated Fixed Charge Coverage Ratio,”

- (a) interest on outstanding Indebtedness determined on a fluctuating basis as of the date of determination and which will continue to be so determined thereafter will be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Indebtedness in effect on such date of determination;
- (b) if interest on any Indebtedness actually Incurred on such date of determination may optionally be determined at an interest rate based upon a factor of a prime or similar rate, a eurocurrency interbank offered rate, or other rates, then the interest rate in effect on such date of determination will be deemed to have been in effect during the Four Quarter Period;
- (c) notwithstanding clause (a) above, interest on Indebtedness determined on a fluctuating basis, to the extent such interest is covered by Hedging Obligations, will be deemed to accrue at the rate per annum resulting after giving effect to the operation of such agreements;

- (d) interest on a Capital Lease Obligation shall be deemed to accrue at an interest rate reasonably determined by a responsible financial or accounting officer of the Company to be the rate of interest implicit in such Capital Lease Obligation in accordance with GAAP; and
- (e) for purposes of making the computation referred to above, interest on any Indebtedness under a revolving credit facility computed on a pro forma basis shall be computed based upon the average daily balance of such Indebtedness during the applicable period.

“*Consolidated Fixed Charges*” means, for any Person for any period, the sum, without duplication, of:

- (1) Consolidated Interest Expense for such Person for such period, *plus*
- (2) the amount of all cash and non-cash dividend payments on any series of Preferred Stock or Disqualified Capital Stock of such Person (other than dividends paid in Qualified Capital Stock) or any Subsidiary of such Person (Restricted Subsidiary in the case of the Company) paid, accrued or scheduled to be paid or accrued during such period, excluding dividend payments on Preferred Stock or Disqualified Capital Stock paid, accrued or scheduled to be paid to such Person or another Subsidiary (Restricted Subsidiary in the case of the Company).

“*Consolidated Income Tax Expense*” means, with respect to any Person for any period, the provision for U.S. federal, state, local and non-U.S. income taxes payable by such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) for such period as determined on a consolidated basis in accordance with GAAP.

“*Consolidated Interest Expense*” means, for any Person for any period, the sum of, without duplication determined on a consolidated basis in accordance with GAAP:

- (1) the aggregate of cash and non-cash interest expense of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) for such period determined on a consolidated basis in accordance with GAAP, including, without limitation (whether or not interest expense in accordance with GAAP):
 - (a) any amortization or accretion of debt discount or any interest paid on Indebtedness of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) in the form of additional Indebtedness,
 - (b) any amortization of deferred financing costs,
 - (c) the net costs under Hedging Obligations (but excluding amortization of fees),
 - (d) all capitalized interest,
 - (e) the interest portion of any deferred payment obligation,
 - (f) commissions, discounts and other fees and charges Incurred in respect of letters of credit or bankers’ acceptances, and
 - (g) any interest expense paid in respect of Indebtedness of another Person that is Guaranteed by such Person or one of its Subsidiaries (Restricted Subsidiaries in the case of the Company) or secured by a Lien on the assets of such Person or one of its Subsidiaries (Restricted Subsidiaries in the case of the Company); and
- (2) the interest component of Capitalized Lease Obligations paid, accrued and/or scheduled to be paid or accrued by such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) during such period.

“*Consolidated Net Income*” means, with respect to any Person for any period, the aggregate net income (or loss) of such Person and its Subsidiaries (after deducting (or adding) the portion of such

net income (or loss) attributable to minority interests in Subsidiaries of such Person) for such period on a consolidated basis, determined in accordance with GAAP; *provided*, that there shall be excluded therefrom to the extent reflected in such aggregate net income (loss):

- (1) net after-tax gains or losses from Asset Sale Transactions or abandonments or reserves relating thereto;
- (2) net after-tax items classified as extraordinary gains or losses;
- (3) the net income (but not loss) of any Person, other than such Person and any Subsidiary of such Person (Restricted Subsidiary in the case of the Company); except that, solely for purposes of calculating Consolidated Net Income pursuant to clause (3) of the first paragraph of “Certain Covenants—Limitation on Restricted Payments” only, Consolidated Net Income of the Company will include the Company’s proportionate share of the net income of:
 - (a) any Person acquired in a “pooling of interests” transaction accrued prior to the date it becomes a Restricted Subsidiary or is merged or consolidated with the Company or any Restricted Subsidiary; or
 - (b) a Surviving Entity prior to assuming the Company’s obligations under the Indenture and the Notes pursuant to “Certain Covenants—Limitation on Merger, Consolidation and Sales of Assets”;
- (4) the net income (but not loss) of any Subsidiary of such Person (Restricted Subsidiary in the case of the Company) to the extent that (and only so long as) a corresponding amount could not be distributed to such Person at the date of determination as a result of any restriction pursuant to the constituent documents of such Subsidiary (Restricted Subsidiary in the case of the Company) or any law, regulation, agreement or judgment applicable to any such distribution;
- (5) any increase (but not decrease) in net income attributable to minority interests in any Subsidiary (Restricted Subsidiary in the case of the Company);
- (6) any gain (or loss) from foreign exchange translation or change in net monetary position;
- (7) any gains or losses (less all fees and expenses or charges relating thereto) attributable to the early extinguishment of Indebtedness and Hedging Obligations; and
- (8) the cumulative effect of changes in accounting principles.

“*Consolidated Net Worth*” means, for any Person at any time, the consolidated stockholders’ equity of such Person at such time, determined on a consolidated basis in accordance with GAAP, less (without duplication) amounts attributable to Disqualified Capital Stock of such Person.

“*Consolidated Non-cash Charges*” means, for any Person for any period, the aggregate depreciation, amortization and other non-cash expenses or losses of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) for such period, determined on a consolidated basis in accordance with GAAP (excluding any such charge which constitutes an accrual of or a reserve for cash charges for any future period or the amortization of a prepaid cash expense paid in a prior period).

“*Consolidated Tangible Assets*” means, for any Person at any time, the total consolidated assets of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) as set forth on the balance sheet as of the most recent fiscal quarter of such Person, prepared in accordance with GAAP, less (i) Intangible Assets and (ii) any assets securing Non-Recourse Indebtedness.

“*Consolidated Tangible Net Worth*” means, for any Person at any time, the Consolidated Net Worth of such Person at such time, less the amount of Intangible Assets reflected on the consolidated balance sheet of such Person at such time.

“*Covenant Defeasance*” has the meaning set forth under “Legal Defeasance and Covenant Defeasance.”

“*Credit Facilities*” means one or more debt facilities, commercial paper facilities or Debt Issuances, in each case with banks, investment banks, insurance companies, mutual funds and/or other institutional lenders or institutional investors providing for revolving credit loans, term loans, letters of credit or Debt Issuances, in each case, as amended, extended, renewed, restated, Refinanced (including, Refinancing with Debt Issuances), supplemented or otherwise modified (in whole or in part, and without limitation as to amount, terms, conditions, covenants and other provisions) from time to time.

“*Currency Agreement*” means, in respect of any Person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party designed to hedge foreign currency risk of such Person.

“*Debt Issuances*” means, with respect to the Company or any Restricted Subsidiary, one or more issuances after the Issue Date of Indebtedness evidenced by notes, debentures, bonds or other similar securities or instruments.

“*Default*” means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

“*Designation*” and “*Designation Amount*” have the meanings set forth under “Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries” above.

“*Disqualified Capital Stock*” means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof, in any case, on or prior to the final maturity date of the Notes; *provided, however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the final maturity of the Notes shall not constitute Disqualified Stock if:

- (1) the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the terms applicable to the Notes and described under “—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock” and “—Change of Control”; and
- (2) any such requirement only becomes operative after compliance with such terms applicable to the Notes, including the purchase of any Notes tendered pursuant thereto.

The amount of any Disqualified Capital Stock shall be equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding accrued dividends, if any. The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined pursuant to the Indenture; *provided, however*, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such Person.

“*Equity Offering*” has the meaning set forth under “—Optional Redemption.”

“*Event of Default*” has the meaning set forth under “Events of Default.”

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

“*Fair Market Value*” means, with respect to any asset, the price (after deducting any liabilities relating to such assets) which could be negotiated in an arm’s-length free market transaction, for cash, between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction; *provided*, that the Fair Market Value of any such asset or assets will be determined conclusively by the Board of Directors of the Company acting in good faith, and will be evidenced by a Board Resolution.

“*Four Quarter Period*” has the meaning set forth in the definition of Consolidated Fixed Charge Coverage Ratio above.

“*GAAP*” means generally accepted accounting principles in Mexico that are in effect as of the Issue Date.

“*Guarantee*” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person:

- (1) to purchase or pay, or advance or supply funds for the purchase or payment of, such Indebtedness of such other Person, whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise, or
- (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part,

provided, that “Guarantee” will not include endorsements for collection or deposit in the ordinary course of business. “Guarantee” used as a verb has a corresponding meaning.

“*Hedging Obligations*” means the obligations of any Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Agreement.

“*Incur*” means, with respect to any Indebtedness or other obligation of any Person, to create, issue, incur (including by conversion, exchange or otherwise), assume, Guarantee or otherwise become liable in respect of such Indebtedness or other obligation on the balance sheet of such Person (and “Incurrence,” “Incurred” and “Incurring” will have meanings correlative to the preceding).

“*Indebtedness*” means with respect to any Person, without duplication:

- (1) the principal amount (or, if less, the accreted value) of all obligations of such Person for borrowed money;
- (2) the principal amount (or, if less, the accreted value) of all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all Capitalized Lease Obligations of such Person;
- (4) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of business that are not overdue by 180 days or more or are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted);
- (5) all letters of credit, banker’s acceptances or similar credit transactions, including reimbursement obligations in respect thereof;

- (6) Guarantees and other contingent obligations of such Person in respect of Indebtedness referred to in clauses (1) through (5) above and clauses (8) through (10) below;
- (7) all Indebtedness of any other Person of the type referred to in clauses (1) through (6) which is secured by any Lien on any property or asset of such Person, the amount of such Indebtedness being deemed to be the lesser of the Fair Market Value of such property or asset or the amount of the Indebtedness so secured;
- (8) all obligations under Hedging Obligations of such Person;
- (9) to the extent not otherwise included in this definition, the Receivables Transaction Amount outstanding relating to any Receivables Transaction; and
- (10) all Disqualified Capital Stock issued by such Person.

For the avoidance of doubt, the recognition and acknowledgement by the Company or any Restricted Subsidiary of its obligation to make payment of a trade payable arising in the ordinary course of business to a bank following the sale and assignment thereof pursuant to the terms of Supplier Factoring Facilities shall not be Indebtedness.

“Independent Financial Advisor” means an accounting firm, appraisal firm, investment banking firm or consultant of internationally recognized standing that is, in the judgment of the Company’s Board of Directors, qualified to perform the task for which it has been engaged and which is independent in connection with the relevant transaction.

“Intangible Assets” means with respect to any Person all unamortized debt discount and expense, unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights and all other items which would be treated as intangibles on the consolidated balance sheet of such Person prepared in accordance with GAAP.

“Interest Rate Agreement” of any Person means any interest rate protection agreement (including, without limitation, interest rate swaps, caps, floors, collars, derivative instruments and similar agreements) and/or other types of hedging agreements designed to hedge interest rate risk of such Person.

“Investment” means, with respect to any Person, any:

- (1) direct or indirect loan, advance or other extension of credit (including, without limitation, a Guarantee) to any other Person,
- (2) capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others) any other Person, or
- (3) any purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by, any other Person.

“Investment” will exclude accounts receivable or deposits arising in the ordinary course of business.

“Invest,” “Investing” and “Invested” will have corresponding meanings.

For purposes of the “Limitation on Restricted Payments” covenant, the Company will be deemed to have made an “Investment” in an Unrestricted Subsidiary at the time of its Designation, which will be valued at the Fair Market Value of the sum of the net assets of such Unrestricted Subsidiary at the time of its Designation and the amount of any Indebtedness of such Unrestricted Subsidiary or owed to the Company or any Restricted Subsidiary immediately following such Designation. Any property transferred to or from an Unrestricted Subsidiary will be valued at its Fair Market Value at the time of such transfer. If the Company or any Restricted Subsidiary sells or otherwise disposes of any Capital Stock of a Restricted Subsidiary (including any issuance and sale of Capital Stock by a Restricted Subsidiary) such that, after giving effect to any such sale or disposition, such Restricted Subsidiary

would cease to be a Subsidiary of the Company, the Company will be deemed to have made an Investment on the date of any such sale or disposition equal to sum of the Fair Market Value of the Capital Stock of such former Restricted Subsidiary held by the Company or any Restricted Subsidiary immediately following such sale or other disposition and the amount of any Indebtedness of such former Restricted Subsidiary Guaranteed by the Company or any Restricted Subsidiary or owed to the Company or any other Restricted Subsidiary immediately following such sale or other disposition.

“Investment Grade Rating” means a rating equal to or higher than (i) Baa3 (or the equivalent) by Moody’s or (ii) BBB – (or the equivalent) by S&P, or, if either such entity ceases to rate the notes for reasons outside of the control of the Issuer, the equivalent investment grade credit rating from any other Rating Agency.

“Investment Return” means, in respect of any Investment (other than a Permitted Investment) made after the Issue Date by the Company or any Restricted Subsidiary:

- (1) the proceeds in cash and the Fair Market Value of property other than cash received by the Company or any Restricted Subsidiary upon the sale, liquidation or repayment of such Investment or, in the case of a Guarantee, the amount of the Guarantee upon the unconditional release of the Company and its Restricted Subsidiaries in full, less any payments previously made by the Company or any Restricted subsidiary in respect of such Guarantee;
- (2) in the case of the Revocation of the Designation of an Unrestricted Subsidiary, an amount equal to the lesser of:
 - (a) the Company’s Investment in such Unrestricted Subsidiary at the time of such Revocation;
 - (b) that portion of the Fair Market Value of the net assets of such Unrestricted Subsidiary at the time of Revocation that is proportionate to the Company’s equity interest in such Unrestricted Subsidiary at the time of Revocation; and
 - (c) the Designation Amount with respect to such Unrestricted Subsidiary upon its Designation which was treated as a Restricted Payment; and
- (3) in the event the Company or any Restricted Subsidiary makes any Investment in a Person that, as a result of or in connection with such Investment, becomes a Restricted Subsidiary, the Fair Market Value of the Investment of the Company and its Restricted Subsidiaries in such Person,

in the case of each of (1), (2) and (3), up to the amount of such Investment that was treated as a Restricted Payment under “Certain Covenants—Limitation on Restricted Payments” less the amount of any previous Investment Return in respect of such Investment.

“Issue Date” means the first date of issuance of Notes under the Indenture.

“Legal Defeasance” has the meaning set forth under “Legal Defeasance and Covenant Defeasance.”

“Lien” means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest); *provided* that the lessee in respect of a Capitalized Lease Obligation or Sale and Leaseback Transaction will be deemed to have Incurred a Lien on the property leased thereunder.

“Moody’s” means Moody’s Investors Service, Inc. and its successors and assigns.

“*Net Cash Proceeds*” means, with respect to any Asset Sale, the proceeds in the form of cash or Cash Equivalents, including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents received by the Company or any of its Restricted Subsidiaries from such Asset Sale, net of:

- (1) reasonable out-of-pocket expenses and fees relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees and sales commissions);
- (2) taxes paid or payable in respect of such Asset Sale after taking into account any reduction in consolidated tax liability due to available tax credits or deductions and any tax sharing arrangements;
- (3) repayment of Indebtedness secured by a Lien permitted under the Indenture that is required to be repaid in connection with such Asset Sale; and
- (4) appropriate amounts to be provided by the Company or any Restricted Subsidiary, as the case may be, as a reserve, in accordance with GAAP, against any liabilities associated with such Asset Sale and retained by the Company or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, but excluding any reserves with respect to Indebtedness.

“*Non-Recourse Indebtedness*” with respect to any Person means Indebtedness of such Person for which (1) the sole legal recourse for collection of principal and interest on such Indebtedness is against the specific property identified in the instruments evidencing or securing such Indebtedness and such property was acquired with the proceeds of such Indebtedness or such Indebtedness was incurred within 365 days after the acquisition or construction of such property and (2) no other assets of such Person may be realized upon in collection of principal or interest on such Indebtedness.

“*Note Guarantee*” means any guarantee of the Company’s Obligations under the Notes and the Indenture provided by a Restricted Subsidiary pursuant to the Indenture.

“*Obligations*” means, with respect to any Indebtedness, any principal, interest (including, without limitation, Post-Petition Interest), penalties, fees, indemnifications, reimbursements, damages, and other liabilities payable under the documentation governing such Indebtedness, including in the case of the Notes and the Note Guarantees, the Indenture.

“*Officer*” means, when used in connection with any action to be taken by the Company, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer, the Controller or the Secretary of the Company.

“*Officers’ Certificate*” means, when used in connection with any action to be taken by the Company, a certificate signed by two Officers or by an Officer and either an Assistant Treasurer or an Assistant Secretary of the Company and delivered to the Trustee.

“*Opinion of Counsel*” means a written opinion of counsel, who may be an employee of or counsel for the Company (except as otherwise provided in the Indenture) and which opinion shall be reasonably acceptable to the Trustee.

“*Permitted Acquisition Indebtedness*” means Indebtedness of the Company or any of its Restricted Subsidiaries to the extent such Indebtedness was Indebtedness of (i) a Subsidiary prior to the date on which such Subsidiary became a Restricted Subsidiary or (ii) a Person that was merged or amalgamated into the Company or a Restricted Subsidiary, *provided* that on the date such Subsidiary became a Restricted Subsidiary or the date such Person was merged and amalgamated into the Company or a Restricted Subsidiary, as applicable, after giving pro forma effect thereto, (a) the Company, would be permitted to incur at least US\$1.00 of additional Indebtedness pursuant to paragraph (1) under “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness,” or (b) the Consolidated

Fixed Charge Coverage Ratio of the Company and the Restricted Subsidiaries would be greater than the Consolidated Fixed Charge Coverage Ratio immediately prior to such transaction.

“Permitted Business” means the business or businesses conducted by the Company and its Restricted Subsidiaries as of the Issue Date and any business ancillary or complementary thereto.

“Permitted Holders” means (i) any member of the Board of Directors of the Company on the Issue Date, (ii) a parent, brother or sister of any of the individuals named in clause (i), (iii) the spouse or a former spouse of any individual named in clause (i) or (ii), (iv) the lineal descendants of any person named in clauses (i) through (iii) and the spouse or a former spouse of any such lineal descendant, (v) the estate or any guardian, custodian or other legal representative of any individual named in clauses (i) through (iv), (vi) any trust established principally for the benefit of any one or more of the individuals named in clauses (i) through (v), and (vii) any Person in a majority of the equity interests are owned, directly or indirectly, by any one or more of the Persons named in clauses (i) through (vi).

“Permitted Indebtedness” has the meaning set forth under clause (2) of “Certain Covenants—Limitation on Incurrence of Additional Indebtedness.”

“Permitted Investments” means:

- (1) Investments by the Company or any Restricted Subsidiary in any Person that is, or that result in any Person becoming, immediately after such Investment, a Restricted Subsidiary or constituting a merger or consolidation of such Person into the Company or with or into a Restricted Subsidiary, except for a Guarantee of Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor;
- (2) Investments by any Restricted Subsidiary in the Company;
- (3) Investments in cash and Cash Equivalents;
- (4) any extension, modification or renewal of any Investments existing as of the Issue Date (but not Investments involving additional advances, contributions or other investments of cash or property or other increases thereof, other than as a result of the accrual or accretion of interest or original issue discount or payment-in-kind pursuant to the terms of such Investment as of the Issue Date);
- (5) Investments permitted pursuant to clause (2)(b) or (e) of “Certain Covenants—Limitation on Transactions with Affiliates”;
- (6) Investments received as a result of the bankruptcy or reorganization of any Person or taken in settlement of or other resolution of claims or disputes, and, in each case, extensions, modifications and renewals thereof;
- (7) Investments made by the Company or its Restricted Subsidiaries as a result of non-cash consideration permitted to be received in connection with an Asset Sale made in compliance with the covenant described under “Certain Covenants—Limitation on Asset Sales and Sales of Subsidiary Stock”;
- (8) Investments in the form of Hedging Obligations permitted under clause 2(e) of “Certain Covenants—Limitation on Incurrence of Additional Indebtedness”;
- (9) Investments in a Person engaged in a Permitted Business not to exceed 10% of Consolidated Tangible Assets of the Company and its Restricted Subsidiaries at any one time outstanding;
- (10) receivables owing to the Company or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (11) payroll, travel, entertainment, relocation and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

- (12) loans or advances to employees made in the ordinary course of business consistent with past practices of the Company or such Restricted Subsidiary;
- (13) cash deposits with banks made in the ordinary course of business of the Company and its Restricted Subsidiaries, consistent with past practice, to secure payment of trade payables under Supplier Factoring Facilities;
- (14) Investments in any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers' compensation, performance and other similar deposits made in the ordinary course of business by the Company or any Restricted Subsidiary;
- (15) Investments in a Receivables Entity in connection with a Receivables Transaction; *provided* that such Investment in any such Person is in the form of any equity interest or interests in receivables and related assets generated by the Company or any Restricted Subsidiary and transferred to such Person in connection with a Receivables Transaction; and
- (16) any receivables or loans taken by the Company or its Restricted Subsidiaries in connection with the sale of homes, land, amenities and other improvements in the ordinary course of business consistent with past practice.

provided, however, that with respect to any Investment, the Company may, in its sole discretion, allocate all or any portion of any Investment and later re-allocate all or any portion of any Investment to, one or more of the above clauses (1) through (16) so that the entire Investment would be Permitted Investment.

"Permitted Liens" means any of the following:

- (1) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent or being contested in good faith;
- (2) Liens Incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, including any Lien securing letters of credit issued in the ordinary course of business consistent with past practice in connection therewith, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);
- (3) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;
- (4) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other property relating to such letters of credit and products and proceeds thereof;
- (5) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Company or a Restricted Subsidiary, including rights of offset and set-off;
- (6) Liens securing Hedging Obligations that relate to Indebtedness that is Incurred in accordance with "Certain Covenants—Limitation on Incurrence of Additional Indebtedness" and that are secured by the same assets as secure such Hedging Obligations;
- (7) Liens existing on the Issue Date and Liens to secure any Refinancing Indebtedness which is Incurred to Refinance any Indebtedness below which has been secured by a Lien permitted under the covenant described under "Certain Covenants—Limitation on Liens" not incurred

pursuant to clauses (9) or (10) of the definition of “Permitted Liens” and which Indebtedness has been Incurred in accordance with “Certain Covenants—Limitation on Incurrence of Additional Indebtedness”; *provided*, that such new Liens:

- (a) are no less favorable to the Holders of Notes and are not more favorable to the lienholders with respect to such Liens than the Liens in respect of the Indebtedness being Refinanced and
 - (b) do not extend to any property or assets other than the property or assets securing the Indebtedness Refinanced by such Refinancing Indebtedness;
- (8) Liens securing Acquired Indebtedness Incurred in accordance with “Certain Covenants—Limitation on Incurrence of Additional Indebtedness” not incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation; *provided*, that
- (a) such Liens secured such Acquired Indebtedness at the time of and prior to the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary and were not granted in connection with, or in anticipation of the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary and
 - (b) such Liens do not extend to or cover any property of the Company or any Restricted Subsidiary other than the property that secured the Acquired Indebtedness prior to the time such Indebtedness became Acquired Indebtedness of the Company or a Restricted Subsidiary and are no more favorable to the lienholders than the Liens securing the Acquired Indebtedness prior to the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary;
- (9) purchase money Liens securing Purchase Money Indebtedness or Capitalized Lease Obligations Incurred to finance the acquisition or leasing of property of the Company or a Restricted Subsidiary used in a Permitted Business; *provided*, that:
- (a) the related Purchase Money Indebtedness does not exceed the cost of such property and shall not be secured by any property of the Company or any Restricted Subsidiary other than the property so acquired, and
 - (b) the Lien securing such Indebtedness will be created within 365 days of such acquisition;
- (10) Liens securing an amount of Indebtedness under Credit Facilities outstanding at any one time not to exceed the greater of (x) US\$100 million and (y) 10% of the Consolidated Tangible Assets of the Company at such time;
- (11) any pledge or deposit of cash or property in conjunction with obtaining surety and performance bonds and letters of credit required to engage in constructing on-site and off-site improvements required by municipalities or other governmental authorities in the ordinary course of business;
- (12) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;
- (13) Liens encumbering customary initial deposits and margin deposits, and other Liens that are customary in the industry and incurred in the ordinary course of business securing Indebtedness under Hedging Obligation and forward contracts, options, futures contracts, futures options or similar agreements or arrangement designed to protect the Company and its Restricted Subsidiaries from fluctuations in the price of commodities;
- (14) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as is required in conformity with GAAP has been made therefor;

- (15) licenses of intellectual property in the ordinary course of business;
- (16) Liens to secure a defeasance trust;
- (17) easements, rights of way zoning and similar restrictions, reservations, restrictions or encumbrances in respect of real property or title defects that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties (as such properties are used by the Company or its Restricted Subsidiaries) or materially impair their use in the operation of the business of the Company and its Restricted Subsidiaries;
- (18) Liens arising from precautionary Uniform Commercial Code financing statement filings regarding operating leases entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business;
- (19) judgment Liens not giving rise to an Event of Default so long as any appropriate legal proceedings that may have been duly initiated for the review of such judgment shall not have been finally terminated or the period within which such legal proceedings may be initiated shall not have expired;
- (20) Liens on Capital Stock of an Unrestricted Subsidiary that secure Indebtedness or other obligations of such Unrestricted Subsidiary; or
- (21) Liens on accounts receivable or related assets incurred in connection with a Receivables Transaction.

“*Person*” means an individual, partnership, limited partnership, corporation, company, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

“*Post-Petition Interest*” means all interest accrued or accruing after the commencement of any insolvency or liquidation proceeding (and interest that would accrue but for the commencement of any insolvency or liquidation proceeding) in accordance with and at the contract rate (including, without limitation, any rate applicable upon default) specified in the agreement or instrument creating, evidencing or governing any Indebtedness, whether or not, pursuant to applicable law or otherwise, the claim for such interest is allowed as a claim in such insolvency or liquidation proceeding.

“*Preferred Stock*” of any Person means any Capital Stock of such Person that has preferential rights over any other Capital Stock of such Person with respect to dividends, distributions or redemptions or upon liquidation.

“*Purchase Money Indebtedness*” means Indebtedness Incurred for the purpose of financing all or any part of the purchase price, or other cost of construction or improvement of any property; *provided*, that the aggregate principal amount of such Indebtedness does not exceed the lesser of the Fair Market Value of such property or such purchase price or cost, including any Refinancing of such Indebtedness that does not increase the aggregate principal amount (or accreted amount, if less) thereof as of the date of Refinancing.

“*Qualified Capital Stock*” means any Capital Stock that is not Disqualified Capital Stock and any warrants, rights or options to purchase or acquire Capital Stock that is not Disqualified Capital Stock that are not convertible into or exchangeable into Disqualified Capital Stock.

“*Rating Agencies*” means S&P and Moody’s.

“*Receivables Entity*” means a Person in which the Company or any Restricted Subsidiary makes an Investment and:

- (1) to which the Company or any Restricted Subsidiary transfers receivables and related assets in connection with a Receivables Transaction;
- (2) which engages in no activities other than in connection with the Receivables Transaction;

- (3) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which:
 - (a) is guaranteed by the Company or any Restricted Subsidiary (excluding guarantees of Obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings);
 - (b) is recourse to or obligates the Company or any Restricted Subsidiary in any way other than pursuant to Standard Securitization Undertakings; or
 - (c) subjects any property or asset of the Company or any Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;
- (4) with which neither the Company nor any Restricted Subsidiary has any material contract, agreement, arrangement or understanding (except in connection with a Receivables Transaction) other than on terms no less favorable to the Company or such Restricted Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Company, other than fees payable in the ordinary course of business in connection with servicing receivables; and
- (5) to which neither the Company nor any Restricted Subsidiary has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results.

"Receivables Transaction" means any securitization, factoring, discounting or similar financing transaction or series of transactions that may be entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business pursuant to which the Company or any of its Restricted Subsidiaries may sell, convey or otherwise transfer to any Person (including a Receivables Entity), or may grant a security interest in, any receivables (whether now existing or arising in the future) of the Company or any of its Restricted Subsidiaries, and any assets related thereto, including all collateral securing such receivables, all contracts and all guarantees or other obligations in respect of such receivables, the proceeds of such receivables and other assets which are customarily transferred, or in respect of which security interests are customarily granted, in connection with securitization, factoring or discounting involving receivables.

"Receivables Transaction Amount" means the amount of obligations outstanding under the legal documents entered into as part of a Receivables Transaction on any date of determination that would be characterized as principal if such Receivables Transaction were structured as a secured lending transaction rather than a purchase.

"Refinance" means, in respect of any Indebtedness, to issue any Indebtedness in exchange for or to refinance, replace, defease or refund such Indebtedness in whole or in part. *"Refinanced"* and *"Refinancing"* will have correlative meanings.

"Refinancing Indebtedness" means Indebtedness of the Company or any Restricted Subsidiary issued to Refinance any other Indebtedness of the Company or a Restricted Subsidiary so long as:

- (1) the aggregate principal amount (or initial accreted value, if applicable) of such new Indebtedness as of the date of such proposed Refinancing does not exceed the aggregate principal amount (or initial accreted value, if applicable) of the Indebtedness being Refinanced (plus the amount of any premium required to be paid under the terms of the instrument governing such Indebtedness and the amount of reasonable expenses incurred by the Company in connection with such Refinancing);
- (2) such new Indebtedness has:
 - (a) a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being Refinanced, and

- (b) a final maturity that is equal to or later than the final maturity of the Indebtedness being Refinanced; and
- (3) if the Indebtedness being Refinanced is:
- Indebtedness of the Company, then such Refinancing Indebtedness will be Indebtedness of the Company and/or a Subsidiary Guarantor,
 - Indebtedness of a Subsidiary Guarantor, then such Refinancing Indebtedness will be Indebtedness of the Company and/or such Subsidiary Guarantor, and
 - Subordinated Indebtedness, then such Refinancing Indebtedness shall be subordinate to the Notes or the relevant Note Guarantee, if applicable, at least to the same extent and in the same manner as the Indebtedness being Refinanced.

“Representative” means any trustee, agent or representative (if any) for an issue of Senior Indebtedness of the Company.

“Restricted Payment” has the meaning set forth under “Certain Covenants—Limitation on Restricted Payments.”

“Restricted Subsidiary” means any Subsidiary of the Company which at the time of determination is not an Unrestricted Subsidiary.

“Revocation” has the meaning set forth under “Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries.”

“S&P” means Standard & Poor’s Ratings Services and its successors and assigns.

“Sale and Leaseback Transaction” means any direct or indirect arrangement with any Person or to which any such Person is a party providing for the leasing to the Company or a Restricted Subsidiary of any property, whether owned by the Company or any Restricted Subsidiary at the Issue Date or later acquired, which has been or is to be sold or transferred by the Company or such Restricted Subsidiary to such Person or to any other Person by whom funds have been or are to be advanced on the security of such Property.

“Senior Indebtedness” means the Notes and the Note Guarantees and any other Indebtedness of the Company or any Subsidiary Guarantor that ranks equal in right of payment with the Notes or the relevant Note Guarantee, as the case may be.

“Significant Subsidiary” means a Subsidiary of the Company constituting a “Significant Subsidiary” of the Company in accordance with Rule 1-02(w) of Regulation S-X under the Securities Act in effect on the date hereof.

“Standard Securitization Undertakings” means representations, warranties, covenants and indemnities entered into by the Company or any Restricted Subsidiary which are reasonably customary in securitization of receivables transactions.

“Stated Maturity” means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“Subordinated Indebtedness” means, with respect to the Company or any Subsidiary Guarantor, any Indebtedness of the Company or such Subsidiary Guarantor, as the case may be which is expressly subordinated in right of payment to the Notes or the relevant Note Guarantee, as the case may be.

“Subsidiary,” means, with respect to any Person, any other Person of which such Person owns, directly or indirectly, more than 50% of the voting power of the other Person’s outstanding Voting Stock.

“*Subsidiary Guarantor*” means any Restricted Subsidiary which provides a Note Guarantee pursuant to the Indenture until such time as its Note Guarantee is released in accordance with the Indenture.

“*Supplier Factoring Facilities*” means supplier factoring facilities established by Mexican banks pursuant to (i) the Convenio Denominado Cadenas Productivas Para el Desarrollo de Proveedores Por Medios Electrónicos or (ii) the AAA Homex Trust, Nacional Financiera, S.N.C., as trustee, established on May 12, 2003, in each case as in effect on the Issue Date and as amended from time to time on terms similar to those in effect on the Issue Date, which provide for the sale and assignment from time to time by suppliers on a discounted basis of then existing trade payables of the Company and its Restricted Subsidiaries, and any similar supplier factoring facilities supplementing or replacing such existing facilities; *provided* that any funds disbursed under such facilities shall be solely in consideration for the sale and assignment of then existing trade payables of the Company and its Restricted Subsidiaries generated in the ordinary course of business.

“*Surviving Entity*” has the meaning set forth under “Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets.”

“*Unrestricted Subsidiary*” means any Subsidiary of the Company Designated as such pursuant to “Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries.” Any such Designation may be revoked by a Board Resolution of the Company, subject to the provisions of such covenant.

“*U.S. Government Obligations*” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable or redeemable at the issuer’s option.

“*Voting Stock*” with respect to any Person, means securities of any class of Capital Stock of such Person entitling the holders thereof (whether at all times or only so long as no senior class of stock has voting power by reason of any contingency) to vote in the election of members of the Board of Directors (or equivalent governing body) of such Person.

“*Weighted Average Life to Maturity*” means, when applied to any Indebtedness at any date, the number of years (calculated to the nearest one-twelfth) obtained by dividing:

- (1) the then outstanding aggregate principal amount or liquidation preference, as the case may be, of such Indebtedness into
- (2) the sum of the products obtained by multiplying:
 - (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal or liquidation preference, as the case may be, including payment at final maturity, in respect thereof, by
 - (b) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

“*Wholly-Owned Subsidiary*” means, for any Person, any Subsidiary (Restricted Subsidiary in the case of the Company) of which all the outstanding Capital Stock (other than, in the case of a Subsidiary not organized in the United States, directors’ qualifying shares or an immaterial amount of shares required to be owned by other Persons pursuant to applicable law) is owned by such Person or any other Person that satisfies this definition in respect of such Person.

BOOK-ENTRY; DELIVERY AND FORM

General

The Notes are being offered and sold only:

- to QIBs in reliance on Rule 144A (“Rule 144A Notes”), or
- in offshore transactions in reliance on Regulation S (“Regulation S Notes”).

The Notes will be issued in fully registered global form in minimum denominations of US\$2,000 and integral multiples of US\$1,000 in excess thereof. The Notes will be issued on the issue date therefor only against payment in immediately available funds.

Rule 144A Notes initially will be represented by a single permanent global certificate (which may be subdivided) without interest coupons (the “Rule 144A Global Note”). Regulation S Notes initially will be represented by a single permanent global certificate (which may be subdivided) without interest coupons (the “Regulation S Global Note” and together with the Rule 144A Global Note, the “Global Notes”).

The Global Notes will be deposited upon issuance with the Trustee as custodian for The Depository Trust Company (“DTC”), in New York, New York, and registered in the name of DTC or its nominee for credit to an account of a direct or indirect participant in DTC including the Euroclear System (“Euroclear”) or Clearstream Banking, S.A. (“Clearstream”), as described below under “—Depository Procedures.”

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for Notes in certificated form except in the limited circumstances described below under “—Exchange of Book-Entry Notes for Certificated Notes.”

The Notes will be subject to certain restrictions on transfer and will bear a restrictive legend as described under “Notice to Investors.” In addition, transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time.

Depository Procedures

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. The Company takes no responsibility for these operations and procedures and urges investors to contact the systems or their participants directly to discuss these matters.

DTC is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the “Participants”) and facilitate the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the Initial Purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC’s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the “Indirect Participants”). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through Participants or Indirect Participants. DTC has no knowledge of the identity of beneficial owners of securities held by or on behalf of DTC. DTC’s records reflect only the identity of Participants to whose accounts securities are credited. The ownership interests and transfer of ownership interests of each beneficial owner of each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

Pursuant to procedures established by DTC:

- upon deposit of the Global Notes, DTC will credit the accounts of Participants designated by the Initial Purchasers with portions of the principal amount of the Global Notes; and
- ownership of such interests in the Global Notes will be maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interests in the Global Notes).

Investors in the Global Notes may hold their interests therein directly through DTC, if they are Participants in such system, or indirectly through organizations (including Euroclear and Clearstream) that are Participants or Indirect Participants in such system. Euroclear and Clearstream will hold interests in the Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which are Euroclear Bank, S.A./N.V., as operator of Euroclear, and Citibank, N.A., as operator of Clearstream. The depositaries, in turn, will hold interests in the Notes in customers' securities accounts in the depositaries' names on the books of DTC.

All interests in a Global Note, including those held through Euroclear or Clearstream, will be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream will also be subject to the procedures and requirements of these systems. The laws of some states require that certain persons take physical delivery of certificates evidencing securities they own. Consequently, the ability to transfer beneficial interests in a Global Note to such persons will be limited to that extent. Because DTC can act only on behalf of Participants, which in turn act on behalf of Indirect Participants, the ability of beneficial owners of interests in a Global Note to pledge such interests to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests. For certain other restrictions on the transferability of the Notes, see “—Exchange of Book-Entry Notes for Certificated Notes.”

Except as described below, owners of interests in the Global Notes will not have Notes registered in their names, will not receive physical delivery of Notes in certificated form and will not be considered the registered owners or holders thereof under the Indenture for any purpose.

Payments in respect of the principal of and premium, if any, and interest on a Global Note registered in the name of DTC or its nominee will be payable by the Trustee (or the paying agent if other than the Trustee) to DTC in its capacity as the registered holder under the Indenture. The Company and the Trustee will treat the persons in whose names the Notes, including the Global Notes, are registered as the owners thereof for the purpose of receiving such payments and for any and all other purposes whatsoever. Consequently, none of the Company, the Trustee or any agent of the Company or the Trustee has or will have any responsibility or liability for:

- any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interests in the Global Notes, or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Global Notes; or
- any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised the Company that its current practice, upon receipt of any payment in respect of securities such as the Notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date in amounts proportionate to their respective holdings in the principal amount of the relevant security as shown on the records of DTC, unless DTC has reason to believe it will not receive payment on such payment date. Payments by the Participants and the Indirect Participants to the beneficial owners of Notes will be governed by standing instructions

and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the Trustee or the Company. Neither the Company nor the Trustee will be liable for any delay by DTC or any of its Participants in identifying the beneficial owners of the Notes, and the Company and the Trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Except for trades involving only Euroclear and Clearstream participants, interests in the Global Notes are expected to be eligible to trade in DTC's Same-Day Funds Settlement System and secondary market trading activity in such interests will therefore settle in immediately available funds, subject in all cases to the rules and procedures of DTC and its Participants.

Subject to the transfer restrictions described under "Notice to Investors," transfers between Participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Subject to the transfer restrictions described under "Notice to Investors," cross-market transfers between Participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by their depositaries. Cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in that system in accordance with the rules and procedures and within the established deadlines (Brussels time) of that system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositaries to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a Participant in DTC will be credited and reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised the Company that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a Participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

DTC has advised the Company that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Participants to whose account with DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of the Notes as to which such Participant or Participants has or have given such direction.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and the procedures may be discontinued at any time. Neither the Company nor the Trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

The information in this section concerning DTC, Euroclear and Clearstream and their book-entry systems has been obtained from sources that the Company believes to be reliable, but the Company takes no responsibility for the accuracy thereof.

Exchange of Book-Entry Notes for Certificated Notes

The Global Notes are exchangeable for certificated Notes in definitive, fully registered form without interest coupons (“Certificated Notes”) only in the following limited circumstances:

- DTC notifies the Company that it is unwilling or unable to continue as depository for the Global Note or DTC ceases to be a clearing agency registered under the Securities Exchange Act of 1934, as amended, at a time when DTC is required to be so registered in order to act as depository, and in each case the Company fails to appoint a successor depository within 90 days of such notice;
- the Company notifies the Trustee in writing that the Global Note shall be so exchangeable; or
- if there shall have occurred and be continuing an Event of Default with respect to the Notes.

In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of DTC (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in “Notice to Investors,” unless the Company determines otherwise in accordance with the Indenture and in compliance with applicable law.

Transfers Within and Between Global Notes

Through and including the 40th day after the later of the commencement of the offering of the Notes and the closing of the offering (the “40-day Period”), beneficial interests in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note only if such transfer is made pursuant to Rule 144A and the transferor first delivers to the Trustee a certificate (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States and other jurisdictions. After the expiration of the 40-day Period, beneficial interests in the Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Note without compliance with these certification requirements.

Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Note only upon receipt by the Trustee of a written certification (in the form provided in the Indenture) from the transferor to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the Securities Act (if available).

Transfers of beneficial interests within a Global Note may be made without delivery of any written certification or other documentation from the transferor or the transferee.

Transfers of beneficial interests in the Regulation S Global Note for beneficial interests in the Rule 144A Global Note or vice versa will be effected by DTC by means of an instruction originated by the Trustee through the DTC Deposit/Withdraw at Custodian system. Accordingly, in connection with any transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note or vice versa, as applicable. Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in such Global Note and will become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for so long as it remains such an interest.

TAXATION

The following is a general summary of the principal U.S. federal income tax and Mexican federal tax consequences of the purchase, ownership and disposition of the notes, but it does not purport to be a comprehensive description of all the U.S. and Mexican tax considerations that may be relevant to a decision to purchase, own and dispose of the notes. This summary does not describe any tax consequences arising under the laws of any state, locality, municipality or taxing jurisdiction other than those arising under the federal laws of the United States and Mexico.

This summary is for general information only and is based on the federal tax laws of the United States and Mexico as in effect on the date of this offering circular, as well as regulations, rulings and decisions of the United States and rules and regulations of Mexico available on or before that date and now in effect. All of the foregoing are subject to change, possibly with retroactive effect, which could affect the continued validity of this general summary.

Prospective purchasers of the notes should consult their own tax advisors as to the Mexican, U.S. or other tax consequences (including tax consequences under any state or municipal law of the United States or Mexico) of the purchase, ownership and disposition of the notes, including the particular tax consequences to them in light of their particular investment circumstances and of the effect of any treaty for the avoidance of double taxation.

United States/Mexico Tax Treaty

A convention for the Avoidance of Double Taxation and protocols to that convention (collectively referred to herein as the “U.S.-Mexico treaty”) are in effect. As discussed below under “—Mexican Taxation,” as of the date of this offering circular, the U.S.-Mexico treaty is not generally expected to have any material effect on the Mexican federal income tax consequences described below in this offering circular. The United States and Mexico have also entered into an agreement that covers the exchange of information with respect to tax matters.

Mexico has also entered into, and is negotiating several other, tax treaties with various countries that also, as of the date of this offering circular, are not generally expected to have any material effect on the Mexican income tax consequences described in respect of the purchase, ownership and disposition of the notes in this offering circular, but that may affect the continued validity of this general summary in the future.

United States Federal Income Taxation

This summary of the principal U.S. federal income tax consequences of the purchase, ownership and disposition of the notes is limited to beneficial owners of the notes that:

- acquire the notes in this offering at a price equal to the issue price of the notes (i.e., the first price at which a substantial amount of the notes is sold, other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers);
- are U.S. holders (as defined below); and
- will hold the notes as capital assets.

As used in this offering circular, a “U.S. holder” means a beneficial owner of notes who or that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation (or entity treated as a corporation for such purposes) created or organized in or under the laws of the United States, or any State thereof or the District of Columbia;
- an estate the income of which is includible in its gross income for U.S. federal income tax purposes without regard to its source; or

- a trust, if either (x) it is subject to the primary supervision of a court within the United States and one or more “United States persons” has the authority to control all substantial decisions of the trust or (y) it has a valid election in effect under applicable treasury regulations to be treated as a “United States person.”

This summary does not discuss considerations or consequences relevant to persons subject to special provisions of U.S. federal income tax law, such as:

- entities that are tax-exempt for U.S. federal income tax purposes and retirement plans, individual retirement accounts and tax-deferred accounts;
- pass-through entities (including partnerships and entities and arrangements classified as partnerships for U.S. federal income tax purposes) and beneficial owners of pass-through entities;
- certain U.S. expatriates;
- persons that are subject to the alternative minimum tax;
- financial institutions, insurance companies, and dealers or traders in securities or currencies;
- persons having a “functional currency” other than the U.S. dollar; and
- persons that will hold the notes as part of a constructive sale, wash sale, conversion transaction or other integrated transaction or a straddle, hedge or synthetic security.

If a partnership (or an entity or arrangement classified as a partnership for U.S. federal income tax purposes) holds the notes, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership, and partnerships holding the notes should consult their own tax advisors regarding the U.S. federal income tax consequences of purchasing, owning and disposing of the notes. In addition, this summary does not address the tax consequences to U.S. holders that purchase the notes other than in this offering or at a price other than the issue price of the notes. Finally, this summary does not address the effect of any U.S. state or local tax law on a beneficial owner of the notes. This discussion assumes that each beneficial owner of the notes will comply with the certification procedures described in “Description of Notes—Certain Covenants—Additional Amounts” as may be necessary to obtain a reduced rate of withholding tax under Mexican law. Each beneficial owner of the notes should consult a tax advisor as to the particular tax consequences to it of purchasing, owning and disposing of the notes, including the applicability and effect of any state, local or foreign tax laws.

Circular 230 Disclosure. TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN BY US TO BE RELIED UPON, AND CANNOT BE RELIED UPON BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

Interest and Additional Amounts. Interest on the notes and Additional Amounts, if any, paid in respect of Mexican withholding taxes imposed on interest payments on the notes (as described in “Description of Notes—Certain Covenants—Additional Amounts”) will be taxable to a U.S. holder as ordinary interest income at the time they are paid or accrued in accordance with the U.S. holder’s usual method of accounting for U.S. federal income tax purposes. The amount of income taxable to a U.S. holder will include the amount of all Mexican taxes that we withhold (as described below under “—Mexican Taxation”) from these payments made on the notes. Thus, a U.S. holder will have to report income in an amount that is greater than the amount of cash it receives from these payments on its note.

However, a U.S. holder may, subject to certain limitations, be eligible to claim the Mexican taxes withheld as a credit or deduction for purposes of computing its U.S. federal income tax liability, even though the payment of these taxes will be remitted by us. Interest and Additional Amounts paid on the notes will constitute income from sources without the United States for foreign tax credit purposes. For taxable years beginning on or before December 31, 2006, such income generally will constitute “high withholding tax interest” for foreign tax credit purposes, unless the Mexican withholding tax rate applicable to the U.S. holder is less than 5% (such as during any period in which the 4.9% Mexican withholding tax rate, as discussed in “—Mexican Taxation,” applies), in which case such income generally will constitute “passive income” or, in the case of certain U.S. holders, “financial services income.” For taxable years beginning after December 31, 2006, such income generally will constitute “passive category income” or, in the case of certain U.S. holders, “general category income,” for foreign tax credit purposes. The rules relating to the calculation and timing of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions, involves the application of complex rules that depend upon a U.S. holder’s particular circumstances. In addition, foreign tax credits generally will not be allowed for Mexican taxes withheld from interest on certain short-term or hedged positions in the notes. U.S. holders should consult with their own tax advisors with regard to the availability of a credit or deduction in respect of foreign taxes and, in particular, the application of the foreign tax credit rules to their particular situations.

Dispositions. In the exchange offer contemplated by us (as described in “Exchange Offer; Registration Rights”), an exchange of the notes for exchange notes will not be a taxable event for U.S. federal income tax purposes and a U.S. holder will have the same tax basis and holding period in the exchange notes as the notes.

Unless a nonrecognition provision of the U.S. federal income tax laws applies, upon the sale, exchange, redemption, retirement or other taxable disposition of a note, a U.S. holder will recognize taxable gain or loss in an amount equal to the difference, if any, between the amount realized on the sale, exchange, redemption, retirement or other taxable disposition (other than amounts attributable to accrued interest, which will be treated as described above) and the U.S. holder’s tax basis in the note. A U.S. holder’s tax basis in a note will generally be its cost for the note, which should exclude for this purpose the amount of pre-issuance accrued interest paid by the U.S. holder upon acquisition of the note. Gain or loss recognized by a U.S. holder on the sale, exchange, redemption, retirement or other taxable disposition of a note will generally be capital gain or loss.

The gain or loss recognized by a U.S. holder will be long-term capital gain or loss if the note has been held for more than one year at the time of the disposition. Long-term capital gains recognized by individual and certain other non-corporate U.S. holders generally are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Capital gain or loss recognized by a U.S. holder generally will be U.S. source gain or loss. Therefore, if any such gain is subject to Mexican income tax, a U.S. holder may not be able to credit the Mexican income tax against its U.S. federal income tax liability. U.S. holders should consult their own tax advisors as to the foreign tax credit implications of a disposition of the notes.

Information Reporting and Backup Withholding. U.S. holders of notes may be subject to information reporting and, under certain circumstances, to backup withholding on payments of interest and gross proceeds from the sale or exchange (including a redemption or a repayment) of notes. Backup withholding applies only if the U.S. holder:

- fails to furnish its social security or other taxpayer identification number (“TIN”) within a reasonable time after a request for such information;
- furnishes an incorrect TIN;
- fails to report interest properly; or

- fails, under certain circumstances, to provide a certified statement, signed under penalty of perjury, that the TIN provided is its correct number and that the U.S. holder is not subject to backup withholding.

Backup withholding is not an additional tax. Any amount withheld from a payment to a U.S. holder under the backup withholding rules is allowable as a credit against such U.S. holder's U.S. federal income tax liability, and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS. Certain persons are exempt from backup withholding, including corporations and financial institutions. U.S. holders of notes should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining such exemption.

Non-U.S. Holders. For purposes of the following discussion a “non-U.S. holder” means a beneficial owner of the notes that is not, for U.S. federal income tax purposes, a U.S. holder or a partnership (or entity or arrangement classified as a partnership for such purposes). A non-U.S. holder generally will not be subject to U.S. federal income or withholding tax on:

- interest and Additional Amounts received in respect of the notes, unless those payments are effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States; or
- gain realized on the sale, exchange, redemption or retirement of the notes, unless that gain is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States or, in the case of gain realized by an individual non-U.S. holder, the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

Mexican Taxation

The discussion below does not address all Mexican tax considerations that may be relevant to particular investors, nor does it address the special tax rules applicable to certain categories of investors, or any tax consequences under the tax laws of any state or municipality of Mexico.

The following is a general summary of the principal consequences, under Mexico's federal income tax law and rules thereunder as currently in effect, and under the U.S.-Mexico treaty, of the purchase, ownership and disposition of the notes by a foreign holder, but not by a holder that is a resident of Mexico for tax purposes, that acquires the notes in this offering at the price at which the notes are sold in this offering. As used in this offering circular, a “non-Mexican holder” means a beneficial owner of the notes that:

- is not a resident of Mexico for tax purposes;
- does not hold the notes or a beneficial interest in the notes in connection with the conduct of a trade or business through a permanent establishment in Mexico; and
- is not (a) a holder of more than 10% of our voting stock, directly or indirectly, jointly with persons related to us or individually, or (b) a corporation or other entity, more than 20% of whose stock is owned, directly or indirectly, jointly by persons related to us or individually, that in the case of either (a) or (b), is the effective beneficiary, directly or indirectly, jointly with persons related to us or individually, of more than 5% of the aggregate amount of any interest payment on the notes.

For these purposes, persons will be related if:

- one person holds an interest in the business of the other person;
- both persons have common interests; or
- a third party has an interest in the business or assets of both persons.

For purposes of Mexican taxation:

- an individual is treated as a resident of Mexico if the individual has established his home in Mexico. When an individual, in addition to his home in Mexico, has a home in another country, the individual will be a resident of Mexico if his center of vital interests is located in Mexico. This will be deemed to occur if, among others, either (i) more than 50% of the total income obtained by the individual in the calendar year is Mexican source or (ii) when the individual's center of professional activities is located in Mexico. Unless otherwise proven, a Mexican national is considered a Mexican resident;
- a legal entity is considered a resident of Mexico if it is incorporated under Mexican law or if it maintains the main administration of its business or the effective location of its management in Mexico; and
- a permanent establishment of a non-Mexican person will be treated as a resident of Mexico for tax purposes, and that permanent establishment will be required to pay taxes in Mexico in accordance with applicable Mexican law, for all income attributable to such permanent establishment.

Each non-Mexican holder should consult a tax advisor as to the particular Mexican or other tax consequences to that non-Mexican holder of purchasing, owning and disposing of the notes, including the applicability and effect of any state, or local Mexican or non-Mexican tax laws.

Interest and Principal. Payments of interest on the notes (including payments of principal in excess of the issue price of the notes, which under the Mexican tax law are deemed to be interest) made by us or by any of the subsidiary guarantors to a non-Mexican holder will be subject to a Mexican withholding tax assessed at a rate of 4.9% if all of the following requirements are met:

- the notes, as expected, are placed outside of Mexico through banks or brokerage houses, in a country with which Mexico has entered into a treaty for the avoidance of double taxation and such treaty is in effect;
- the notes, as expected, are registered in the Special Section of the Mexican National Registry of Securities, and copies of the approval of that registration are provided to the Mexican Ministry of Finance and Public Credit;
- we timely file with the Mexican Ministry of Finance and Public Credit, after completion of the transaction described in this offering circular, certain information relating to the issuance of the notes and this offering circular; and
- we timely file with the Mexican Ministry of Finance and Public Credit, on a quarterly basis, information representing that no party related to us, jointly or individually, directly or indirectly, is the effective beneficiary of more than 5% of the aggregate amount of each interest payment, and we maintain records that evidence compliance with this requirement.

We expect that all of the foregoing requirements will be met and, accordingly, we and the subsidiary guarantors expect to withhold Mexican tax from interest payments that we or any subsidiary guarantor make on the notes to non-Mexican holders, at the 4.9% rate, in accordance with the Mexican income tax law. In the event that any of the foregoing requirements are not met, under the Mexican income tax law, payments of interest on the notes made by us or any subsidiary guarantor to a non-Mexican holder will be subject to Mexican withholding tax assessed at a higher rate.

As of the date of this offering circular, neither the U.S.-Mexico treaty nor any other tax treaty entered into by Mexico that is in effect, is expected generally to have any material effect on the Mexican income tax consequences described in this offering circular, because, as discussed above, it is expected that the 4.9% rate will apply in connection with interest payments that we or any subsidiary guarantors make under the notes.

Non-Mexican holders residing in the United States should nonetheless be aware that Mexico presently has a treaty for the avoidance of double taxation with the United States. Under the U.S.-

Mexico treaty, the Mexican withholding tax rate applicable to interest payments made to U.S. holders which are eligible for benefits under the U.S.-Mexico treaty will be limited to either:

- 15% generally; or
- 4.9% in the event that the notes are considered to be “regularly and substantially traded on a recognized securities market.”

Non-Mexican holders that do not reside in the United States for tax purposes should consult their tax advisors regarding whether they reside in a country that has entered into a treaty for avoidance of double taxation with Mexico that is in effect and, if so, the conditions and requirements for obtaining benefits under that treaty. The Mexican income tax law provides that for a non-Mexican holder to be entitled to the benefits under a double taxation treaty entered into by Mexico, it is necessary for the non-Mexican holder to qualify as a resident of the relevant jurisdiction for tax purposes and meet the procedural requirements established in the Mexican income tax law.

Holders or beneficial owners of the notes may be requested, subject to specified exceptions and limitations, to provide certain information or documentation necessary to enable us or the subsidiary guarantors to apply the appropriate Mexican withholding tax rate on interest payments under the notes made by us or the subsidiary guarantors to such holders or beneficial owners. In the event that the specified information or documentation concerning the holder or beneficial owner, if requested, is not timely provided or not provided completely or at all, we or the subsidiary guarantors may withhold Mexican tax from that interest payments on the notes to that holder or beneficial owner at the maximum applicable rate, but our obligation to pay Additional Amounts relating to those withholding taxes will be limited as described under “Description of Notes—Certain Covenants—Additional Amounts.”

Under the Mexican income tax law, payments of interest made by us or the subsidiary guarantors with respect to the notes to non-Mexican holders that are pension or retirement funds will be exempt from Mexican withholding taxes, provided that the fund is:

- the effective beneficiary of each interest payment;
- duly organized under the laws of its country of origin;
- exempt from income tax in the country of its origin on such interest payment; and
- registered with the Mexican Ministry of Finance and Public Credit for that purpose.

We and the subsidiary guarantors have agreed, subject to specified exceptions and limitations, to pay Additional Amounts relating to the Mexican withholding taxes that apply to our and their payments of interest on the notes to non-Mexican holders. See “Description of Notes—Additional Amounts.”

Under the Mexican income tax law and applicable rules, a non-Mexican holder will not be subject to any Mexican withholding or similar taxes on payments of principal on the notes made by us or the subsidiary guarantors under the notes and, thus, the withholding taxes described above for interest payments will not apply (except for payments of principal in excess of the issue price of the notes, which under the Mexican tax law are deemed to be interest subject to the Mexican withholding taxes described above).

Dispositions. Under the Mexican income tax law and rules thereunder, capital gains resulting from the sale or other disposition of the notes by a non-Mexican holder to another non-Mexican holder, are not taxable in Mexico. Gains resulting from the sale of the notes by a non-Mexican holder to a Mexican resident for tax purposes or to a non-Mexican holder deemed to have a permanent establishment in Mexico for tax purposes, will be subject to the Mexican taxes pursuant to the rules described above in respect of interest payments.

Other Taxes. Generally, a non-Mexican holder will not be liable for Mexican estate, gift, inheritance or similar taxes with respect to its holding of the notes, nor will it be liable for Mexican stamp, registration or similar taxes.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated September 21, 2005, we have agreed to sell to Credit Suisse First Boston LLC and HSBC Securities (USA) Inc., as initial purchasers, the following principal amount of notes.

<u>U.S. Initial Purchasers</u>	<u>Principal Amount</u>
Credit Suisse First Boston LLC	US\$212,500,000
HSBC Securities (USA) Inc.	37,500,000
Total	US\$250,000,000

The purchase agreement provides that the initial purchasers are obligated to purchase all of the notes if any are purchased. The purchase agreement also provides that if an initial purchaser defaults, the purchase commitments of non-defaulting initial purchasers may be increased or the offering may be terminated.

The initial purchasers propose to offer the notes initially at the offering price on the cover page of this offering circular and may also offer the notes to selling group members at the offering price less a concession. After the initial offering, the offering price may be changed.

The notes have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the Securities Act. The initial purchasers have agreed that, except as permitted by the purchase agreement, they will not offer, sell or deliver the notes (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of this offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each broker/dealer to which it sells the notes in reliance on Regulation S during such 40-day period, a confirmation or other notice detailing the restrictions on offers and sales of the notes within the United States, or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Resales of the notes are restricted as described under “Notice to Investors.”

In addition, until 40 days after the commencement of this offering, an offer or sale of the notes within the United States by a broker/dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

European Economic Area

Each of the initial purchasers severally represents and agrees that, in relation to each member state of the European Economic Area, or EEA, which has implemented the Prospectus Directive (each, a “Relevant Member State”), each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of the notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes to the public in that Relevant Member State at any time:

- to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of notes to the public” in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state. The EEA selling restriction is in addition to any other selling restrictions set out below.

United Kingdom

Each of the initial purchasers severally represents and agrees that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, or FSMA, received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to us; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

General

Each of the initial purchasers has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any notes directly or indirectly, or distribute this offering circular or any other offering material relating to the notes in or from any jurisdiction, except under circumstances that will result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on us except as set forth in the purchase agreement.

Purchasers of notes sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this offering circular.

The initial purchasers or their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking, financial advisory and investment banking services, for us and our affiliates in the ordinary course of business. Affiliates of the initial purchasers are lenders under certain of our debt facilities.

We have agreed to indemnify the initial purchasers against certain liabilities or to contribute to payments which it may be required to make in that respect.

The notes are a new issue of securities for which there currently is no market. The notes are expected to be made eligible for trading in PORTAL. The initial purchasers have advised us that they intend to make a market in the notes as permitted by applicable law. They are not obligated, however, to make a market in the notes and any market-making may be discontinued at any time at their sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the notes.

Credit Suisse First Boston LLC will make the notes available for distribution on the Internet through a proprietary Web site and/or a third-party system operated by MarketAxess Corporation, an Internet-based communications technology provider. MarketAxess Corporation is providing the system as a conduit for communications between Credit Suisse First Boston LLC and its customers and is not a party to any transactions. MarketAxess Corporation, a registered broker-dealer, will receive compensation from Credit Suisse First Boston LLC based on transactions conducted through the system. Credit Suisse First Boston LLC will make the notes available to its customers through the Internet distributions, whether made through a proprietary or third-party system, on the same terms as distributions made through other channels.

We expect that delivery of the notes will be made against payment for the notes on September 28, 2005, which will be the fifth business day following the date of the pricing of the notes. Since trades in the secondary market generally settle in three business days, purchasers who wish to trade notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the notes initially settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement.

The initial purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions.
- Penalty bids permit the initial purchasers to reclaim a selling concession from a broker/dealer when the notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of the notes in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of the notes are made. Any resales of the notes in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the notes.

Representations of Purchasers

By purchasing the notes in Canada and accepting a purchase confirmation a purchaser is representing to us, the purchasers and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the notes without the benefit of a prospectus qualified under those securities laws,
- where required by law, that the purchaser is purchasing as principal and not as agent, and
- the purchaser has reviewed the text above under Resale Restrictions.

Rights of Action—Ontario Purchasers Only

Under Ontario securities legislation, a purchaser who purchases a security offered by this prospectus during the period of distribution will have a statutory right of action for damages, or while still the owner of the notes, for rescission against us in the event that this offering circular contains a misrepresentation. A purchaser will be deemed to have relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the notes. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the notes. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which the notes were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we will have no liability. In the case of an action for damages, we will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the notes as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of the notes should consult their own legal and tax advisors with respect to the tax consequences of an investment in the notes in their particular circumstances and about the eligibility of the notes for investment by the purchaser under relevant Canadian legislation.

NOTICE TO INVESTORS

The notes have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the notes are being offered hereby only (a) to “qualified institutional buyers” (as defined in Rule 144A under the Securities Act), or QIBs, in compliance with Rule 144A under the Securities Act and (b) in offers and sales that occur outside the United States to persons other than U.S. persons (“non-U.S. purchasers,” which term shall include dealers or other professional fiduciaries in the United States acting on a discretionary basis for non-U.S. beneficial owners (other than an estate or trust), in offshore transactions meeting the requirements of Rule 903 of Regulation S. As used herein, the terms “offshore transactions,” “United States” and “U.S. person” have the respective meanings given to them in Regulation S.

Each purchaser of notes will be deemed to have represented and agreed with Homex and the initial purchasers as follows:

- (1) It is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A under the Securities Act or (b) a non-U.S. purchaser that is outside the United States (or a non-U.S. purchaser that is a dealer or other fiduciary as referred to above);
- (2) It understands that the notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the notes have not been and, except as described in this circular, will not be registered under the Securities Act, and that the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (3) It shall not resell or otherwise transfer any of such notes prior to (a) the date which is two years (or such shorter period of time as permitted by Rule 144(k) under the Securities Act or any successor provision thereunder) after the later of the date of original issuance of the notes and (b) such later date, if any, as may be required by applicable laws except:
 - to Homex or any of its subsidiaries;
 - pursuant to a registration statement which has been declared effective under the Securities Act;
 - within the United States to a QIB in compliance with Rule 144A under the Securities Act;
 - outside the United States to non-U.S. purchasers in offshore transactions meeting the requirements of Rule 904 of Regulation S under the Securities Act; or
 - pursuant to another available exemption from the registration requirements of the Securities Act;
- (4) It agrees that it will give notice of any restrictions on transfer of such notes to each person to whom it transfers the notes;
- (5) It understands that the certificates evidencing the notes (other than the Regulation S global notes) will bear a legend substantially to the following effect unless otherwise agreed by Homex and the trustee:

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS. NEITHER THIS

SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN “OFFSHORE TRANSACTION” PURSUANT TO RULE 903 OR 904 OF REGULATION S, (2) AGREES THAT IT WILL NOT OFFER, SELL OR OTHERWISE TRANSFER THIS SECURITY, EXCEPT (A) (I) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION COMPLYING WITH RULE 144A, (II) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

- (6) If it is a non-U.S. purchaser acquiring a beneficial interest in a Regulation S global note offered pursuant to this offering circular, it acknowledges and agrees that, until the expiration of the 40-day “distribution compliance period” within the meaning of Regulation S, any offer, sale, pledge or other transfer shall not be made by it in the United States or to, or for the account or benefit of, a U.S. person, except pursuant to Rule 144A to a QIB taking delivery thereof in the form of a beneficial interest in a U.S. global note, and that each Regulation S global note will contain a legend to substantially the following effect:

PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S (“REGULATION S”) UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”)), THIS SECURITY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A PERSON REASONABLY BELIEVED TO BE A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A (“RULE 144A”) UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND THE INDENTURE REFERRED TO HEREIN.

- (7) It shall not sell or otherwise transfer such notes to, and each purchaser covenants that it is not acquiring the notes for or on behalf of, and will not transfer the notes to, any pension or welfare plan (as defined in Section 3 of the Employee Retirement Income Security Act of

1974, as amended (“ERISA”)), except that such a purchase for or on behalf of a pension or welfare plan shall be permitted:

- (a) to the extent such purchase is made by or on behalf of a bank collective investment fund maintained by the purchaser in which, at any time while the notes are held by the purchaser, no plan (together with any other plans maintained by the same employer or employee organization) has an interest in excess of 10% of the total assets in such collective investment fund and the conditions of Section III of Prohibited Transaction Class Exemption 91-38 issued by the Department of Labor are satisfied;
- (b) to the extent such purchase is made by or on behalf of an insurance company pooled separate account maintained by the purchaser in which, at any time while the notes are held by the purchaser, no plan (together with any other plans maintained by the same employer or employee organization) has an interest in excess of 10% of the total of all assets in such pooled separate account and the conditions of Section III of Prohibited Transaction Class Exemption 90-1 issued by the Department of Labor are satisfied;
- (c) to the extent such purchase is made on behalf of a plan by (1) an investment adviser registered under the Investment Advisers Act of 1940 that had as of the last day of its most recent fiscal year total assets under its management and control in excess of US\$50.0 million and had stockholders’ or partners’ equity in excess of US\$750,000 as shown in its most recent balance sheet prepared in accordance with generally accepted accounting principles, (2) a bank as defined in Section 202(a)(2) of the Investment Advisers Act of 1940 (the “Advisers Act”) with equity capital in excess of US\$1.0 million as of the last day of its most recent fiscal year, (3) an insurance company which is qualified under the laws of more than one state to manage, acquire or dispose of any assets of a plan, which insurance company has of the last day of its most recent fiscal year, net worth in excess of US\$1.0 million and which is subject to supervision and examination by a state authority having supervision over insurance companies, or (4) a savings and loan association, the accounts of which are insured by the Federal Savings and Loan Insurance Corporation, that has made application for and been granted trust powers to manage, acquire or dispose of assets of a plan by a State or Federal authority having supervision over a savings and loan association, which savings and loan association has, as of the last day of its most recent fiscal year, equity capital or net worth in excess of US\$1.0 million and, in any case, such investment adviser, bank, insurance company or savings and loan is otherwise a qualified professional asset manager, as such term is used in Prohibited Transaction Exception 84-14 issued by the Department of Labor, and the assets of such plan when combined with the assets of other plans established or maintained by the same employer (or affiliates thereof) or employee organization and managed by such investment adviser, bank, insurance company or savings and loan do not represent more than 20% of the total client assets managed by such investment adviser, bank, insurance company or savings and loan and the conditions of Part I of such exemption are otherwise satisfied;
- (d) to the extent such transfer is made to a plan and the investment decision to accept such transfer is made on behalf of the plan by a subsidiary corporation of an employer in respect of the plan or its parent organization, or a qualifying membership nonprofit corporation in respect of an employer or its parent organization, which is (i) an investment adviser registered under the Advisers Act with assets under its management and control in excess of US\$50 million derived from plans maintained by the adviser or its affiliates, measured as of the last day of its most recent fiscal year and (ii) otherwise qualifies as an “in house asset manager,” as such term is used in Prohibited Transaction Class Exemption 96-23 issued by the Department of Labor, provided that plans

maintained by the adviser and its affiliates have aggregate assets of at least US\$250 million, measuring each plan's assets as of the last day of its reporting year; and the transfer is otherwise eligible for exemptive relief under Prohibited Transaction Class Exemption 96-23;

- (e) to the extent such plan is a government plan (as defined in Section 3 of ERISA) which is not subject to the provisions of Title I of ERISA or Section 4975 of the Internal Revenue Code; or
 - (f) to the extent such purchase is made by or on behalf of an insurance company with assets in its insurance company general account, and the conditions of Prohibited Transaction Class Exemption 95-60 issued by the Department of Labor are satisfied;
- (8) It acknowledges that the foregoing restrictions apply to holders of beneficial interests in the notes, as well as holders of the notes;
- (9) It acknowledges that the trustee will not be required to accept for registration of transfer any notes acquired by it, except upon presentation of evidence satisfactory to Homex and the trustee that the restrictions set forth herein have been complied with; and
- (10) It acknowledges that Homex, the trustee, the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of the acknowledgments, representations or agreements deemed to have been made by its purchase of the notes are no longer accurate, it shall promptly notify Homex, the trustee and the initial purchasers. If it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

GENERAL INFORMATION

Clearing Systems

Application has been made to the notes accepted for clearance through Euroclear and Clearstream. In addition, application has been made to have the notes accepted for trading in book-entry form by DTC. For the Rule 144A notes, the common code is 023110229, the ISIN number is US 25030WAA80 and the CUSIP number is 25030WAA8. For the Regulation S notes, the common code is 023107031, the ISIN number is US P35054BD99 and the CUSIP number is P35054BD9.

Listing

Application has been made to the *Commission de Surveillance du Secteur Financier* in its capacity as competent authority under the Prospectus Directive, for the notes to be admitted to trading and to be listed on the EuroMTF, the alternative market of the Luxembourg Stock Exchange. In connection with the application to list the notes on the Luxembourg Stock Exchange, a legal notice relating to the issuance of the notes and a copy of our bylaws (*estatutos sociales*) will be deposited prior to the listing with the Trade and Companies Register (*Registre de Commerce et des Sociétés*) in Luxembourg where you may examine and copy these documents. Copies of our bylaws, the indenture, as may be amended or supplemented from time to time, the registration rights agreement, our published annual audited consolidated financial statements and any published quarterly unaudited consolidated financial statements will be available at our principal executive offices, as well as at the offices of the trustee, registrar, paying agent and transfer agent, and at the offices of the Luxembourg listing agent, paying agent and transfer agent, as such addresses are set forth in this offering circular. We do not publish unconsolidated financial statements. We believe the auditor's reports included herein have been accurately reproduced. We will maintain a paying and transfer agent in Luxembourg for so long as any of the notes are listed on the Luxembourg stock exchange.

Directive 2004/109/EC of the European Parliament and Council, dated December 15, 2004, on the harmonization of transparency requirements for information about issuers whose securities are admitted to trading on an European Union regulated market amended the Transparency Directive and became effective on January 20, 2005. It requires member states, including Luxembourg, to take measures necessary to comply with the Transparency Directive by January 20, 2007. If, as a result of the Transparency Directive or any legislation implementing the Transparency Directive, we could be required to publish financial information either more regularly than we otherwise would be required to or according to accounting principles which are materially different from the accounting principles which we would otherwise use to prepare our published financial information, we may delist the notes from the Euro MTF in accordance with the rules of such exchange and seek an alternative admission to listing, trading and/or quotation for the notes on a different section of the Luxembourg Stock Exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as we may reasonably decide.

An application has been filed with the CNBV for the registration of the notes with the Special Section (*Sección Especial*) of the National Securities Registry (*Registro Nacional de Valores*), maintained by the CNBV, which is a requirement under the Mexican Securities Market Law (*Ley del Mercado de Valores*). Such registration is expected to be obtained on or before the closing of this offer. Such registration does not constitute a certification as to the investment value of the notes or of Homex's solvency. The notes have not been registered with the Securities Section (*Sección de Valores*) of the National Securities Registry (*Registro Nacional de Valores*) and therefore, the notes may not be publicly offered or sold in Mexico.

Authorization

We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the notes.

No Material Adverse Change

Except as disclosed in this offering circular, there has been no material adverse change in the financial position or prospectus of Homex and its subsidiaries taken as a whole since December 31, 2004.

Litigation

We are not involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened) relating to claims or amounts which may have or have had during the 12 months prior to the date of this offering circular a material adverse effect on our financial position and our subsidiaries taken as a whole.

VALIDITY OF THE NOTES

The validity of the notes will be passed upon by Mijares, Angoitia, Cortés y Fuentes, S.C., Mexico City, Mexico and Milbank, Tweed, Hadley & McCloy LLP, New York, New York, our Mexican and U.S. counsel, respectively, and by Ritch Mueller, S.C., Mexico City, Mexico and Cleary Gottlieb Steen & Hamilton LLP, New York, New York, Mexican and U.S. counsel, respectively, to the initial purchasers.

INDEPENDENT AUDITORS

The financial statements of Homex and of Beta as of December 31, 2003 and 2004 and for each of the three years ended December 31, 2004, included in this offering circular, have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., a member of Deloitte Touche Tohmatsu, independent auditors, as stated in their reports appearing herein.

AVAILABLE INFORMATION

Homex is subject to the informational requirements of the Exchange Act and in accordance therewith files reports and other information with the SEC. Reports and other information filed by Homex with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at its Public Reference Room at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Such materials can also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. Any filings we make electronically will be available to the public on the Internet at the SEC's website, www.sec.gov.

We will make available to the holders of the notes, at the corporate trust office of The Bank of New York, the trustee under the indenture and supplemental indenture governing the notes, at no cost, copies of the indenture and the supplemental indenture as well as our offering circular on Form 20-F in English, including a review of our operations, and annual audited consolidated financial statements prepared in conformity with Mexican GAAP, together with a reconciliation of operating income, net income and total shareholders' equity to U.S. GAAP. We will also make available at the office of the trustee our unaudited quarterly consolidated financial statements in English prepared in accordance with Mexican GAAP. Information is also available at the office of the Luxembourg Listing Agent.

INDEX TO HOMEX FINANCIAL STATEMENTS

Desarrolladora Homex, S.A. de C.V. and its Subsidiaries (excluding Controladora Casas Beta, S.A. de C.V.)

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**Report of Independent Auditors
to the Board of Directors and Stockholders of
Desarrolladora Homex, S.A. de C.V.**

We have audited the accompanying consolidated balance sheets of Desarrolladora Homex, S.A. de C.V. and subsidiaries (the “Company”) as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders’ equity and changes in financial position for each of the three years in the period ended December 31, 2004, all expressed in thousands of Mexican pesos of purchasing power of June 30, 2005. 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 the auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether they are prepared in accordance with accounting principles generally accepted in Mexico. 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. de C.V. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations, changes in their stockholders’ equity and changes in their financial position for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in Mexico.

As described in Note 2, on May 15, 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 Bulletin A-8, “Supplemental Application of International Accounting Standards” issued by the Mexican Institute of Public Accountants. Therefore, the accompanying financial statements include those of the merged company as if the merger had taken place as of the beginning of the earliest period presented.

Accounting principles generally accepted in Mexico vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of consolidated net income for each of the three years in the period ended December 31, 2004, and the determination of consolidated stockholders’ equity at December 31, 2004, 2003, and 2002 to the extent summarized in Note 23.

Our audits also comprehended the translation of the Mexican peso amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. 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

/s/ Pedro Luis Castañeda Herrera

C.P.C. Pedro Luis Castañeda Herrera
Mexico City, Mexico
April 6, 2005
(June 21, 2005 as to Notes 22, 23 and 24
and July 6, 2005 as to Note 25 and as to the restatement to
Mexican pesos of purchasing power
as of June 30, 2005 and the convenience
translation)

Desarrolladora Homex, S.A. de C.V. and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2004 and 2003

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	2004 (Convenience translation; Note 2)	2004	2003 (Note 2.c)
Assets			
Current assets:			
Cash and temporary investments (Note 4)	\$ 47,948	Ps. 516,500	Ps. 222,458
Restricted cash (Note 20)	1,921	20,692	—
Trade accounts receivable—net (Note 5)	297,415	3,203,752	1,864,249
Inventories (Notes 6 and 10)	195,613	2,107,139	1,025,308
Other current assets (Note 7)	9,777	105,317	30,433
Total current assets	552,674	5,953,400	3,142,448
Land held for future development (Note 6)	47,279	509,294	242,443
Restricted investments (Note 19)	4,028	43,389	35,501
Property and equipment—net (Notes 8 and 10)	23,586	254,072	57,863
Other assets (Note 9)	7,939	85,518	10,065
Total	<u>\$635,506</u>	<u>Ps.6,845,673</u>	<u>Ps.3,488,320</u>
Liabilities and stockholders' equity			
Current liabilities:			
Notes payable to financial institutions (Note 10):			
Due to related parties	\$ —	Ps. —	Ps. 145,787
Other	37,252	401,276	533,291
Trade accounts payable (Note 11)	155,619	1,676,330	1,014,819
Advances from customers	5,610	60,432	13,650
Accrued expenses and taxes, other than income taxes	6,221	67,011	36,273
Income tax payable	33	351	4,606
Employee statutory profit sharing	186	2,002	936
Total current liabilities	204,921	2,207,402	1,749,362
Long-term notes payable to financial institutions (Notes 10 and 11)	16,905	182,100	—
Deferred income taxes and employee statutory profit sharing (Note 18)	59,404	639,896	359,176
Total liabilities	<u>281,230</u>	<u>3,029,398</u>	<u>2,108,538</u>
Commitments and contingencies (Notes 19 and 20)			
Stockholders' equity (Note 12):			
Common stock	20,367	219,398	175,096
Additional paid-in capital	209,062	2,252,018	588,407
Retained earnings	104,297	1,123,491	398,764
Excess in restated stockholders' equity	29,145	313,948	313,948
Cumulative initial effect of deferred income taxes	(13,270)	(142,940)	(142,940)
Majority stockholder's equity	349,601	3,765,915	1,333,275
Minority interest in consolidated subsidiaries	4,675	50,360	46,507
Total stockholders' equity	<u>354,276</u>	<u>3,816,275</u>	<u>1,379,782</u>
Total	<u>\$635,506</u>	<u>Ps.6,845,673</u>	<u>Ps.3,488,320</u>

See accompanying notes to consolidated financial statements.

Desarrolladora Homex, S.A. de C.V. and Subsidiaries

Consolidated Statements of Income

For the years ended December 31, 2004, 2003 and 2002

**(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005,
except share and per share data)**

	2004 (Convenience translation; Note 2)	2004	2003 (Note 2.c)	2002 (Note 2.c)
Revenues	\$498,462	Ps.5,369,428	Ps.2,942,067	Ps.1,372,113
Costs	347,077	3,738,718	2,104,408	961,584
Gross profit	151,385	1,630,710	837,659	410,529
Selling and administrative expenses (Note 14 and 15)	40,657	437,961	269,526	169,330
Income from operations	110,728	1,192,749	568,133	241,199
Other income (expense)—net (Note 16)	4,037	43,486	78,668	(1,785)
Net comprehensive financing cost:				
Interest expense (Note 14 and 17)	12,403	133,601	118,977	133,243
Interest income	(4,389)	(47,275)	(6,582)	(1,857)
Exchange (gain) loss—net	(668)	(7,191)	(1,319)	94
Monetary position loss	7,626	82,151	17,831	19,400
	14,972	161,286	128,907	150,880
Income before income taxes and employee statutory profit sharing	99,793	1,074,949	517,894	88,534
Income tax expense (Note 18)	31,859	343,157	185,269	54,184
Employee statutory profit sharing expense (Note 18)	799	8,611	279	1,580
Consolidated net income	\$ 67,135	Ps. 723,181	Ps. 332,346	Ps. 32,770
Net income of majority stockholders	\$ 66,285	Ps. 714,022	Ps. 326,987	Ps. 31,390
Net income of minority stockholders	850	9,159	5,359	1,380
Consolidated net income	\$ 67,135	Ps. 723,181	Ps. 332,346	Ps. 32,770
Weighted average shares outstanding (in thousands)	281,997	281,997	241,521	191,896
Earnings per share (basic and diluted)	\$ 0.23	Ps 2.53	Ps 1.35	Ps. 0.16

See accompanying notes to consolidated financial statements.

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	Common stock	Additional paid in capital	Retained earnings	Excess in restated stockholders' equity	Cumulative initial effect of deferred income taxes	Minority interest in consolidated subsidiaries	Total stockholders' equity (Note 12)
Balances as of January 1, 2002 (Note 2.c)	Ps.134,035	Ps. 242,192	Ps. 40,387	Ps.313,948	Ps.(142,940)	Ps. 3,879	Ps. 591,501
Issuance of common stock	35,115	287,088	—	—	—	18	322,221
Comprehensive income . .	—	—	31,390	—	—	1,380	32,770
Balances as of December 31, 2002 (Note 2.c)	169,150	529,280	71,777	313,948	(142,940)	5,277	946,492
Issuance of common stock (Note 12.g)	5,946	59,127	—	—	—	35,871	100,944
Comprehensive income . .	—	—	326,987	—	—	5,359	332,346
Balances as of December 31, 2003 (Note 2.c)	175,096	588,407	398,764	313,948	(142,940)	46,507	1,379,782
Issuance of common stock (Note 12. c and f)	44,302	1,663,611	—	—	—	5,399	1,713,312
Comprehensive income . .	—	—	724,727	—	—	(1,546)	723,181
Balances as of December 31, 2004 . . .	<u>Ps.219,398</u>	<u>Ps.2,252,018</u>	<u>Ps.1,123,491</u>	<u>Ps.313,948</u>	<u>Ps.(142,940)</u>	<u>Ps.50,360</u>	<u>Ps.3,816,275</u>
Balances as of December 31, 2003 (Convenience translation; Note 2) . . .	\$ 16,255	\$ 54,624	\$ 37,019	\$ 29,145	\$ (13,270)	\$ 4,317	\$ 128,090
Issuance of common stock (Note 12. c and f)	4,112	154,438	—	—	—	502	159,052
Comprehensive income . .	—	—	67,278	—	—	(144)	67,134
Balances as of December 31, 2004 . . .	<u>\$ 20,367</u>	<u>\$ 209,062</u>	<u>\$ 104,297</u>	<u>\$ 29,145</u>	<u>\$ (13,270)</u>	<u>\$ 4,675</u>	<u>\$ 354,276</u>

See accompanying notes to consolidated financial statements.

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Consolidated Statements of Changes in Financial Position
For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	2004 (Convenience translation; Note 2)	2004	2003 (Note 2.c)	2002 (Note 2.c)
Operating activities:				
Net income	\$ 67,135	Ps. 723,181	Ps. 332,346	Ps. 32,770
Items that did not require resources:				
Depreciation	2,274	24,498	11,182	6,843
Loss on sale of subsidiary	107	1,154	—	—
Deferred income taxes and employee statutory profit sharing	26,060	280,720	158,546	28,682
	<u>95,576</u>	<u>1,029,553</u>	<u>502,074</u>	<u>68,295</u>
Changes in operating assets and liabilities:				
(Increase) decrease in:				
Trade accounts receivable	(124,350)	(1,339,502)	(581,204)	(176,965)
Inventories	(129,862)	(1,398,878)	(844,170)	(195,666)
Other current assets	(6,952)	(74,884)	(550)	(6,524)
Increase (decrease) in:				
Trade accounts payable	63,334	682,239	790,865	66,007
Due to related parties	—	—	2,952	2,991
Other, net	(104)	(1,121)	(22,332)	17,292
Net resources used in operating activities	<u>(102,358)</u>	<u>(1,102,593)</u>	<u>(152,365)</u>	<u>(224,570)</u>
Financing activities:				
Proceeds from new borrowings from financial institutions	37,944	408,729	513,268	436,290
Payments of notes payable to financial institutions	(35,179)	(378,945)	(222,847)	(573,839)
Loans from related parties	2,815	30,320	412,592	410,229
Payments of related party loans	(16,349)	(176,107)	(421,587)	(339,406)
Proceeds from issuance of common stock	159,052	1,713,312	100,944	322,221
Net resources generated by financing activities	<u>148,283</u>	<u>1,597,309</u>	<u>382,370</u>	<u>255,495</u>
Investing activities:				
Restricted investments	(732)	(7,888)	(35,501)	—
Proceeds from sale of machinery and equipment	4,513	48,613	—	—
Acquisition of property and equipment	(20,489)	(220,707)	(41,668)	(9,225)
Net resources used in investing activities	<u>(16,708)</u>	<u>(179,982)</u>	<u>(77,169)</u>	<u>(9,225)</u>
Cash, temporary investments and restricted cash:				
Net increase	29,217	314,734	152,837	21700
Balance at beginning of year	20,652	222,458	69,622	47,922
Balance at end of year	<u>\$ 49,869</u>	<u>Ps. 537,192</u>	<u>Ps. 222,458</u>	<u>Ps. 69,622</u>

See accompanying notes to consolidated financial statements.

Desarrolladora Homex, S.A. de C.V. and Subsidiaries

Notes to Audited Consolidated Financial Statements

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

1. Nature of business

Desarrolladora Homex, S.A. de C.V. (the “Company”) is a vertically integrated company engaged in the development, construction and sale of affordable entry level and middle 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 was incorporated on March 30, 1998 as a Mexican variable capital corporation (S.A. de C.V.). During 1999 ZN Mexico Trust, a private equity fund specializing in investing in private companies in Mexico, became a shareholder of the Company. In 2002 Equity International Properties, Ltd., a Samuel Zell affiliated company with significant experience in the real estate sector, became a shareholder of the Company.

The Company participates in housing supply offers from the main housing funds in Mexico, such as the national Workers’ Housing Fund, or INFONAVIT (Instituto Nacional del Fondo de Ahorro para la Vivienda de los Trabajadores), the Social Security and Services Institute Public-Sector Workers’ Housing Fund, or FOVISSSTE (Fondo de la Vivienda del Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado) and the public mortgage providers such as the Federal Mortgage Society, or SHF (Sociedad Hipotecaria Federal). Additionally, the Company participates in the middle-income housing market, where mortgage financing is provided by commercial banks and sofoles, special purpose financing entities that provide a substantial majority of mortgage financing for the middle-income sector.

2. Basis of presentation

- a. ***Explanation for translation into English and convenience translation***—The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of accounting principles generally accepted in Mexico (Mexican GAAP). Certain accounting practices applied by the Company vary in certain significant respects from accounting principles generally accepted in the United States of America (U.S. GAAP), as explained in Notes 22 and 23. See Note 22 for a discussion of such differences and Note 23 for a reconciliation of the Company’s financial statements between Mexican GAAP and U.S. GAAP.

The financial statements are stated in Mexican pesos, the currency of the country in which the Company is incorporated and operates. The translations of Mexican peso 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.10.7720 per one U.S. dollar, the noon buying rate of the Federal Reserve Bank of New York on June 30, 2005. Such translation 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. ***Consolidation of financial statements***—The consolidated financial statements include those of Desarrolladora Homex, S.A. de C.V. (“Homex”) and its consolidated subsidiaries (collectively the “Company”). A description of Homex’s consolidated subsidiaries and its direct and indirect ownership interest in each is set forth below. Intercompany balances and transactions

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

2. Basis of presentation (Continued)

have been eliminated in these consolidated financial statements. Equity interests of unaffiliated shareholders in consolidated subsidiaries are reflected as minority interest.

<u>Company</u>	<u>Ownership percentage</u>	<u>Activity</u>
Proyectos Inmobiliarios de Culiacán, S.A. de C.V.	100.00%	Construction and development of housing complexes
AAA Homex Trust, Nacional Financiera, S.N.C., as Trustee . . .	100.00%	Rendering of financial services
Administradora Picsa, S.A. de C.V. .	100.00%	Rendering of administrative services and professional services for affiliated companies
Altos Mandos de Negocios, S.A. de C.V.	100.00%	Rendering of administrative services to affiliated companies
Aerohomex, S.A. de C.V.	100.00%	Rendering of transportation services
Desarrolladora de Casas del Noroeste, S.A. de C.V.	95.86%	Construction and development of housing complexes
Homex Atizapán, S.A. de C.V.	67.00%	Construction and development of houses

- c. **Merger**—On May 15, 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 Bulletin A-8, “Supplemental Application of International Accounting Standards” issued by the Mexican Institute of Public Accountants. Therefore, the accompanying financial statements include those of the merged company as if the merger had taken place as of the beginning of the earliest period presented. This transaction resulted in a gain of Ps.10,706, which was accounted for as an increase in retained earnings. Condensed financial information of Econoblock, S.A. de C.V. at May 15, 2004, and for the period from January 1, 2004 to May 15, 2004, and at December 31, 2003 and 2002, and for the years then

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

2. Basis of presentation (Continued)

ended, all expressed in Mexican pesos of purchasing power of June 30, 2005, is summarized below:

	May 16, 2004	December 31, 2003	December 31, 2002
Condensed balance sheets:			
Current assets	Ps. 14,237	Ps. 17,082	Ps. 10,195
Property and equipment	37,159	30,443	9,170
Deferred taxes	373	(227)	(83)
Current liabilities	(36,799)	(36,358)	(14,056)
Stockholders' equity	Ps. 14,970	Ps. 10,940	Ps. 5,226
	<u>Ps. 14,970</u>	<u>Ps. 10,940</u>	<u>Ps. 5,226</u>
	For the period January 1 to May 31, 2004	For the years ended December 31, 2003	December 31, 2002
Condensed statements of operations:			
Revenues	Ps. 40,232	Ps. 69,522	Ps. 30,310
Cost and expenses	(39,160)	(61,760)	(27,601)
Other income and net comprehensive financing cost	292	(1,222)	(477)
Income tax expense	2,555	826	852
Net (loss) income	Ps. (1,191)	Ps. 5,714	Ps. 1,380
	<u>Ps. (1,191)</u>	<u>Ps. 5,714</u>	<u>Ps. 1,380</u>

- d. **Sale of subsidiary**—On May 13, 2004, Homex Cuatitlán, S. A. de C. V., a subsidiary, was sold. Condensed financial information of this subsidiary at May 13, 2004, and for the period from

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

2. Basis of presentation (Continued)

January 1, 2004 to May 13, 2004, and at December 31, 2003, and for the year then ended, all expressed in Mexican pesos of purchasing power of June 30, 2005, is summarized below:

	<u>May 13, 2004</u>	<u>December 31, 2003</u>
Condensed balance sheets:		
Current assets	Ps.50,182	Ps.39,907
Deferred taxes	13	13
Current liabilities	(428)	(558)
Stockholders' equity	<u>Ps.49,767</u>	<u>Ps.39,362</u>
	<u>For the period January 1 to May 13, 2004</u>	<u>For the year Ended December 31, 2003</u>
Condensed statements of operations:		
Cost and expenses	Ps.(404)	Ps.(420)
Income tax benefit	—	13
Net loss	<u>Ps.(404)</u>	<u>Ps.(407)</u>

- e. **Comprehensive income**—Represents changes in stockholders' equity during the year, for concepts other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting the consolidated statements of income. In 2004, other comprehensive income consists of the gain resulting from the merger mentioned in Note 2.c. In 2003, there were no other comprehensive income (loss) items.

3. Summary of significant accounting policies

The accounting policies followed by the Company are in conformity with Mexican GAAP, which require that management make certain estimates and use certain assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Although these estimates are based on management's best knowledge of current events, actual results may differ. The significant accounting policies of the Company are as follows:

- a. **Recognition of the effects of inflation**—The Company restates its consolidated financial statements to Mexican peso purchasing power as of the most recent balance sheet date presented. Accordingly, the consolidated financial statements of the prior years have been restated to Mexican pesos of purchasing power of June 30, 2005 and, therefore, differ from those originally reported in the prior year.
- b. **Temporary investments**—Temporary investments representing cash equivalents are stated at the lower of acquisition cost plus accrued yields, or estimated net realizable value.

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

3. Summary of significant accounting policies (Continued)

- c. ***Inventories and costs of sales***—Finished construction, construction-in-process and land for development are recorded at acquisition cost and restated using the National Consumer Price Index (NCPI). Cost of sales is also restated by applying such index.
- d. ***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:

	<u>Years</u>
Buildings	20
Machinery and equipment	4 to 10
Transportation equipment	4
Computers	4
Office furniture and equipment	10
Communication equipment	4
Air transportation equipment	10

- e. ***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 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.
- f. ***Employee retirement obligations***—Statutory seniority premiums are recognized as costs over employee years of service and are calculated by independent actuaries using the projected unit credit method at net discount rates. Severance cost is charged to results when the liability is determined to be payable. Due to the low level of seniority for the majority of the Company's employees, the liability for employee retirement obligations is not significant at December 31, 2004 or 2003.
- g. ***Provisions***—Provisions are recognized for obligations that result from a past event, that are probable to result in the use of economic resources and that can be reasonably estimated.
- h. ***Warranties***—The Company provides product warranties against manufacturing defects for periods ranging from two to four years. Provisions for estimated expenses related to such product warranties are recorded at the time the product is sold, based primarily on the warranty costs incurred during the last three years. (The amount is recorded at its present value when the effect of the discount is significant).

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

3. Summary of significant accounting policies (Continued)

- i. ***Income tax, tax on assets 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 assets 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 realization. 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 tax on assets 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.

- j. ***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.
- k. ***Excess in restated stockholders' equity***—Excess in restated stockholders' equity represents the accumulated monetary position result through the initial restatement of the consolidated financial statements and the increase in the restated value of certain nonmonetary assets above inflation.
- l. ***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. The Company begins applying the percentage-of-completion method when the following conditions have been met:
- The Company establishes that the homebuyer will obtain the required financing from the mortgage lender;
 - The homebuyer has submitted all required documents in order to obtain the financing from the mortgage lender;
 - The homebuyer has signed a purchase agreement; and
 - The homebuyer has made a down payment, where down payments are required.
- m. ***Monetary position loss***—Monetary position result, which represents the erosion of purchasing power of monetary items caused by inflation, is calculated by applying NCPI factors to monthly net monetary position. Losses result from maintaining a net monetary asset position.

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

3. Summary of significant accounting policies (Continued)

- n. *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 is the same.

4. Cash and temporary investments

Cash and temporary investments consist of the following at December 31:

	2004	2003
Cash	Ps.292,604	Ps. 2,283
Temporary investments	223,896	220,175
	<u>Ps.516,500</u>	<u>Ps.222,458</u>

5. Trade accounts receivable—net

Trade accounts receivable consist of the following at December 31:

	2004	2003
Due from customers	Ps. 615,415	Ps. 491,983
Unbilled revenues on developments in progress	2,476,957	1,253,835
Services	27,863	17,910
	3,120,235	1,763,728
Allowance for doubtful accounts	(11,862)	(6,487)
	3,108,373	1,757,241
Other debtors	33,058	50,516
Recoverable value-added taxes	82,090	56,492
	3,223,521	1,864,249
Trade accounts receivable long-term (Note 9)	(19,769)	—
	<u>Ps.3,203,752</u>	<u>Ps.1,864,249</u>

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.

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

6. Inventories

Inventories consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Land held for future development	Ps.1,653,451	Ps. 904,299
Construction-in-process	657,520	257,408
Finished construction	3,192	2,189
Construction materials	61,076	32,252
Merchandise-in-transit	1,754	11,300
Advances to suppliers	239,440	60,303
	<u>2,616,433</u>	<u>1,267,751</u>
Land held for future development—noncurrent	(509,294)	(242,443)
	<u>Ps.2,107,139</u>	<u>Ps.1,025,308</u>

At December 31, 2004 and 2003, construction in process and land held for future development for Ps.175,183 and Ps.67,044, respectively, have been pledged as collateral for the Company's notes payable (see Note 10).

The Company's policy is to locate and acquire land each year, classifying land currently being developed and land planned for development within one year as a part of current assets, and classifying all remaining land as noncurrent assets.

7. Other current assets

Other current assets consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Sales commissions	Ps. 61,026	Ps.14,211
Prepaid expenses	18,366	13,164
Insurance and bond contracts	19,518	239
Prepaid interest	4,190	2,819
Other	2,217	—
	<u>Ps.105,317</u>	<u>Ps.30,433</u>

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

8. Property and equipment—net

Property and equipment consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Buildings	Ps. 15,795	Ps.10,299
Machinery and equipment	150,590	32,378
Transportation equipment	37,555	23,496
Air transportation equipment	34,261	—
Office furniture and equipment	15,112	6,409
Computers	23,767	15,338
Communication equipment	7,031	2,051
Construction-in-process	910	—
	<u>285,021</u>	<u>89,971</u>
Accumulated depreciation	(58,567)	(37,157)
	<u>226,454</u>	<u>52,814</u>
Land	27,618	5,049
	<u>Ps.254,072</u>	<u>Ps.57,863</u>

9. Other assets

Other assets consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Accounts receivable due from Proyectos y Servicios Alce Blanco, S.A. de C.V.	Ps.46,971	Ps. —
Long-term trade accounts receivable (Note 5)	19,769	—
Other accounts receivable	18,778	10,065
	<u>Ps.85,518</u>	<u>Ps.10,065</u>

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

10. Notes payable to financial institutions

Notes payable to financial institutions consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Notes payable to related party financial institutions are as follow:		
<i>UDI Denominated Notes Payable</i>		
Hipotecaria Crédito y Casa, S.A. de C.V.		
Note payable bearing interest at 11.2%	Ps. —	Ps. 26,075
<i>Mexican Peso Denominated Notes Payable</i>		
Hipotecaria Crédito y Casa, S.A. de C.V.		
Notes payable bearing interest ranging from the Mexican Government Treasury Securities Rate (Cetes) plus 6% to the Mexican Interbank Rate (TIIE) plus 5.5%, prepaid in July 2004. . .	—	95,158
Crédito Inmobiliario, S.A. de C.V.		
Note payable bearing interest at TIIE plus 5.7%, prepaid in July 2004.	—	24,554
Total	<u>Ps. —</u>	<u>Ps. 145,787</u>

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

10. Notes payable to financial institutions (Continued)

	<u>2004</u>	<u>2003</u>
Notes payable to other financial institutions are as follows:		
<i>Mexican Peso Denominated Notes Payable</i>		
GMAC Hipotecaria, S.A. de C.V.		
Term loan secured by land for development, payable on June 15, 2006, bearing interest at TIIE plus 2.5%.	Ps. 40,848	Ps. —
Term loan secured by land for development, payable on April 15, 2006, bearing interest at TIIE plus 2.5%.	73,245	—
Term loan secured by land for development, payable on June 25, 2006, bearing interest at TIIE plus 2.5%.	28,508	—
BBVA Bancomer, S.A.		
Notes payable in 2004, bearing interest at TIIE plus 3.0%.	—	26,244
HSBC México, S.A.		
Notes payable in 2004, bearing interest at TIIE plus 4.75%.	—	13,826
IXE Banco, S.A.		
Notes payable in 2004, bearing interest at TIIE plus 3.5%.	—	35,895
<i>Commercial paper placed through:</i>		
IXE Casa de Bolsa, S.A. de C.V.		
One year note issued on May 28, 2003, bearing interest at TIIE plus 3.25%.	—	127,626
Note renewable annually issued on November 14, 2004, bearing interest at TIIE plus 3.25%.	116,125	138,260
Multivalores Casa de Bolsa, S.A. de C.V.		
Note renewable annually issued on December 19, 2004, bearing interest at TIIE plus 2.25%.	252,666	191,440
<i>Capital lease obligations:</i>		
Paccar Arrendadora Financiera, S.A. de C.V.		
Capital lease obligations for equipment with a net book value of Ps.11,591, payable on July 1, 2006.	10,778	—
Arrendadora Financiera Navistar, S.A. de C.V.		
Capital lease obligations for equipment with a net book value of Ps.23,603, payable on July 10, 2006.	24,708	—
Capital lease obligations for equipment with a net book value of Ps.15,473, payable on July 10, 2006.	16,198	—
	563,076	533,291
Less current portion	(401,276)	(533,291)
	161,800	—
Land purchases—long term (See Note 11)	20,300	—
	<u>Ps. 182,100</u>	<u>Ps. —</u>

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

10. Notes payable to financial institutions (Continued)

As of December 31, 2004 and 2003 the Cetes interest rate was 8.75% and 6.04%, respectively, and the TIIE interest rate was 8.95%, 6.25%, respectively.

As of December 31, 2004, 2003 the UDI exchange value was Ps.3.534716 and Ps.3.352003, respectively.

11. Trade accounts payable

Trade accounts payable consist of the following at December 31:

	2004	2003
Suppliers	Ps. 929,927	Ps. 447,750
Land purchases	758,509	546,853
Other	8,194	20,216
	1,696,630	1,014,819
Less current portion	(1,676,330)	(1,014,819)
Land purchases—long term (See Note 10)	Ps. 20,300	Ps. —

12. Stockholders' equity

	Number of shares			
	2004	2003	2004	2003
Fixed capital:				
Series B	—	100,000	Ps. —	Ps. 50
Single series	313,856,490	—	166,636	—
Variable capital:				
Series B	—	248,184,817	—	124,092
Total	313,856,490	248,284,817	Ps.166,636	Ps.124,142

	Par Value	Restatement Effect	Total
Common stock	Ps. 166,636	Ps. 52,762	Ps. 219,398
Additional paid-in capital	2,088,284	163,734	2,252,018
Retained earnings	1,093,314	30,177	1,123,491
Excess in restated stockholders' equity	—	313,948	313,948
Cumulative initial effect of deferred income taxes	(116,956)	(25,984)	(142,940)
	Ps.3,231,278	Ps.534,637	Ps.3,765,915

- a. At a stockholders' ordinary general 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

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12. Stockholders' equity (Continued)

ordinary, nominative shares, at no par value, representing the Company's fixed capital without right of withdrawal, all of which belong to the same series; increase 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.

- b. 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.39,887 (Ps.38,258 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."

- c. 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 stock 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.
- d. 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.4,416 (Ps.4,236 historical pesos) through cash contributions. Shares were paid at Ps.0.49942646 each.
- e. Pursuant to a resolution of the general ordinary stockholders' meeting on August 15, 2003, variable common stock was increased by 10,924,532 no-par value Series B, sub series B1 shares for Ps.5,946, (Ps.5,462 historical pesos) through cash contributions. Shares were paid at US\$ 0.503454 each, of which Ps.0.50 per share was applied to common stock and Ps.59,127 (Ps.54,319 historical pesos) was applied to additional paid in capital.
- f. Retained earnings includes 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

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Notes to Audited Consolidated Financial Statements (Continued)

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12. Stockholders' equity (Continued)

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. At December 31, 2004 and 2003, the legal reserve, in historical pesos, was Ps.19,719 and Ps.3,603, respectively.

- g. 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 2004, the ISR rate was 33%; it will decrease to 30% in 2005, and subsequently one percentage point each year, until reaching 28% in 2007. 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.
- h. The balances of the stockholders' equity tax accounts as of December 31 are:

	<u>2004</u>	<u>2003</u>
Contributed capital account	Ps.2,545,496	Ps.784,031

13. Foreign currency balances and transactions

- a. At December 31, the foreign currency monetary position is as follows:

	<u>2004</u>	<u>2003</u>
Thousands of U.S. dollars:		
Monetary assets	\$ 1,474	\$ 94
Monetary liabilities	(10,736)	(6,883)
Monetary liability position, net	\$ (9,262)	\$ (6,789)
Equivalent in Mexican pesos	\$(103,280)	\$(76,308)

- b. Nonmonetary assets of foreign origin at December 31, 2004 are as follows:

	<u>Currency</u>	<u>Foreign (Thousands)</u>	<u>Mexican Equivalent</u>
Air transportation equipment	U.S. dollars	3,040	33,899

- c. The exchange rate in effect at the dates of the balance sheets and the issuance of these financial statements, were as follows:

	<u>December 31, 2004</u>	<u>2003</u>	<u>April 6, 2005</u>
Dollar	11.15	11.24	11.25

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14. Transactions with related parties

Transactions with related parties (as a result of common shareholders), carried out in the ordinary course of business, were as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Interest expense	Ps. 6,074	Ps.17,174	Ps.16,030
Services paid(1)	47,551	51,158	32,024

- (1) The Company is a party to an administrative service agreement with two entities whose principal owners are officers of the Company.

15. Selling and administrative expenses

Selling and administrative expenses are comprised of the following for the years ended December 31:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Selling	Ps.236,071	Ps.182,291	Ps.102,099
Administrative	201,890	87,235	67,231
	<u>Ps.437,961</u>	<u>Ps.269,526</u>	<u>Ps.169,330</u>

16. Other income (expense)—net

Other income (expense) is comprised of the following for the years ended December 31:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Recovery of taxes	Ps.34,980	Ps.74,068	Ps. 2,476
Other income	8,506	4,600	(4,261)
	<u>Ps.43,486</u>	<u>Ps.78,668</u>	<u>Ps.(1,785)</u>

17. Interest expense

Interest expense is comprised of the following for the years ended December 31:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Interest expense	Ps.102,263	Ps. 71,465	Ps. 82,545
Commissions and financing costs	31,338	47,512	50,698
	<u>Ps.133,601</u>	<u>Ps.118,977</u>	<u>Ps.133,243</u>

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18. Income taxes, tax on assets and employee statutory profit sharing

In accordance with Mexican tax law, the Company is subject to income tax (ISR) and tax on assets (IMPAC), which take into consideration the taxable and deductible effects of inflation. The ISR rate was 33% in 2004 and 34% in 2003. 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.

On December 1, 2004, certain amendments to the ISR and IMPAC Laws were enacted and are effective as of 2005. The most significant amendments were as follows: a) the ISR rate was reduced to 30% in 2005, 29% in 2006, and 28% as of 2007 and thereafter; (b) for ISR purposes, cost of sales will be deducted instead of inventory purchases in the period; c) companies may elect in 2005 to ratably increase taxable income over a period from four to 12 years by the tax value of inventories on hand as of December 31, 2004 determined in conformity with the respective tax rules, which include deducting any previous tax basis of inventories and any unamortized tax loss carryforwards, and the tax basis of such inventories may be deducted as sold; d) as of 2006, paid employee statutory profit sharing will be fully deductible for ISR purposes; e) bank liabilities and liabilities with foreign entities are now included in the determination of the IMPAC taxable base.

a. ISR and PTU consist of the following for the years ended December 31:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
ISR:			
Current	Ps. 2,358	Ps. 226	Ps. 3,371
Deferred	397,466	184,499	50,576
Effect of change in statutory rate on deferred ISR	(56,667)	—	—
Change in valuation allowance for recoverable tax on assets paid	—	544	237
	<u>Ps.343,157</u>	<u>Ps.185,269</u>	<u>Ps.54,184</u>
PTU:			
Current	Ps. 1,568	Ps. 279	1,439
Deferred	7,043	—	141
	<u>Ps. 8,611</u>	<u>Ps. 279</u>	<u>Ps. 1,580</u>

To determine deferred ISR at December 31, 2004, the Company applied the different tax rates that will be in effect beginning in 2005 to temporary differences according to their estimated dates of reversal. The result derived from applying the different tax rates is shown in the table below under the effect of change in statutory rate on deferred ISR.

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18. Income taxes, tax on assets and employee statutory profit sharing (Continued)

- b. The reconciliation of the statutory and effective ISR rates expressed as a percentage of income before ISR and PTU for the years ended December 31, 2004, 2003 and 2002 is:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	%	%	%
Statutory rate	33	34	35
Add (less) effect of permanent differences mainly:			
Nondeductible expenses	1	1	3
Difference between book and tax inflation effects	4	1	25
Effect of change in statutory rate on deferred ISR	(6)	—	—
Effective rate	<u>32</u>	<u>36</u>	<u>63</u>

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

	<u>2004</u>	<u>2003</u>
Deferred ISR asset:		
Effect of tax loss carryforwards	Ps. 588,273	Ps. 187,488
Deferred PTU liability	2,192	—
Accrued liabilities	31,989	37,481
Other, net	4,310	2,032
Deferred ISR asset	<u>626,764</u>	<u>227,001</u>
Deferred ISR liability:		
Trade accounts receivable	(743,087)	(413,765)
Inventories	(510,234)	(172,315)
Prepaid expenses	(25,617)	(10,396)
Deferred ISR liability	<u>(1,278,938)</u>	<u>(596,476)</u>
Recoverable tax on assets paid	<u>19,587</u>	<u>10,578</u>
Net long-term deferred ISR liability	<u>(632,587)</u>	<u>(358,897)</u>
Deferred PTU asset (liability)		
Inventory purchases	(7,309)	2,139
Other, net	—	(2,418)
Net long-term deferred ISR liability	<u>(7,309)</u>	<u>(279)</u>
Total liability	<u>Ps. (639,896)</u>	<u>Ps.(359,176)</u>

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18. Income taxes, tax on assets and employee statutory profit sharing (Continued)

- 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. Restated amounts as of December 31, 2004 and expiration dates are:

<u>Year of Expiration</u>	<u>Tax Loss Carry forwards</u>	<u>Recoverable IMPAC</u>
2005		Ps. 512
2007		226
2008		517
2009	Ps. 228,874	341
2010	102,083	116
2011	36,433	—
2012	1,780	3,254
2013	117,009	3,986
2014	1,477,213	10,635
	<u>Ps.1,963,392</u>	<u>Ps.19,587</u>

19. Commitments

- a. The Company has assisted in obtaining financing from various financial institutions, mainly through a factoring arrangement sponsored by Nacional Financiera, S.N.C. (“Nafinsa”). In connection with this arrangement, the Company established AAA-Homex Trust, a non-bank financial intermediary, pursuant to which Nafinsa has granted a line of credit of Ps.260,000 to the AAA-Homex Trust. Pursuant to this agreement the AAA-Homex Trust, through the use of the line of credit granted by Nafinsa, finances accounts payable of the Company (accounts receivable of the Company’s suppliers and distributors). In accordance with the agreement the Company is required to deposit in a trust guaranty fund an amount equal to 20% of the total amount of receivables to be financed by Nafinsa. The amount deposited in the trust guaranty fund as of December 31, 2004 and 2003 was Ps.35,195 and Ps.27,774, respectively. The Company is also committed to make contributions to the trust fund for an amount equal to the amounts drawn from the lines of credit by the trust. Such contributions would be used to pay Nafinsa in the event that the amounts due and payable by the trust under the line of credit are not covered by the trust’s assets. The AAA-Homex Trust is a consolidated subsidiary of the Company.

In addition to the AAA-Homex Trust, the Company established a supplier factoring agreement with IXE Banco. S.A., pursuant to which the Company was committed to make contributions to a depository fund to guarantee the fulfillment of the obligations of payment derived from the supplier factoring agreement. The amount deposited in the depository fund as of December 31, 2004 and 2003 was Ps.43,389 and Ps.35,511, respectively

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19. Commitments (Continued)

- b. The company leases office space under one year cancelable operating leases, which are renewed on an annual basis. Rent expense was Ps.7,969, Ps.5,015 and Ps.11,057 for the years ended December 31, 2004, 2003 and 2002, respectively.

20. Contingencies

- a. The Mexican Social Security Institute, in official letter 572/2004 addressed to National Banking and Securities Commission, ordered the identification and total seizure of all the bank accounts of Desarrolladora de Casas del Noroeste, S.A. de C.V. (subsidiary company), which only affects the Company's bank account with IXE Bank, which contains a balance of Ps.20,692. Such action was taken to guarantee the liabilities assessed during their review which includes the years 1997 to 2000. The Company believes that it has meritorious defenses to the assertion of the claim. On April 5, 2005 the Company obtained an order to release its bank accounts.
- b. Two subsidiaries of the Company have filed for a ruling with the Mexican tax authorities to confirm that they are exempt from value-added taxes payable in connection with work provided in order to construct infrastructure projects (such as roads and utility services) for various of the Company's housing projects, as well as value-added taxes derived from the acquisition of developed land. In addition, the Company applied for a refund in respect of such value-added taxes paid for years 1997 through 2003. As of the date of the financial statements, the Company has obtained a refund in respect of such taxes paid for the years 1997 through 2003 in the amount of approximately Ps.101,066 and is currently in the process of obtaining the ruling mentioned in this paragraph.

21. New accounting principles

In May 2004, the IMCP issued Bulletin B-7, "Business Acquisitions" ("B-7"), whose application is mandatory for financial statements of periods beginning on January 1, 2005, although early adoption is encouraged. B-7 provides updated rules for the accounting treatment of business acquisitions and investments in associated entities. It establishes, among others; the adoption of the purchase method as the only accounting method for business combinations; it eliminates the amortization of goodwill, which is now subject to the impairment rules; it establishes rules for the accounting treatment of asset transfers or share exchange among entities under common control as well as for the acquisition of minority interest based on the provisions of Bulletin B-8, "Consolidated and combined financial statements and valuation of permanent investments in shares." Management believes that the adoption of this new Bulletin as of January 1, 2005, will not have significant effects on the Company's financial position or results of operations.

In April 2004, the IMCP issued Bulletin C-10, "Derivative instruments and hedging activities" ("C-10"), whose application is mandatory for financial statements of periods beginning on January 1, 2005, although early adoption is encouraged. In general, C-10 establishes that for fair value hedges, any variances in the fair value, both of the derivative and the underlying, must be reflected in current earnings when such variances occur; for cash flow hedges, the effective portion of fair value variances

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21. New accounting principles (Continued)

must be recognized in other comprehensive income in stockholders' equity, while the ineffective portion must affect current earnings.

With respect to derivative financial instruments, C-10 establishes the conditions that must be met for an instrument to be considered as such, and revises and adds definitions. It also includes rules regarding the elements involved in hedging activities, including the formal documentation at the inception of each hedge and measurement of its effectiveness during its term, among others; C-10 classifies hedges into three categories: a) fair value hedges, b) cash flow hedges and c) foreign currency hedges, and provides specific rules by type of hedge, for their valuation, recognition, presentation and disclosure. Management believes that the adoption of this new Bulletin as of January 1, 2005, will not have significant effects on the Company's financial position or results of operations.

In April 2004, the IMCP issued Amendments to Bulletin C-2, "Financial instruments" ("C-2"), whose application is mandatory for financial statements of periods beginning on January 1, 2005, although early adoption is encouraged. Revised C-2 basically establishes that any variances in the fair value of financial instruments classified as available for sale must be recognized in other comprehensive income and reclassified to current earnings upon sale of such instruments; revised C-2 includes the possibility of making transfers among some of the categories under which financial instruments are classified, provided that conditions and rules for their accounting recognition are met. It also extends the applicability of impairment rules to financial instruments available for sale and provides more precise rules for their recognition. Management believes that the adoption of this new Bulletin as of January 1, 2005, will not have significant effects on the Company's financial position or results of operations.

In January 2004, the IMCP issued revised Bulletin D-3, "Labor obligations" ("D-3"), which replaces the concept of unforeseen severance payments that are recognized in earnings of the period in which the payment decision is made, with that of "Severance payments at the end of the work relationship," defined as payments granted to employees when they conclude their labor relationship before reaching retirement age, for which the valuation and disclosure rules applicable to pension and seniority premium payments must be followed.

Revised D-3 is mandatory as of January 1, 2005, but grants the option to immediately recognize in earnings the resulting transition asset or liability, or to amortize it over the average remaining labor life of employees. Management believes that the adoption of this new Bulletin as of January 1, 2005, will not have significant effects on the Company's financial position or results of operations.

22. Summary of differences between Mexican GAAP and U.S. GAAP

The consolidated financial statements of the Company are prepared in accordance with Mexican GAAP, 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 23. 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 Mexican GAAP. The application of this Bulletin represents a comprehensive measure of the effects of price-level

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22. Summary of differences between Mexican GAAP and U.S. GAAP (Continued)

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 Mexican and U.S. GAAP.

The differences between Mexican GAAP 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

Under Mexican GAAP, 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 Mexican GAAP is included in the U.S. GAAP reconciliation of net income and stockholders' equity.

b. Recovery of Value-Added Taxes Paid

Under Mexican GAAP 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.19.1 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 Mexican GAAP, 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 Mexican GAAP 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.

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22. Summary of differences between Mexican GAAP and U.S. GAAP (Continued)

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 Mexican GAAP as follows:

- Under Mexican GAAP 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.
- Under Mexican GAAP 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 Mexican GAAP is different from the effect calculated in accordance with U.S. GAAP.

Reconciliation of Deferred Income Taxes

	<u>2004</u>	<u>2003</u>
Deferred income tax liability according to Mexican GAAP, net	Ps. 632,587	Ps. 358,897
Effect of U.S. GAAP adjustments:		
Accounts receivable	(743,087)	(413,713)
Inventories	535,812	324,407
Employee profit sharing	(2,902)	—
Deferred income tax liability according to U.S. GAAP, net	<u>Ps. 422,410</u>	<u>Ps. 269,591</u>

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22. Summary of differences between Mexican GAAP and U.S. GAAP (Continued)

Deferred income tax balance sheet classification:

	2004		2003	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Deferred tax assets	Ps. —	Ps.342,174	Ps. —	Ps.—
Deferred tax liability	(764,584)	—	(269,591)	—
Net deferred tax (liability) asset	<u>Ps.(764,584)</u>	<u>Ps.342,174</u>	<u>Ps.(269,591)</u>	<u>Ps.—</u>

The changes in the balance of the deferred income tax liability for the year are as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Balance at the beginning of the year	Ps.269,591	Ps.141,246	Ps.104,471
Provision for the year	152,819	128,345	36,775
Balance at the end of the year	<u>Ps.422,410</u>	<u>Ps.269,591</u>	<u>Ps.141,246</u>

Reconciliation of Deferred Employee Profit Sharing

	<u>2004</u>	<u>2003</u>
Deferred employee profit sharing liability according to Mexican GAAP	Ps. 7,309	Ps. 279
Effect of U.S. GAAP adjustments:		
Accounts receivable	14,250	7,977
Inventories	—	4,199
Property and equipment	—	32
Prepaid expenses	4,109	1,306
Accounts payable	(8,688)	(11,063)
Other	—	(279)
Deferred employee profit sharing liability according to U.S. GAAP	<u>Ps.16,980</u>	<u>Ps. 2,451</u>

The changes in the balance of the deferred employee profit sharing liability for the year are as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Balance at the beginning of the year	Ps. 2,451	Ps.2,270	Ps.2,857
Provision (benefit) for the year	14,529	181	(587)
Balance at the end of the year	<u>Ps.16,980</u>	<u>Ps.2,451</u>	<u>Ps.2,270</u>

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22. Summary of differences between Mexican GAAP and U.S. GAAP (Continued)

e. Statement of Cash Flows

Under Mexican GAAP, 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 23.g.).

f. Classification Differences

Under Mexican GAAP 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 Mexican GAAP, 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 Mexican GAAP, 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.

g. Merger of entities under common control

As described in Note 2, on May 15, 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 in a manner similar to a pooling-of-interest. As a consequence of the merger, the Company is required to restate its reconciliation of Mexican GAAP 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, as if the merger had taken place as of the beginning of the earliest period presented.

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

23. Reconciliation of Mexican GAAP 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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Majority net income according to Mexican GAAP	Ps. 714,022	Ps. 326,987	Ps. 31,390
U.S. GAAP adjustments:			
Reversal of revenue recognized under percentage-of-completion method of accounting (Note 22a)	(1,382,283)	(189,241)	(141,473)
Reversal of cost recognized under percentage-of-completion method of accounting (Note 22a)	804,067	97,265	98,377
Value-added tax recovery (Note 22b)	19,144	(19,144)	—
Capitalization of interest (Note 22c)	32,688	(37,145)	(6,457)
Deferred employee statutory profit sharing (Note 22d)	(7,340)	(182)	587
Effects of inflation on U.S. GAAP adjustments	110,770	44,230	65,729
Total U.S. GAAP adjustments before tax effects	<u>(422,954)</u>	<u>(104,217)</u>	<u>16,763</u>
Tax effects on U.S. GAAP adjustments	<u>135,560</u>	<u>26,148</u>	<u>16,847</u>
Total U.S. GAAP adjustments	<u>(287,394)</u>	<u>(78,069)</u>	<u>33,610</u>
Net income according to U.S. GAAP	<u>Ps. 426,628</u>	<u>Ps. 248,918</u>	<u>Ps. 65,000</u>
Weighted average shares outstanding (in thousands)	<u>281,997</u>	<u>241,521</u>	<u>191,896</u>
Earnings per share according to U.S. GAAP	<u>Ps. 1.51</u>	<u>Ps. 1.03</u>	<u>Ps. 0.34</u>

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

23. Reconciliation of Mexican GAAP 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. (Continued)

b. Reconciliation of Majority Stockholders' Equity

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Majority stockholders' equity according to Mexican GAAP	Ps. 3,765,915	Ps. 1,333,275	Ps. 941,215
U.S. GAAP adjustments:			
Dilution effect of merger (Note 22g)		—	—
Reversal of revenue recognized under percentage-of-completion method of accounting (Note 22a)	(2,476,956)	(1,253,835)	(1,120,381)
Reversal of cost recognized under percentage-of-completion method of accounting (Note 22a)	1,689,665	916,088	774,299
Reversal of value-added tax recovery (Note 22b)		(19,144)	
Capitalization of interest (Note 22c)	96,372	67,017	104,162
Deferred employee statutory profit sharing (Note 22d)	(9,671)	(2,451)	(2,270)
Other	(10,706)		32,210
Total U.S. GAAP adjustments before tax effects	<u>(711,297)</u>	<u>(292,325)</u>	<u>(211,980)</u>
Tax effects on U.S. GAAP adjustments	<u>210,179</u>	<u>89,307</u>	<u>87,031</u>
Total U.S. GAAP adjustments	<u>(501,118)</u>	<u>(203,018)</u>	<u>(124,949)</u>
Stockholders' equity according to U.S. GAAP	<u>Ps. 3,264,798</u>	<u>Ps. 1,130,257</u>	<u>Ps. 816,266</u>

c. Reconciliation of Majority Comprehensive Income

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Majority comprehensive income according to Mexican GAAP . . .	Ps. 714,022	Ps.326,987	Ps.31,390
Net U.S. GAAP adjustments:			
Net income	<u>(287,394)</u>	<u>(78,069)</u>	<u>33,610</u>
Comprehensive income according to U.S. GAAP	<u>Ps. 426,628</u>	<u>Ps.248,918</u>	<u>Ps.65,000</u>

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

23. Reconciliation of Mexican GAAP 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. (Continued)

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

	<u>2004</u>	<u>2003</u>
Assets		
Current assets	Ps.5,604,654	Ps.2,875,696
Land held for future development	509,294	238,683
Property and equipment	254,072	57,910
Other assets	<u>128,907</u>	<u>37,850</u>
Total assets	<u>Ps.6,496,927</u>	<u>Ps.3,210,139</u>
Liabilities and stockholders' equity		
Current liabilities	2,988,964	2,033,375
Long-term debt	182,100	
Minority interest	61,065	46,507
Majority stockholders' equity	<u>3,264,798</u>	<u>1,130,257</u>
Total liabilities and stockholders' equity	<u>Ps.6,496,927</u>	<u>Ps.3,210,139</u>

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues	Ps.3,987,147	Ps.2,752,825	Ps.1,230,640
Costs	<u>3,005,574</u>	<u>2,111,305</u>	<u>973,826</u>
Gross profit	981,573	641,520	256,814
Operating income	527,660	371,670	87,107
Income before income taxes	643,383	413,535	104,333
Income taxes	207,595	159,258	37,953
Minority interest	<u>9,160</u>	<u>5,359</u>	<u>1,380</u>
Net income according to U.S. GAAP . . .	<u>Ps. 426,628</u>	<u>Ps. 248,918</u>	<u>Ps. 65,000</u>
Weighted average shares outstanding (in thousands)	<u>281,997</u>	<u>241,521</u>	<u>191,896</u>
Earnings per share according to U.S. GAAP (basic and diluted)	<u>Ps. 1.51</u>	<u>Ps. 1.03</u>	<u>Ps. 0.34</u>

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

23. Reconciliation of Mexican GAAP 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. (Continued)

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

	2004	2003	2002
Stockholders' equity at beginning of year	Ps.1,130,257	Ps. 816,266	Ps.429,064
Net income according to U.S. GAAP	426,628	248,918	65,000
Issuance of common stock	1,707,913	65,073	322,202
Stockholders' equity at end of year	<u>Ps.3,264,798</u>	<u>Ps.1,130,257</u>	<u>Ps.816,266</u>

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

	2004	2003	2002
Operating activities:			
Consolidated net income	Ps. 446,443	Ps. 274,421	Ps. 38,041
Non-cash items:			
Depreciation	22,141	8,228	6,286
Allowance for doubtful accounts	5,244	1,439	1,669
Deferred income tax and statutory profit sharing	153,384	127,171	22,785
Working capital investment	(2,137,670)	(830,949)	(350,955)
Recoverable taxes, net	28,306	36,780	12,559
Interest payable	1,244	(799)	391
Net cash flows used in operating activities	<u>(1,480,908)</u>	<u>(383,709)</u>	<u>(269,224)</u>
Investing activities:			
Investments in:			
Property and equipment	(211,125)	(33,477)	(11,086)
Other assets	(16,807)	(26,124)	—
Net cash flows used in investing activities	<u>(227,932)</u>	<u>(59,601)</u>	<u>(11,086)</u>
Financing activities:			
Supplier factoring agreement	461,842	251,688	51,013
Proceeds from new borrowings from financial institutions	404,416	460,278	394,795
Payments of notes payable to financial institutions	(348,708)	(182,990)	(502,975)
Loans from related parties	30,000	387,939	371,212
Payments of related party loans	(167,076)	(415,292)	(294,911)
Proceeds from issuance of common stock	1,643,469	95,109	283,141
Net cash flows from financing activities	<u>2,023,943</u>	<u>596,732</u>	<u>302,275</u>
Net increase in cash and cash equivalents	315,103	153,422	21,965
Cash and cash equivalents at the beginning of the year	216,421	62,999	41,034
Cash and cash equivalents at the end of the year	<u>Ps. 531,524</u>	<u>Ps. 216,421</u>	<u>Ps. 62,999</u>
Supplemental cash flow information:			
Interest paid	<u>Ps. 59,535</u>	<u>Ps. 53,181</u>	<u>Ps. 68,407</u>
Income tax and tax on assets paid	<u>Ps. 3,268</u>	<u>Ps. 4,155</u>	<u>Ps. 4,342</u>

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

24. Additional U.S. GAAP disclosure information

Recently Issued Accounting Standards.

U.S. GAAP

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payments or SFAS No. 123R. This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees to stock compensation awards issued to employees. Rather, SFAS No. 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award—the requisite service period (usually the vesting period). SFAS No. 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. SFAS No. 123R will be effective for our fiscal year ending December 31, 2006. The Company does not believe the effect of the future adoption of SFAS No. 123R will have a material impact on its financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 153, Exchange of Nonmonetary Assets—an amendment of APB Opinion No. 29 or SFAS No. 153, which amends APB Opinion No. 29, Accounting for Nonmonetary Transactions to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring after January 1, 2006. The Company does not anticipate that the adoption of this statement will have a material effect on its financial position, results of operations or cash flows.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). In December 2003, FIN 46 was replaced by FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46(R)). FIN 46R clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46(R) requires an enterprise to consolidate a variable interest entity if that enterprise will absorb a majority of the entity's expected losses, is entitled to receive a majority of the entity's expected residual returns, or both. For the purpose of analyzing investments in potential variable interest entities formed after January 31, 2003, the Company has applied the provision of FIN 46 and FIN 46(R) as of January 1, 2004. For the purpose of analyzing potential variable interests in variable interest entities previously defined as Special Purpose Entities (SPE's) created before February 1, 2003, the Company has applied the provision of FIN 46 and FIN 46(R) for the period beginning January 1, 2004. The Company has also applied the provisions of FIN 46 and FIN 46(R) in determining whether the Company holds potential interests in variable interest entities not previously defined as SPE's for the period ending December 31, 2004. The adoption of FIN 46(R) did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

24. Additional U.S. GAAP disclosure information (Continued)

On January 1, 2004, the Company adopted SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity and requires that certain financial instruments be classified as liabilities that were previously considered equity. The provisions of SFAS No. 150 were effective for financial instruments entered into or modified after May 31, 2003. For pre-existing instruments, the Company adopted SFAS No. 150 on January 1, 2004. The adoption of SFAS No. 150 did not have a material impact on the Company's financial position, results of operations or cash flows

25. Subsequent event

On July 1, 2005 the Company acquired Controladora Casa Beta, S.A. de C.V. ("Beta"). The purchase price for Beta was approximately Ps.2,041.5 million (US\$188.9 million). The acquisition of Beta involved the purchase of 53.0% of Beta's stock for approximately Ps.1,063.9 million (US\$98.4 million) in cash and the purchase of the remaining 47.0% of Beta's stock in exchange for 22.0 million of the Company's common shares valued at Ps.977.6 million (US\$90.5 million). Following the acquisition, Beta was merged into the Company, with the Company being the surviving entity. As a result of the Beta acquisition, former Beta shareholders own approximately 6.6% of the Company's capital stock.

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Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Schedule II Valuation and Qualifying Accounts
For the years ended December 31, 2004, 2003 and 2002
(in thousands of Mexican pesos (Ps.))

Description	Beginning Balance Accrual	Additions Charged to Income	Cash Reductions	Non-cash Reductions (Additions)	Reversal	Ending Balance Accrual
Allowance for doubtful accounts						
2004	Ps. 6,487	Ps. 5,375	Ps. —	Ps. —	Ps. —	Ps.11,862
2003	5,147	1,340	—	—	—	6,487
2002	3,286	2,412	574	—	—	5,147

Desarrolladora Homex, S.A. de C.V. and Subsidiaries

Condensed Consolidated Balance Sheets

As of June 30, 2005 and December 31, 2004

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	June 30, 2005 (Unaudited) (Convenience translation, Note 1)	June 30, 2005 (Unaudited)	December 31, 2004
Assets			
Current assets:			
Cash and temporary investments	\$ 37,649	Ps. 405,555	Ps. 516,500
Restricted cash	—	—	20,692
Trade accounts receivable—net	351,139	3,782,471	3,203,752
Inventories (Note 2)	221,915	2,390,466	2,107,139
Other current assets	9,764	105,177	105,317
Total current assets	<u>620,467</u>	<u>6,683,669</u>	<u>5,953,400</u>
Land held for future development (Note 2)	61,554	663,065	509,294
Restricted investments	28	299	43,389
Property and equipment—net	24,250	261,219	254,072
Other assets	6,661	71,749	85,518
Total	<u>\$712,960</u>	<u>Ps.7,680,001</u>	<u>Ps.6,845,673</u>
Liabilities and stockholders' equity			
Current liabilities:			
Notes payable to financial institutions (Note 3):	\$103,727	Ps.1,117,348	Ps. 401,276
Trade accounts payable	126,923	1,367,208	1,676,330
Advances from customers	10,133	109,152	60,432
Accrued expenses and taxes, other than income taxes	2,229	24,004	67,011
Income tax payable	9510	102,442	351
Employee statutory profit sharing	111	1,198	2,002
Total current liabilities	<u>252,633</u>	<u>2,721,352</u>	<u>2,207,402</u>
Long-term notes payable to financial institutions (Note 3)	4,379	47,167	182,100
Deferred income taxes and employee statutory profit sharing	65,393	704,410	639,896
Total liabilities	<u>322,405</u>	<u>3,472,929</u>	<u>3,029,398</u>
Commitments and contingencies			
Stockholders' equity:			
Common stock	20,367	219,398	219,398
Additional paid-in capital	209,062	2,252,018	2,252,018
Retained earnings	140,952	1,518,340	1,123,491
Excess in restated stockholders' equity	29,145	313,948	313,948
Cumulative initial effect of deferred income taxes	<u>(13,270)</u>	<u>(142,940)</u>	<u>(142,940)</u>
Majority stockholder's equity	386,256	4,160,764	3,765,915
Minority interest in consolidated subsidiaries	4,299	46,308	50,360
Total stockholders' equity	<u>390,555</u>	<u>4,207,072</u>	<u>3,816,275</u>
Total	<u>\$712,960</u>	<u>Ps.7,680,001</u>	<u>Ps.6,845,673</u>

See accompanying notes to unaudited condensed consolidated financial statements.

Desarrolladora Homex, S.A. de C.V. and Subsidiaries

Condensed Consolidated Statements of Income

For the six-month periods ended June 30, 2005 and 2004

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	2005 (Unaudited) (Convenience translation, Note 1)	2005 (Unaudited)	2004 (Unaudited)
Revenues	\$265,812	Ps.2,863,328	Ps.1,990,806
Costs	183,145	1,972,835	1,363,267
Gross profit	82,667	890,493	627,539
Selling and administrative expenses	25,436	273,992	186,586
Income from operations	57,232	616,501	440,953
Other income (expense)—net	1,544	16,623	46,221
Net comprehensive financing cost:			
Interest expense	8,894	95,818	61,840
Interest income	(2,117)	(22,806)	(10,211)
Exchange gain—net	(544)	(5,864)	(7)
Monetary position loss	130	1,397	5,744
	6,363	68,545	57,366
Income before income taxes and employee statutory profit sharing	52,412	564,579	429,808
Income tax expense	16,133	173,782	133,192
Employee statutory profit sharing expense	—	—	1,501
Consolidated net income	<u>\$ 36,279</u>	<u>Ps. 390,797</u>	<u>Ps. 295,115</u>
Net income of majority stockholders	\$ 36,655	Ps. 394,849	Ps. 295,875
Net income of minority stockholders	(376)	(4,052)	(760)
Consolidated net income	<u>\$ 36,279</u>	<u>Ps. 390,797</u>	<u>Ps. 295,115</u>
Weighted average shares outstanding (in thousands) . . .	313,978	313,978	249,962
Earnings per share (basic and diluted)	\$ 0.12	Ps. 1.24	Ps. 1.18

See accompanying notes to unaudited condensed consolidated financial statements.

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity

For the six-month periods ended June 30, 2005 and 2004

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Excess in restated stockholders' equity</u>	<u>Cumulative initial effect of deferred income taxes</u>	<u>Minority interest in consolidated subsidiaries</u>	<u>Total stockholders' equity</u>
Balances as of January 1, 2004	Ps.175,096	Ps. 588,407	Ps. 398,764	Ps.313,948	Ps.(142,940)	Ps. 46,507	Ps.1,379,782
Issuance of common stock (unaudited)						5,399	5,399
Comprehensive income (unaudited)			306,581			(11,466)	295,115
Balances as of June 30, 2004 (unaudited)	175,096	588,407	705,345	313,948	(142,940)	40,440	1,680,296
Balances as of January 1, 2005	Ps.219,398	Ps.2,252,018	Ps.1,123,491	Ps.313,948	Ps.(142,940)	Ps. 50,360	Ps.3,816,275
Comprehensive income (unaudited)	—	—	394,849	—	—	(4,052)	390,797
Balances as of June 30, 2005 (unaudited)	<u>Ps.219,398</u>	<u>Ps.2,252,018</u>	<u>Ps.1,518,340</u>	<u>Ps.313,948</u>	<u>Ps.(142,940)</u>	<u>Ps. 46,308</u>	<u>Ps.4,207,073</u>
(Convenience translation, Note 1)							
Balances as of January 1, 2005	\$ 20,367	\$ 209,062	\$ 104,297	\$ 29,145	\$ (13,270)	\$ 4,675	\$ 354,276
Comprehensive income (unaudited)	—	—	36,655	—	—	(376)	36,279
Balances as of June 30, 2005 (unaudited)	<u>\$ 20,367</u>	<u>\$ 209,062</u>	<u>\$ 140,952</u>	<u>\$ 29,145</u>	<u>\$ (13,270)</u>	<u>\$ 4,299</u>	<u>\$ 390,555</u>

See accompanying notes to unaudited condensed consolidated financial statements.

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Condensed Consolidated Statements of Changes in Financial Position

For the six-month periods ended June 30, 2005 and 2004

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	2005 (Unaudited) (Convenience translation, Note 1)	2005 (Unaudited)	2004 (Unaudited)
Operating activities:			
Net income	\$ 36,279	Ps. 390,797	Ps. 295,115
Items that did not require resources:			
Depreciation	2,402	25,877	5,058
Loss on sale of subsidiary	—	—	1,154
Deferred income taxes and employee statutory profit sharing	5,989	64,514	118,662
	<u>44,670</u>	<u>481,188</u>	<u>419,989</u>
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Trade accounts receivable	(52,446)	(564,950)	(644,315)
Inventories	(40,577)	(437,098)	(308,736)
Other current assets	13	139	(44,666)
Increase (decrease) in:			
Trade accounts payable	(28,698)	(309,122)	153,160
Due to related parties			
Other, net	9,933	107,000	63,739
Net resources used in operating activities	<u>(67,105)</u>	<u>(722,843)</u>	<u>(360,829)</u>
Financing activities:			
Proceeds from new borrowings from financial institutions . .	58,679	632,067	371,736
Payments of notes payable to financial institutions	(4,728)	(50,928)	—
Payments of related party loans	—	—	(145,787)
Proceeds from issuance of common stock	—	—	5,399
Net resources generated by financing activities	<u>53,951</u>	<u>581,139</u>	<u>231,348</u>
Investing activities:			
Restricted investments	4,000	43,090	(102)
Proceeds from sale of machinery and equipment	—	—	48,613
Acquisition of property and equipment	(3,066)	(33,024)	(26,588)
Net resources generated by investing activities	<u>934</u>	<u>10,066</u>	<u>21,923</u>
Cash, temporary investments and restricted cash:			
Net decrease	(12,220)	(131,638)	(107,558)
Balance at beginning of period	49,869	537,193	222,458
Balance at end of period	<u>\$ 37,649</u>	<u>Ps. 405,555</u>	<u>Ps. 114,900</u>

See accompanying notes to unaudited condensed consolidated financial statements.

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
For the six-month periods ended June 30, 2005 and 2004

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

1. Basis of presentation

Basis of presentation—The unaudited condensed consolidated financial statements of Desarrolladora Homex, S.A. de C.V. (“Homex”) and its subsidiaries (the “Company”) included herein have been prepared in accordance with generally accepted accounting principles in Mexico (“Mexican GAAP”) and are unaudited. Certain information and footnote disclosures normally prepared in accordance with Mexican GAAP have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information not misleading. These unaudited condensed financial statements should be read in connection with the Company’s audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2004.

The unaudited condensed consolidated financial information included herein reflects all adjustments, consisting only of normal recurring adjustments, which are necessary, in the opinion of management, for a fair presentation of the Company’s consolidated financial position and consolidated results of operations, changes in stockholders’ equity and changes in financial position for the interim periods presented. The results of operations for interim periods are not necessarily indicative of the results to be expected for an entire year.

The unaudited condensed consolidated financial statements are stated in Mexican pesos, the currency of the country in which the Company is incorporated and operates. The translations of Mexican peso 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.10.7720 per one U.S. dollar, the noon buying rate of the Federal Reserve Bank of New York on June 30, 2005. Such translation 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.

The Mexican affordable entry-level housing industry experiences significant seasonality during the year, principally due to the operational and lending cycles of Infonavit and Fovissste. The programs, budgets, and changes in the authorized policies of these mortgage lenders are approved during the first quarter of the year. Payment by these lenders for home deliveries is slow at the beginning of the year and increases gradually through the second and third quarters with a rapid acceleration in the fourth quarter.

Principles of consolidation of financial statements—The unaudited consolidated financial statements include those of Homex, and its consolidated subsidiaries, material intercompany balances and transactions have been eliminated in these unaudited consolidated financial statements. Equity interests of unaffiliated shareholders in consolidated subsidiaries are reflected as minority interest.

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
For the six-month periods ended June 30, 2005 and 2004
(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

2. Inventories

Inventories consist of the following:

	June 30, 2005	December 31, 2004
	(Unaudited)	
Land held for future developments	Ps.1,797,481	Ps.1,653,451
Construction-in-process	854,506	657,520
Finished construction	3,158	3,192
Construction materials	115,534	61,076
Merchandise-in-transit	—	1,754
Advances to suppliers	282,852	239,440
	<u>3,053,531</u>	<u>2,616,433</u>
Land held for future developments—noncurrent	<u>(663,065)</u>	<u>(509,294)</u>
	<u><u>Ps.2,390,466</u></u>	<u><u>Ps.2,107,139</u></u>

At June 30, 2005 (unaudited) and December 31, 2004, construction in process and land held for future development for Ps.138,204 and Ps.175,183, respectively, have been pledged as collateral for the Company's notes payable.

The Company's policy is to locate and acquire land each year, classifying land currently being developed and land planned for development within one year as a part of current assets, and classifying all remaining land as noncurrent assets.

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
For the six-month periods ended June 30, 2005 and 2004
(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

3. Notes payable to financial institutions

Notes payable to financial institutions consist of the following:

	<u>June 30, 2005</u>	<u>December 31, 2004</u>
	<u>(Unaudited)</u>	
<i>Mexican Peso Denominated Notes Payable</i>		
GMAC Hipotecaria, S.A. de C.V.		
Term loan secured by land for development, payable on June 15, 2006, bearing interest at Interbank Equilibrium Rate as defined by the Central Bank of Mexico ("THIE") plus 2.5%. . .	Ps. 34,637	Ps. 40,848
Term loan secured by land for development, payable on April 15, 2006, bearing interest at THIE plus 2.5%.	56,400	73,245
Term loan secured by land for development, payable on June 25, 2006, bearing interest at THIE plus 2.5%.	—	28,508
Banco Santander Serfin, S.A.		
Term loan secured by land for development, payable on May 5, 2008, bearing annual interest at THIE plus 1.9%.	47,167	—
Banco Nacional de México, S.A.		
Line-of-credit up to Ps.150,000, bearing annual interest at THIE plus 1.6%, payable on April 1, 2006.	147,428	—
BBVA Bancomer, S.A.		
Line-of-credit up to Ps.100,000, bearing annual interest at THIE plus 2%, payable on November 26, 2005.	54,900	—
Line-of-credit up to Ps.100,000, bearing annual interest at THIE plus 1.9%, payable on August 23, 2005.	30,000	—
IXE Banco, S.A.		
Note payable for Ps.20,000, bearing interest at THIE plus 2 points, payable on September,15, 2005.	20,000	—
<i>Commercial paper placed through:</i>		
IXE Casa de Bolsa, S.A. de C.V.		
Note renewable annually issued on November 14, 2004, bearing interest at THIE plus 3.25%. . .	—	116,125
Multivalores Casa de Bolsa, S.A. de C.V.		
Note renewable annually issued on December 19, 2004, bearing interest at THIE plus 2.25%. . .	250,000	252,666
Note renewable annually issued on March 15, 2005, bearing interest at THIE plus 1.5%.	500,000	—
<i>Capital lease obligations:</i>		
Paccar Arrendadora Financiera, S.A. de C.V		
Capital lease obligations for equipment with a net book value of Ps.11,591, payable on July 1, 2006.	3,048	10,778
Arrendadora Financiera Navistar, S.A. de C.V.		
Capital lease obligations for equipment with a net book value of Ps.30,076, payable on July 10, 2006.	20,935	40,906
	1,164,515	563,076
Less current portion	(1,117,348)	(401,276)
	47,167	161,800
Land purchases—long term (See Note 11)	20,300	20,300
	<u>Ps. 47,167</u>	<u>Ps. 182,100</u>

Desarrolladora Homex, S.A. de C.V. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
For the six-month periods ended June 30, 2005 and 2004
(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

3. Notes payable to financial institutions (Continued)

The scheduled maturities of notes payable to financial institutions at June 30, 2005 (unaudited), are as follows:

<u>Year</u>	
2008	Ps.47,167
	<u>\$ 47,167</u>

At of June 30, 2005 (unaudited) and December 31, 2004 the TIIE interest rate was 9.61% and 8.95%, respectively.

4. Income taxes, tax on assets and employee statutory profit sharing

In accordance with Mexican tax law, the Company is subject to income tax (ISR) and tax on assets (IMPAC), which take into consideration the taxable and deductible effects of inflation. The ISR rate was 33% in 2004 and 34% in 2003. 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.

On December 1, 2004, certain amendments to the ISR and IMPAC Laws were enacted and are effective as of 2005. The most significant amendments were as follows: a) the ISR rate was reduced to 30% in 2005, 29% in 2006, and 28% as of 2007 and thereafter; (b) for ISR purposes, cost of sales will be deducted instead of inventory purchases in the period; c) companies may elect in 2005 to ratably increase taxable income over a period from four to 12 years by the tax value of inventories on hand as of December 31, 2004 determined in conformity with the respective tax rules, which include deducting any previous tax basis of inventories and any unamortized tax loss carryforwards, and the tax basis of such inventories may be deducted as sold; d) as of 2006, paid employee statutory profit sharing will be fully deductible for ISR purposes; e) bank liabilities and liabilities with foreign entities are now included in the determination of the IMPAC taxable base.

* * * * *

INDEX TO BETA FINANCIAL STATEMENTS

Controladora Casas Beta, S.A. de C.V. and its Subsidiaries

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**Report of Independent Auditors
to the Board of Directors and Stockholders of
Controladora Casas Beta, S.A. de C.V.**

We have audited the accompanying consolidated balance sheets of Controladora Casas Beta, S.A. de C.V. and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for each of the three years in the period ended, December 31, 2004, all expressed in thousands of Mexican pesos of purchasing power of June 30, 2005. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in accordance with accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Controladora Casas Beta, S.A. de C.V. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations, changes in their stockholders' equity and changes in their financial position for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in Mexico.

Our audits also comprehended the translation of the Mexican peso amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. 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

/s/ Sergio Vargas Vargas

C. P. C. Sergio Vargas Vargas
Mexico City, Mexico
March 18, 2005
(July 6, 2005 as to Note 17 and as to the restatement to
Mexican pesos of purchasing power
as of June 30, 2005 and the convenience
translation)

Controladora Casas Beta, S.A. de C.V. and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2004 and 2003

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	2004 (Convenience Translation, Note 2)	2004	2003
Assets			
Current assets:			
Cash and temporary investments	\$ 8,830	Ps. 95,115	Ps. 75,110
Trade accounts receivable (Note 4)	108,409	1,167,786	719,136
Due from related parties (Note 14)	490	5,282	5,823
Inventories (Notes 5, 9 and 11)	27,552	296,786	205,234
Prepaid expenses	366	3,938	—
Total current assets	145,647	1,568,907	1,005,303
Land held for future development (Notes 5, 9 and 11)	17,838	192,150	55,583
Property, plant and equipment—net (Note 6)	10,210	109,986	91,426
Investment in equity method investees (Note 8)	5,970	64,307	4,936
Deferred debt issuance cost, net of amortization of Ps.1,053	815	8,782	—
Total	\$180,480	Ps.1,944,132	Ps.1,157,248
Liabilities and stockholders' equity			
Current liabilities:			
Notes payable to financial institutions (Note 9)	\$ 18,036	Ps. 194,285	Ps. 164,884
Trade accounts payable	14,499	156,187	115,836
Amounts payable for land purchases (Note 10)	16,869	181,712	53,038
Due to related parties (Note 14)	—	—	2,427
Accrued expenses and taxes other than income taxes	1,361	14,658	13,945
Employee statutory profit sharing	134	1,440	1,514
Total current liabilities	50,899	548,282	351,644
Long-term notes payable to financial institutions (Note 9)	782	8,428	119,632
Long-term debt (Note 11)	25,587	275,621	—
Long-term amounts payable for land purchases (Note 10)	—	—	47,853
Deferred income tax (Note 15)	31,310	337,268	198,435
Deferred employee statutory profit sharing (Note 15)	310	3,340	—
Total liabilities	108,888	1,172,939	717,564
Contributions for future common stock increases	46	500	—
Stockholders' equity: (Note 12):			
Common stock	24,027	258,822	258,822
Restatement of common stock	2,191	23,600	23,600
Legal reserve	999	10,761	10,761
Retained earnings	38,680	416,661	109,577
Majority stockholders' equity	65,897	709,844	402,760
Minority interest in consolidated subsidiaries	5,649	60,849	36,924
Total stockholders' equity	71,546	770,693	439,684
Total	\$180,480	Ps.1,944,132	Ps.1,157,248

See accompanying notes to consolidated financial statements.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Consolidated Statements of Income

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	2004 (Convenience Translation, Note 2)	2004	2003	2002
Revenues	\$231,869	Ps.2,497,700	Ps.1,648,835	Ps.1,142,560
Costs	173,331	1,867,125	1,302,989	890,016
Gross profit	58,538	630,575	345,846	252,544
Selling and administrative expenses	12,269	132,165	131,426	131,750
Income from operations	46,269	498,410	214,420	120,794
Other income—net	132	1,417	925	1,944
Net comprehensive financing cost:				
Interest income	(1,042)	(11,228)	(1,161)	(982)
Interest expense	168	1,810	6,537	4,557
Exchange loss—net	26	281	1,608	173
Monetary position loss	2,143	23,083	7,365	(56)
	1,295	13,946	14,349	3,692
Income before income taxes, employee statutory profit sharing and equity in earnings (loss) of equity method investees . .	45,106	485,881	200,996	119,046
Income taxes (Note 15)	13,827	148,945	87,264	37,534
Employee statutory profit sharing expense (Note 15)	310	3,340	—	130
Income before equity in earnings (loss) of equity method investees	30,969	333,596	113,732	81,382
Equity in earnings (loss) of equity method investees (Note 8)	240	2,587	(2,215)	(173)
Consolidated net income	<u>\$ 30,729</u>	<u>Ps. 331,009</u>	<u>Ps. 115,947</u>	<u>Ps. 81,555</u>
Net income of majority stockholders	28,508	307,084	109,577	77,461
Net income of minority stockholders	2,221	23,925	6,370	4,094
Consolidated net income	<u>\$ 30,729</u>	<u>Ps. 331,009</u>	<u>Ps. 115,947</u>	<u>Ps. 81,555</u>

See accompanying notes to consolidated financial statements.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	Common stock historical amount	Common stock restated amount	Additional paid in capital	Legal reserve	Retained earnings	Minority interest in consolidated subsidiaries	Total stockholders' equity (Note 12)
Balances as of January 1, 2002	Ps. 34,516	Ps. 8,217	Ps. —	Ps. —	Ps. 18,353	Ps. 872	Ps. 61,958
Contribution from stockholders (Note 2.b.)	—	—	118,695	—	—	—	118,695
Issuance of common stock	23,596	2,874	—	—	—	—	26,470
Repurchase of common stock	(10)	(2)	—	—	—	—	(12)
Contributions of minority interest	—	—	—	—	—	25,588	25,588
Comprehensive income . .	—	—	—	—	77,461	4,094	81,555
Balances as of December 31, 2002	58,102	11,089	118,695	—	95,814	30,554	314,254
Capitalization of additional paid in capital and retained earnings	192,176	11,572	(118,695)	10,761	(95,814)	—	—
Issuance of common stock	8,544	939	—	—	—	—	9,483
Comprehensive income . .	—	—	—	—	109,577	6,370	115,947
Balances as of December 31, 2003	258,822	23,600	—	10,761	109,577	36,924	439,684
Comprehensive income . .	—	—	—	—	307,084	23,925	331,009
Balances as of December 31, 2004	<u>Ps.258,822</u>	<u>Ps.23,600</u>	<u>Ps. —</u>	<u>Ps.10,761</u>	<u>Ps.416,661</u>	<u>Ps.60,849</u>	<u>Ps.770,693</u>
(Convenience translation, Note 2)							
Balances as of December 31, 2003	\$ 24,027	\$ 2,191	\$ —	\$ 999	\$ 10,172	\$ 3,428	\$ 40,817
Comprehensive income . .	—	—	—	—	28,508	2,221	30,729
Balances as of December 31, 2004	<u>\$ 24,027</u>	<u>\$ 2,191</u>	<u>\$ —</u>	<u>\$ 999</u>	<u>\$ 38,680</u>	<u>\$ 5,649</u>	<u>\$ 71,546</u>

See accompanying notes to consolidated financial statements.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Consolidated Statements of Changes in Financial Position
For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	2004 (Convenience Translation, Note 2)	2004	2003	2002
Operating activities:				
Net income	\$ 30,729	Ps. 331,009	Ps. 115,947	Ps. 81,555
Items that did not require (generate) resources:				
Equity in earnings (loss) of equity method investees	240	2,587	(2,215)	173
Depreciation and amortization	2,064	22,228	21,166	12,657
Deferred income taxes and employee statutory profit sharing	13,198	142,172	73,104	25,929
	<u>46,231</u>	<u>497,996</u>	<u>208,002</u>	<u>120,314</u>
Changes in operating assets and liabilities				
(Increase) decrease in:				
Trade accounts receivable	(41,649)	(448,648)	(310,407)	(132,031)
Inventories	(21,177)	(228,120)	(31,437)	49,176
Prepaid expenses	(366)	(3,938)	—	—
(Increase) decrease in:				
Due to related parties	(175)	(1,887)	(3,396)	—
Trade accounts payable	3,746	40,354	46,154	16,578
Amounts payable for land purchases	7,503	80,821	33,736	—
Accrued expenses and taxes other than income taxes	66	713	(15,302)	1,546
Deferred employee statutory profit sharing	(7)	(74)	(210)	1,724
Resources (used in) generated by operating activities	<u>(5,828)</u>	<u>(62,783)</u>	<u>(72,860)</u>	<u>57,307</u>
Financing activities:				
Notes payable to financial institutions—net	(7,594)	(81,803)	(18,493)	36,592
Long term debt—net	25,587	275,621	99,105	822
Contributions of minority interest	—	—	—	25,588
Contributions of stockholders	—	—	—	118,695
Repurchase of common stock	—	—	—	(12)
Contributions for future common stock increases	46	500	—	—
Issuance of common stock	—	—	9,482	26,470
Net resources generated by financing activities	<u>18,039</u>	<u>194,318</u>	<u>90,094</u>	<u>208,155</u>

Continued

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Consolidated Statements of Changes in Financial Position (Continued)

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	2004 (Convenience Translation, Note 2)	2004	2003	2002
Investing activities:				
Acquisition of property, plant and equipment	(3,689)	(39,736)	(11,930)	(20,380)
Investment in associated companies	(5,752)	(61,959)	(2,515)	(174,702)
Deferred debt issuance costs	(913)	(9,835)	—	—
Net resources used in investing activities	<u>(10,354)</u>	<u>(111,530)</u>	<u>(14,445)</u>	<u>(195,082)</u>
Cash and temporary investments:				
Net increase	1,857	20,005	2,789	70,380
Balance at beginning of year	6,973	75,110	72,321	1,941
Balance at end of year	<u>\$ 8,830</u>	<u>Ps. 95,115</u>	<u>Ps. 75,110</u>	<u>Ps. 72,321</u>

Concluded

See accompanying notes to consolidated financial statements.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries

Notes to Audited Consolidated Financial Statements

For the years ended December 31, 2004, 2003 and 2002

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

1. Nature of business

Controladora Casas Beta, S.A. de C.V. (“Beta”) is a holding company that, together with its subsidiaries (collectively, the “Company”), is primarily engaged in the promotion, design, construction and marketing of affordable entry-level housing, particularly in the Mexican states of Baja California, Nuevo León and Mexico.

The Company currently participates in mortgage programs sponsored by the Institute of the National Workers Housing Fund (“INFONAVIT”), which grants mortgage financing to eligible purchasers following the approval of projects. Similarly, the Company markets housing to customers whose acquisitions of homes are financed by the Social Security and Services Institute Public-Sector Workers Housing Fund (“FOVISSSTE”) and by the Federal Mortgage Society (“SHF”) administered by the Bank of Mexico.

Revenues are recognized by the percentage-of-completion method, and cash generated in respect of these sales is received when the houses are finished and delivered to the buyers. The Company finances substantially all of its activities as developer through bridge financing loans (i.e. loans from commercial banks that are secured by a mortgage on the property to be developed).

2. Basis of presentation

- a. ***Explanation for translation into English***—The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of accounting principles generally accepted in Mexico (Mexican GAAP). Certain accounting practices applied by the Company that conform with Mexican GAAP may not conform with accounting principles generally accepted in the country of use.

The financial statements are stated in Mexican pesos, the currency of the country in which the Company is incorporated and operates. The translations of Mexican pesos amounts into U.S. dollar amounts are included solely for the convenience of the readers in the United States of America and have been made at the rate of Ps.10.7720 per one U.S. dollar, the noon buying rate of the Federal Reserve Bank of New York on June 30, 2005. Such translation 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. ***Consolidation of financial statements***—The consolidated financial statements include those of the Company. A description of Beta’s consolidated subsidiaries and its direct and indirect ownership interest in each is set forth below. Intercompany balances and transactions have been eliminated in these consolidated financial statements. Equity interests of unaffiliated shareholders in consolidated subsidiaries are reflected as minority interest.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002
(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

2. Basis of presentation (Continued)

The subsidiary companies and their percentage participation are as follows:

<u>Subsidiaries</u>	<u>Main activity</u>	<u>Ownership %</u>	
		<u>2004</u>	<u>2003</u>
Casas Beta del Centro, S.A. de C.V.(2)	Design, construction and development of low income housing	89.90	89.90
Casas Beta del Noroeste, S.A. de C.V.	Design, construction and development of low income housing	99.90	99.90
Casas Beta del Norte, S.A. de C.V. . .	Design, construction and development of low income housing	99.90	99.90
Edificaciones Beta, S.A. de C.V.	Design and construction of low income housing.	99.80	99.80
Edificaciones Beta del Noroeste, S.A. de C.V.	Design and construction of low income housing.	99.00	99.00
Edificaciones Beta del Norte, S.A. de C.V.(1)	Design and construction of low income housing.	99.90	99.90
Comercializadora Cantaros, S.A. de C.V.(1)	Design and construction of low income housing.	99.94	99.94

- (1) Casas Beta del Norte, S.A. de C.V. and Edificaciones Beta del Norte, S.A. de C.V. were incorporated on July 30, 2003.
- (2) On November 13, 2002, and December 6, 2002, Beta made capital contributions of Ps.28,015 (Ps.25,102 historical value) and Ps.35,924 (Ps.29,844 historical value), respectively in Casas Beta del Centro S.A. de C.V. ("Casas Beta"), increasing its ownership in Casas Beta to 89.9%.

These transactions generated an excess of recorded value over cost of subsidiary of Ps.118,695, which was recorded as a contribution from stockholders in stockholders' equity for the year ended December 31, 2002, as a result of the companies being under common control prior to the merger.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002
(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

2. Basis of presentation (Continued)

The following entities are accounted for using the equity method of accounting:

<u>Entity</u>	<u>Main activity</u>	<u>Ownership %</u>	
		<u>2004</u>	<u>2003</u>
Compañía Mexicana de Block, S.A. de C.V.	Manufacturer of concrete elements for the construction industry.	19.99	19.99
Promotora Residencial Huehuetoca, S.A. de C.V.	Manufacturer of concrete elements for the construction industry.	50.00	50.00

- c. **Comprehensive income**—Represents changes in stockholders' equity during the year, for concepts other than distributions and activity in contributed common stock, and is comprised of the net income of the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting the consolidated statements of income. In 2004, 2003, and 2002 other comprehensive income consisted only of the net income for the year.
- d. **Reclassifications**—Certain amounts in the financial statements as of December 31, 2003 and for the years ended December 31, 2003 and 2002 have been reclassified in order to conform to the presentation of the consolidated financial statements as of and for the year ended December 31, 2004.

3. Summary of significant accounting policies

The accounting policies followed by the Company are in conformity with Mexican GAAP, which requires that management make certain estimates and use certain assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Although these estimates are based on management's best knowledge of current events, actual results may differ. The significant accounting policies of the Company are as follows:

- a. **Recognition of the effects of inflation**—The Company restates its consolidated financial statements to Mexican peso purchasing power as of June 30, 2005. Accordingly, the consolidated financial statements for the years ended December 31, 2004, 2003 and 2002 have been restated to Mexican pesos of purchasing power of June 30, 2005 and, therefore, differ from those originally reported in prior years.

The following describes the method used to update the financial statements to constant pesos:

- **Inventories and cost of sales**—Inventories mainly consist of land, permits, materials, labor, and direct and indirect costs that are incurred during the construction process, which are initially recorded at acquisition cost and restated using the National Consumer Price Index (NCPI). Cost of sales is also restated by applying such index.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002
(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

3. Summary of significant accounting policies (Continued)

Financing cost incurred during the construction of the development is capitalized. The Company capitalized financing cost arising from mortgage bridge loans that relate to the construction process. The financing costs capitalized in 2004, 2003 and 2002 are Ps.68,396, Ps.50,070, and Ps.38,152, respectively.

- **Property and equipment**—Property and equipment are initially recorded at acquisition cost and restated using the NCPI. Depreciation and amortization, except for the construction molds, are calculated using the straight-line method based on the remaining useful lives of the related assets, as follows:

	<u>Years</u>
Buildings and construction	18
Office furniture and equipment	9
Construction equipment	5
Leasehold improvements	4
Computers	3
Transportation equipment	2

The construction molds are depreciated based on the estimated production of 4,400 housing units and 2000 Rio prototype units, respectively. At December 31, 2004 and 2003, the remaining useful lives in units to be produced are 26,068 and 25,365, respectively.

- **Stockholders' equity**—Stockholders' equity is restated using the NCPI as of the dates when the stockholders' equity was contributed or the dates when the income was generated, to the date as of which the financial statements are restated.
 - **Monetary position result**—The monetary position result, which represents the erosion of purchasing power of monetary items caused by inflation, is calculated by applying NCPI factors to monthly net monetary position. Losses result from maintaining a net monetary asset position.
- b. **Temporary investments**—Temporary investments are stated at the lower of acquisition cost plus accrued yields, or estimated net realizable value.
- c. **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 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 purposes of measurement 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.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002
(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

3. Summary of significant accounting policies (Continued)

- d. ***Deferred debt issuance costs***—Represent costs incurred in connection with the issuance of debenture bonds (“certificados bursátiles”), and are recorded at cost and restated using the INPC. Amortization is calculated using the unpaid balance based on the maturity date of the debt.
- e. ***Employee retirement obligations***—Seniority premiums and pension plans are recognized as costs over employee years of service and are calculated by the Company. Severance is charged to results when the liability is determined to be payable. Due to the low level of seniority for the majority of the Company’s employees, the liability for employee retirement obligations is not significant at December 31, 2004 and 2003.
- f. ***Provisions***—Provisions are recognized for obligations that result from a past event, that are probable to result in the use of economic resources and that can be reasonably estimated.
- g. ***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 income in the consolidated statements of income.
- h. ***Income tax, tax on assets and employee statutory profit sharing***—Income taxes (ISR) and employee statutory profit sharing (PTU) are recorded in results of the year in which they are incurred. Deferred income tax assets 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 tax on assets 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.

- i. ***Revenue and cost recognition***—Revenues from the Company’s activities as a developer are recorded using 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. The Company begins applying the percentage-of-completion method when the following conditions have been met:
 - The Company establishes that the homebuyer will obtain the required financing from the mortgage lender;
 - The homebuyer has submitted all required documents in order to obtain the financing from the mortgage lender;

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Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002
(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

3. Summary of significant accounting policies (Continued)

- The homebuyer has signed a purchase agreement; and
- The homebuyer has made a down payment where down payments are required.

Project costs include all direct materials and labor, as well as the cost of land purchases, direct and indirect costs, including financing cost. Provisions for losses derived from estimates or contracts are recognized during the period in which such amounts are determinable.

4. Trade accounts receivable

Trade accounts receivable consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Unbilled revenues on developments in progress(1)	Ps.1,141,408	Ps.700,680
Recoverable taxes	15,056	10,205
Officers and employees	8,584	6,744
Other	2,738	1,507
	<u>Ps.1,167,786</u>	<u>Ps.719,136</u>

- (1) 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.

5. Inventories

Inventories consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Construction-in-progress	Ps. 226,052	Ps. 180,011
Land held for future development	200,582	55,583
Construction materials	46,240	21,548
Advances to suppliers	16,062	3,675
	488,936	260,817
Current portion of real estate inventories	(296,786)	(205,234)
Land held for future development	<u>Ps. 192,150</u>	<u>Ps. 55,583</u>

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002
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6. Property, machinery and equipment

Property, machinery and equipment consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Construction equipment	Ps. 62,603	Ps. 53,950
Computers	26,068	22,911
Transportation equipment	10,017	8,607
Buildings and construction	9,992	9,911
Construction equipment acquired under capital leases	7,746	—
Office furniture and equipment	6,997	5,541
Leasehold improvements	3,440	1,425
	<u>126,863</u>	<u>102,345</u>
Accumulated depreciation	<u>(43,151)</u>	<u>(33,940)</u>
	<u>83,712</u>	<u>68,405</u>
Construction molds	46,302	31,044
Accumulated depreciation	<u>(20,028)</u>	<u>(8,023)</u>
	<u>26,274</u>	<u>23,021</u>
	<u>Ps.109,986</u>	<u>Ps. 91,426</u>

7. Trust funds

As discussed in Note 11 to the financial statements, on July 6, 2004, the Company implemented a program to issue medium term debt certificates (the “Certificates”) guaranteed by the land reserve, the development of real estate projects and housing construction. The Certificates are secured pursuant to a Trust Agreement, by the following:

- A cash reserve equal to 25% of the unpaid balance of the Certificates.
- The land and development acquired with the proceeds of the Certificates, and
- Certain proceeds realized from the sale of developed homes

At December 31, 2004, the cash reserve balance in respect of the Certificates is Ps.126,539, as shown on the balance sheet net of long-term liabilities.

(See Note 11, which explains the legal capacity of the Trust and its members)

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002
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8. Investment in equity method investees

Investments in equity method investees is as follows at December 31:

2004				
	<u>Ownership %</u>	<u>Stockholders' equity</u>	<u>Investment balance</u>	<u>Equity in earnings</u>
Compañía Mexicana de Block, S.A. de C.V.	19.99	Ps.4,926	Ps. 985	Ps. 474
Promotora Residencial Huehuetoca, S.A. de C.V.	50.00	655	329	2,113
		5,581	1,314	2,587
Contributions for acquisition of shares(1)		—	62,993	—
Total		<u>Ps.5,581</u>	<u>Ps.64,307</u>	<u>Ps.2,587</u>

2003				
	<u>Ownership %</u>	<u>Stockholders' equity</u>	<u>Investment balance</u>	<u>Equity in losses</u>
Compañía Mexicana de Block, S.A. de C.V.	19.99	Ps. 7,628	Ps.2,518	Ps. —
Promotora Residencial Huehuetoca, S.A. de C.V.	50.00	4,838	2,418	(2,215)
Total		<u>Ps.12,466</u>	<u>Ps.4,936</u>	<u>Ps.(2,215)</u>

- (1) On October 7 and 12, 2004, the Company made contributions based upon a contractual agreement for the acquisition of 50% of the shares of Super Abastos Centrales Comerciales S.A de C.V, for the purpose of developing a housing complex.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002
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9. Notes payable to financial institutions

Notes payable to financial institutions consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Bridge loan guaranteed by inventories, bearing interest at the TIIE rate plus 3%, maturing in 24 months from the date of advance or at the date on which title passes to the home buyer.	Ps. 96,811	Ps. —
Bridge loan guaranteed by inventories, bearing interest at the TIIE rate plus 3.75%, maturing in 18 months from the date of advance or at the date on which title pass to the home buyer.	52,585	—
Bridge loan guaranteed by inventories, bearing interest at the TIIE plus 3.75%, maturing in 18 months from the date of advance or at the date on which the title passes to the home buyer.	25,884	—
Bridge loans guaranteed by inventories, bearing interest at the TIIE plus 3.5%, maturing in 24 months from the date of advance or at the date on which the title passes to the home buyer.	8,225	—
Capital lease obligations denominated in U.S. dollars for the acquisition of construction equipment, payable on July 2006, bearing interest at a rate that fluctuates from 6% to 8% at December 31, 2004,.	9,152	6,073
Capital lease obligations for the acquisition of construction equipment, payable on December 2007, bearing interest at a rate that fluctuates from 10% to 17.40% at December 31, 2004.	8,985	4,077
Term loan for the acquisition of machinery and equipment bearing interest at the TIIE plus 5%, payable in 12 months from the date of advance.	1,071	5,078
Bridge loans guaranteed by real estate inventories, bearing interest at a rate that fluctuates from TIIE rate plus 5%, to TIIE rate plus 3.375%, maturing in a range from 12 to 24 months or at the date on which the title passes to the home buyer(1).	—	266,065
Note payable denominated in U.S. dollars for the acquisition of the construction molds for home construction, payable on March 2004, bearing interest at an annual rate of 6%.	—	660
Term loan payable on December 31, 2005, bearing annual interest at 17% and term loan, payable in 2006, bearing interest at the TIIE plus 3.6%. Both term loans are guaranteed by machinery and equipment with a net book value of Ps.4,480.(1)	—	2,563
	202,713	284,516
Current portion of long-term debt	(194,285)	(164,884)
	<u>Ps. 8,428</u>	<u>Ps. 119,632</u>

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Notes to Audited Consolidated Financial Statements (Continued)

For the years ended December 31, 2004, 2003 and 2002
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9. Notes payable to financial institutions (Continued)

The scheduled maturities of notes payable to financial institutions at December 31, 2004, are as follows:

<u>Year</u>	
2006	Ps.5,433
2007	2,995
	<u>Ps.8,428</u>

TIIE.—Interbank Equilibrium Rate as defined by the Central Bank of Mexico. At December 31, 2004 and 2003, TIIE was 8.95% and 6.28%, respectively.

(1) These loans were either prepaid or paid when the title passes to the homebuyer.

10. Land purchases

The Company has executed purchase contracts for the following parcels of land:

	<u>2004</u>	<u>2003</u>
Contract for a total amount of Ps.34,000, payable 2005.	Ps. 34,269	Ps. —
Contract for a total amount of Ps.61,331 payable 2005.	41,686	—
Contract for a total amount of \$4,600,000 US dollars equivalent to \$51,289 payable in 24 months.	51,694	—
Contract for a total amount of Ps.31,500, payable 2005	23,812	—
Other land suppliers payable 2005	22,494	—
Contract for a total amount of Ps.46,535, payable 2005(1).	—	42,027
Contract for a total amount of Ps.21,235, payable 2005(1)	—	5,826
Contract for a total amount of Ps.77,006, payable 2004.	7,757	53,038
	<u>181,712</u>	<u>100,891</u>
Current portion of long-term debt	(181,712)	(53,038)
	<u>Ps. —</u>	<u>Ps. 47,853</u>

(1) These loans were prepaid during the year ended December 31, 2004

11. Long term liabilities

On June 30, 2004, the National Banking and Securities Commission (“CNBV”) authorized the Company to issue secured medium-term debt Certificates for an amount not exceeding Ps.800,000 to finance real estate developments.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2004 and 2003

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

11. Long term liabilities (Continued)

On July 8, 2004, the Company made the first issuance and public placement of 4,000,000 medium term debt certificates at par value of Ps.100 pesos each, for a total amount of Ps.400,000 payable in six equal, consecutive quarterly amounts through January 8, 2008, with maturity of the residual amount on July 8, 2009. The Certificates bear interest at the TIIE rate plus 2.7 percentage points. At December 31, 2004, the applicable interest rate was 11.65%.

As established in its contract of formation, the Trust can only utilize the benefits held to fulfill its legal purpose, which primarily includes using the resources derived from issuing the Certificates to acquire land reserves, develop real estate projects, build housing and pay the Certificates upon maturity. Consequently, the Trust cannot grant loans or perform financial transactions other than those specified in its Trust contract. The resources obtained from issuing the Certificates are shown as a liability on the Company's balance sheet.

Following the issuance of the Certificates, the Company has obtained the amount of Ps.400,000 from the Trust to finance the acquisition of land reserves, develop real estate projects and build housing. At December 31, 2004, the Company had cash collateral pledged in respect of the Certificates of Ps.126,539 resulting in net liability at December 31, 2004, of Ps.275,621 (see Note 7 regarding contributions made to the Trust and cash reserves).

The scheduled maturities of long-term debt at December 31, 2004, are as follows:

<u>Year</u>	
2008	Ps.157,498
2009	<u>118,123</u>
	<u>Ps.275,621</u>

Controladora Casas Beta, S.A. de C.V. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2004 and 2003

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

12. Stockholders' equity

- a. Stockholders' equity consisted of the following as of December 31, 2004 and 2003:

2004				
	Number of shares	Historical	Restatement effect	Total
Fixed capital, series I	500	Ps. 50	Ps. 13	Ps. 63
Variable capital, series II	309,500	258,772	23,587	282,359
	310,000	258,822	23,600	282,422
Legal reserve		10,150	611	10,761
Retained earnings		414,977	1,684	416,661
Total	<u>310,000</u>	<u>Ps.683,949</u>	<u>Ps.25,895</u>	<u>Ps.709,844</u>

2003				
	Number of shares	Historical	Restatement effect	Total
Fixed capital, series I	500	Ps. 50	Ps. 14	Ps. 64
Variable capital, series II	309,500	258,772	23,586	282,358
	310,000	258,822	23,600	282,422
Legal reserve		10,150	611	10,761
Retained earnings		110,300	(723)	109,577
Total	<u>310,000</u>	<u>Ps.379,272</u>	<u>Ps.23,488</u>	<u>Ps.402,760</u>

Common stock consists of shares, without par value, 500 shares correspond to fixed capital and 309,500 shares correspond to variable capital.

- b. The extraordinary general stockholders' meeting held on December 18, 2003, resolved to:
- 1) Increase variable capital by capitalizing contributions made during fiscal 2003 for the amount of Ps. 9,483 (Ps.8,544 historical pesos)
 - 2) Increase variable capital by the amount of Ps.203,748 by capitalizing additional capital contributions and retained earnings for the net amounts of Ps.118,695 and Ps.85,053, respectively.
 - 3) Separate the amount of Ps.10,761 (Ps.10,150 at face value) from retained earnings to create the legal reserve required by Article 20 of the Mexican general corporate law.
- c. The extraordinary general stockholders' meeting held on November 13, 2002, resolved to:
- 1) Increase variable capital by capitalizing contributions for the amount of Ps.26,470 (Ps.23,596 historical pesos)
 - 2) Decrease variable capital by the reimbursement of 245 nominative shares for the amount of Ps.12 (Ps.10 historical pesos).

Controladora Casas Beta, S.A. de C.V. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2004 and 2003

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

12. Stockholders' equity (Continued)

- d. Pursuant to a resolution of the extraordinary general stockholders' meeting held on December 6, 2002, variable common stock was increased by 10,000 Series II shares for Ps.12, through the capitalization of contributions made during fiscal 2002 (\$10 historical pesos).
- e. Retained earnings includes the statutory legal reserve. The Mexican 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. At December 31, 2004 and 2003, the legal reserve, in historical pesos, was Ps.10,150.
- f. 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 2004, the ISR rate was 33%; it will decrease to 30% in 2005, and subsequently one percentage point each year, until reaching 28% in 2007. 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.
- g. The balances of the tax accounts of stockholders' equity at December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Contributed capital account	<u>Ps.72,542</u>	<u>Ps.72,542</u>

13. Foreign currency balances and transactions

- a. At December 31, 2004 and 2003 the foreign currency monetary position is as follows:

	<u>2004</u>	<u>2003</u>
	<u>(Thousand of US dollars)</u>	
Monetary liabilities	<u>(5,409)</u>	<u>(929)</u>
Equivalent in Mexican pesos	<u>Ps.(61,159)</u>	<u>Ps.(10,522)</u>

- b. Exchange rates in effect at the dates of the consolidated balance sheets and of issuance of the consolidated financial statements were as follows:

	<u>December 31,</u>		<u>March 18,</u>
	<u>2004</u>	<u>2003</u>	<u>2005</u>
Pesos per U.S. dollar	Ps.11.2183	Ps.11.2372	Ps.11.2276

14. Transactions and balances with related parties

- a. Transaction with related parties, carried out in the ordinary course of business, were real estate purchases in 2004 and 2003 for Ps.6,810 and Ps.9,392 respectively.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2004 and 2003
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14. Transactions and balances with related parties (Continued)

b. Balances receivable and payable with related parties are as follows::

	<u>2004</u>	<u>2003</u>
Due from related parties:		
Compañía Mexicana de Block, S.A. de C.V.	Ps.4,878	Ps.5,349
Other	404	474
	<u>Ps.5,282</u>	<u>Ps.5,823</u>
Due to related parties:		
Promotora Residencial Huehuetoca, S.A. de C.V.	Ps. —	Ps.2,427
	<u>Ps. —</u>	<u>Ps.2,427</u>

15. Income taxes, tax on assets and employee statutory profit sharing

In accordance with Mexican tax law, the Company is subject to income tax (ISR) and tax on assets (IMPAC), which take into consideration the taxable and deductible effects of inflation. The ISR rate was 33% in 2004 and 34% in 2003.

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.

On December 1, 2004, certain amendments to the ISR and IMPAC Laws were published and are effective as of 2005. The primary amendments were as follows: (a) the ISR rate was reduced to 30% in 2005, 29% in 2006 and 28% as of 2007; (b) for income tax purposes, cost of sales will be deducted instead of inventory purchases; (c) in 2005, an option was established to amortize inventories at December 31, 2004 into taxable income over a period from 4 to 12 years determined in conformity with the respective tax rules; when electing to amortize inventories into taxable income, any unamortized balance of inventories under Rule 106 and unamortized tax loss carryforwards must be deducted from the inventory balance; inventories may be deducted as sold; (d) as of 2006, the employee statutory profit sharing paid will be fully deductible; (e) the deduction or accrual of the effect of inflation is now applicable to essentially all monetary assets and liabilities and (f) bank liabilities and liabilities with foreign entities are included in the determination of the IMPAC taxable base.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2004 and 2003

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15. Income taxes, tax on assets and employee statutory profit sharing (Continued)

- a. Income tax consists of the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
ISR:			
Current	Ps. —	Ps. 8,971	Ps. 676
IMPAC Current	152	—	—
Deferred	188,293	82,728	40,919
Effect of reduction in statutory rate on deferred ISR	(39,500)	(4,435)	(4,061)
	<u>Ps.148,945</u>	<u>Ps.87,264</u>	<u>Ps.37,534</u>

To determine deferred ISR at December 31, 2004, the Company applied the different tax rates that will be in effect beginning in 2005 to temporary differences according to their estimated dates of reversal. In addition, in accordance with tax regulations in effect as of 2005, the Company's management elected to amortize the tax inventory of Ps.578,998 at December 31, 2004 into taxable income over a 4 to 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. The result derived from applying the different tax rates is shown in the table below under effect of reduction in statutory rate on deferred ISR.

- b. Reconciliation of the statutory ISR rate and the effective rate as a percentage of income before ISR and PTU for fiscal 2003 is shown below. The effective ISR rate for fiscal 2004 and 2002 differs from the statutory rate, mainly due to permanent differences such as nondeductible expenses and the effects of inflation.

	<u>2003</u> <u>%</u>
Statutory rate	34.00
Add (less) the effect of permanent differences:	
Nondeductible expenses	4.65
Effects of inflation, net	4.78
Effect of reduction in statutory rate on deferred ISR	(0.02)
Effective rate	<u>43.41</u>

Controladora Casas Beta, S.A. de C.V. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2004 and 2003

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

15. Income taxes, tax on assets and employee statutory profit sharing (Continued)

- c. The main items comprising the liability balance of deferred ISR are:

	<u>2004</u>	<u>2003</u>
Deferred ISR (liability) asset:		
Trade accounts receivable	Ps.(243,044)	Ps.(182,491)
Property, machinery and equipment	(10,170)	(6,118)
Inventories	(175,259)	(79,862)
Advances to suppliers	(6,814)	(3,225)
Other assets	(421)	(525)
Advances from clients	23,563	18,416
Accrued expenses	12,460	3,590
Effects of tax loss carryforwards	60,161	49,781
	<u>(339,524)</u>	<u>(200,434)</u>
Recoverable tax on asset paid	2,256	2,208
Change in valuation allowance on recoverable tax on assets paid	<u>—</u>	<u>(209)</u>
Total liability—net	<u>Ps.(337,268)</u>	<u>Ps.(198,435)</u>

- d. At December 31, 2004 and 2003, the Company has taxable temporary differences related to deferred PTU, mainly related to inventories, for which the respective deferred PTU liability was not recorded because the Company believes that they will not reverse due to the continued and recurring nature of its transactions. As a result of the tax amendments published on December 1, 2004, the Company recorded a net deferred PTU liability of Ps.3,340 related to inventory temporary differences, since cost of sales will now be deducted in place of inventory purchases, as mentioned in paragraph three of this note.
- e. Tax loss carryforwards and recoverable IMPAC for which the deferred ISR asset and prepaid ISR, respectively, have been recognized and can be recovered subject to certain conditions. Restated amounts as of December 31, 2004 and expiration dates are:

<u>Year of Expiration</u>	<u>Recoverable IMPAC</u>	<u>Tax Loss Carryforwards</u>
2012	Ps. 934	Ps. 23,372
2013	739	114,432
2014	583	68,541
	<u>Ps.2,256</u>	<u>Ps.206,345</u>

Controladora Casas Beta, S.A. de C.V. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2004 and 2003

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

16. New accounting principles

In May 2004, the IMCP issued Bulletin B-7, "Business Acquisitions" ("B-7"), whose application is mandatory for financial statements of periods beginning on January 1, 2005, although early adoption is encouraged. B-7 provides updated rules for the accounting treatment of business acquisitions and investments in associated entities. It establishes, among others; the adoption of the purchase method as the only accounting method for business combinations; it eliminates the amortization of goodwill, which is now subject to the impairment rules; it establishes rules for the accounting treatment of asset transfers or share exchange among entities under common control as well as for the acquisition of minority interest based on the provisions of Bulletin B-8, "Consolidated and combined financial statements and valuation of permanent investments in shares."

In April 2004, the IMCP issued Bulletin C-10, "Derivative instruments and hedging activities" ("C-10"), whose application is mandatory for financial statements of periods beginning on January 1, 2005, although early adoption is encouraged.. In general, C-10 establishes that for fair value hedges, any variances in the fair value, both of the derivative and the underlying, must be reflected in current earnings when such variances occur; for cash flow hedges, the effective portion of fair value variances must be recognized in other comprehensive income in stockholders' equity, while the ineffective portion must affect current earnings.

With respect to derivative financial instruments, the C-10 establishes the conditions that must be met for an instrument to be considered as such, and revises and adds definitions. It also includes rules regarding the elements involved in hedging activities, including the formal documentation at the inception of each hedge and measurement of its effectiveness during its term, among others; C-10 classifies hedges into three categories: (a) fair value hedges, (b) cash flow hedges and (c) foreign currency hedges, and provides specific rules by type of hedge, for their valuation, recognition, presentation and disclosure.

In April 2004, the IMCP issued Amendments to Bulletin C-2, "Financial instruments" ("C-2"), whose application is mandatory for financial statements of periods beginning on January 1, 2005, although early adoption is encouraged. Revised C-2 basically establishes that any variances in the fair value of financial instruments classified as available for sale must be recognized in other comprehensive income and reclassified to current earnings upon sale of such instruments; revised C-2 includes the possibility of making transfers among some of the categories under which financial instruments are classified, provided that conditions and rules for their accounting recognition are met. It also extends the applicability of impairment rules to financial instruments available for sale and provides more precise rules for their recognition.

In January 2004, the IMCP issued revised Bulletin D-3, "Labor obligations" ("D-3"), which replaces the concept of unforeseen severance payments that are recognized in earnings of the period in which the payment decision is made, with that of "Severance payments at the end of the work relationship," defined as payments granted to employees when they conclude their labor relationship before reaching retirement age, for which the valuation and disclosure rules applicable to pension and seniority premium payments must be followed.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2004 and 2003
(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

16. New accounting principles (Continued)

Revised D-3 is mandatory as of January 1, 2005, but grants the option to immediately recognize in earnings the resulting transition asset or liability, or to amortize it over the average remaining labor life of employees.

The Company believes that adoption of these new accounting principles will not have any material effect on its financial position and results of operations.

17. Subsequent event

On June 14, 2005, the shareholders of Beta and Desarrolladora Homex, S.A. de C.V. ("Homex") executed an amendment to the share purchase agreement dated April 21, 2005. The purchase price for the Company was approximately Ps.2,041.5 million (US\$188.9 million). The acquisition of the Company involved the purchase of 53.0% of the Company's stock for approximately Ps.1,063.9 million (US\$98.4 million) in cash and the purchase of the remaining 47.0% of the Company's stock in exchange for 22.0 million of Homex's common shares valued at Ps.977.6 million (US\$90.5 million). Following the acquisition, the Company was merged into Homex, with Homex being the surviving entity. As a result of the acquisition of the Company, former shareholders of the Company own approximately 6.6% of Homex's capital stock.

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Controladora Casas Beta, S.A. de C.V. and Subsidiaries

Condensed Consolidated Balance Sheets

As of June 30, 2005 and December 31, 2004

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	June 30, 2005 (Unaudited) (Convenience translation, Note 1)	June 30, 2005 (Unaudited)	December 31, 2004
Assets			
Current assets:			
Cash and temporary investments	\$ 3,882	Ps. 41,816	Ps. 95,115
Trade accounts receivable	142,182	1,596,216	1,167,786
Due from related parties	—	—	5,282
Inventories	33,941	365,610	296,786
Prepaid expenses	248	2,671	3,938
Total current assets	<u>186,253</u>	<u>2,006,313</u>	<u>1,568,907</u>
Land held for future development	17,658	190,216	192,150
Property, plant and equipment—net	10,253	110,441	109,986
Investment in equity method investees	30	326	64,307
Goodwill	1,122	12,087	—
Deferred debt issuance cost, net of amortization of Ps.1,227 and Ps 1,053	792	8,531	8,782
Total	<u><u>\$216,108</u></u>	<u><u>Ps.2,327,914</u></u>	<u><u>Ps.1,944,132</u></u>
Liabilities and stockholders' equity			
Current liabilities:			
Notes payable to financial institutions	\$ 31,652	Ps. 337,982	Ps. 194,285
Trade accounts payable	19,228	207,131	156,187
Amounts payable for land purchases	9,341	100,617	181,712
Due to related parties	—	—	—
Accrued expenses and taxes other than income taxes	3,047	32,825	14,658
Employee statutory profit sharing	145	1,559	1,440
Total current liabilities	<u>63,412</u>	<u>680,114</u>	<u>548,282</u>
Long-term notes payable to financial institutions	—	2,971	8,428
Long-term debt	25,178	271,221	275,621
Long-term amounts payable for land purchases	—	—	—
Deferred income tax	35,517	382,584	337,268
Deferred employee statutory profit sharing	308	3,314	3,340
Total liabilities	<u>124,415</u>	<u>1,340,204</u>	<u>1,172,939</u>
Contributions for future common stock increases	—	—	500
Stockholders' equity:			
Common stock	24,088	259,472	258,822
Restatement of common stock	2,191	23,600	23,600
Legal reserve	999	10,761	10,761
Retained earnings	56,896	612,886	416,661
Majority stockholders' equity	<u>84,174</u>	<u>906,719</u>	<u>709,844</u>
Minority interest in consolidated subsidiaries	7,519	80,991	60,849
Total stockholders' equity	<u>91,693</u>	<u>987,710</u>	<u>770,693</u>
Total	<u><u>\$216,108</u></u>	<u><u>Ps.2,327,914</u></u>	<u><u>Ps.1,944,132</u></u>

See accompanying notes to unaudited condensed consolidated financial statements.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries

Condensed Consolidated Statements of Income

For the six-month periods ended June 30, 2005 and 2004

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	2005 (Unaudited) (Convenience translation, Note 1)	2005 (Unaudited)	2004 (Unaudited)
Revenues	\$115,121	Ps.1,240,082	Ps.1,038,367
Costs	87,975	947,663	821,320
Gross profit	27,146	292,419	217,047
Administrative expenses	8,850	95,335	62,620
Income from operations	18,296	197,084	154,427
Other expense (income)—net	4	42	(29)
Net comprehensive financing (income) cost:			
Interest income	(290)	(3,120)	(282)
Interest expense	274	2,955	1,064
Exchange (gain) loss—net	(3)	(32)	436
Monetary position (gain) loss	(457)	(4,931)	11,138
	<u>(476)</u>	<u>(5,128)</u>	<u>12,356</u>
Income before income taxes, employee statutory profit sharing and equity in earnings of equity method investees	18,768	202,170	142,100
Income taxes and employee statutory profit sharing ...	4,591	49,452	45,933
Income before equity in earnings of equity method investees	14,177	152,718	96,167
Equity in earnings of equity method investees	—	—	830
Consolidated net income	<u>\$ 14,177</u>	<u>Ps. 152,718</u>	<u>Ps. 96,997</u>
Net income of majority stockholders	12,567	135,376	91,151
Net income of minority stockholders	1,610	17,342	5,846
Consolidated net income	<u>\$ 14,177</u>	<u>Ps. 152,718</u>	<u>Ps. 96,997</u>

See accompanying notes to unaudited condensed consolidated financial statements.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity

For the six-month periods ended June 30, 2005 and 2004

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	Common stock historical amount	Common stock restated amount	Legal reserve	Retained earnings	Minority interest in consolidated subsidiaries	Total stockholders' equity
Balances as of January 1, 2004	Ps.258,822	Ps.23,600	Ps.10,761	Ps.109,577	Ps. 36,924	Ps.439,684
Comprehensive income (unaudited)	—	—	—	91,151	5,846	96,997
Balances as of June 30, 2004 (unaudited)	Ps.258,822	Ps.23,600	Ps.10,761	Ps.200,728	Ps. 42,770	Ps.536,681
Balances as of January 1, 2005	Ps.258,822	Ps.23,600	Ps.10,761	Ps.416,661	Ps. 60,849	Ps.770,693
Dilution of minority interest (unaudited)	—	—	—	60,849	(60,849)	—
Issuance of common stock (unaudited)	650	—	—	—	—	650
Contributions of minority interest (unaudited)	—	—	—	—	63,649	63,649
Comprehensive income (unaudited)	—	—	—	135,376	17,342	152,718
Balances as of June 30, 2005 (unaudited)	<u>Ps.259,472</u>	<u>Ps.23,600</u>	<u>Ps.10,761</u>	<u>Ps.612,886</u>	<u>Ps. 80,991</u>	<u>Ps.987,710</u>
(Convenience translation, Note 1)						
Balances as of January 1, 2005 . . . \$	24,027	\$ 2,191	\$ 999	\$ 38,680	\$ 5,649	\$ 71,546
Dilution of minority interest (unaudited)	—	—	—	5,649	(5,649)	—
Issuance of common stock (unaudited)	60	—	—	—	—	60
Contributions of minority interest (unaudited)	—	—	—	—	5,909	5,909
Comprehensive income (unaudited)	—	—	—	12,567	1,610	14,177
Balances as of June 30, 2005 (unaudited)	<u>\$ 24,087</u>	<u>\$ 2,191</u>	<u>\$ 999</u>	<u>\$ 56,896</u>	<u>\$ 7,519</u>	<u>\$ 91,692</u>

See accompanying notes to unaudited condensed consolidated financial statements.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Condensed Consolidated Statements of Changes in Financial Position

For the six-month periods ended June 30, 2005 and 2004

(in thousands of U.S. dollars (\$) and thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	2005 (Unaudited) (Convenience translation, Note 1)	2005 (Unaudited)	2004 (Unaudited)
Operating activities:			
Net income	\$ 14,177	Ps. 152,718	Ps. 96,997
Items that did not require (generate) resources:			
Equity in earnings of equity method investees	—	—	830
Depreciation and amortization	842	9,065	9,010
Deferred income taxes and employee statutory profit sharing	4,204	45,290	37,364
	<u>19,200</u>	<u>207,073</u>	<u>144,201</u>
Changes in operating assets and liabilities			
(Increase) decrease in:			
Trade accounts receivable	(39,773)	(428,430)	(330,450)
Inventories	(6,210)	(66,890)	(25,431)
Prepaid expenses	118	1,267	—
(Increase) decrease in:			
Due to related parties	490	5,282	6,488
Trade accounts payable	3,528	38,007	13,645
Amounts payable for land purchases	(7,528)	(81,095)	—
Accrued expenses and taxes other than income taxes	1,687	18,167	(1,522)
Deferred employee statutory profit sharing	11	119	—
Net resources used in operating activities	<u>(28,453)</u>	<u>(306,500)</u>	<u>(193,069)</u>
Financing activities:			
Notes payable to financial institutions—net	14,034	151,177	139,899
Long term debt—net	(408)	(4,400)	—
Contributions of minority interest	5,909	63,649	—
Contributions for future common stock increases	(46)	(500)	—
Issuance of common stock	60	650	—
Net resources generated by financing activities	<u>19,548</u>	<u>210,576</u>	<u>139,899</u>
Investing activities:			
Acquisition of property, plant and equipment	(860)	(9,269)	(11,772)
Goodwill	(1,122)	(12,087)	—
Investment in associated companies	5,940	63,981	2,418
Net resources generated by (used in) investing activities	<u>3,957</u>	<u>42,625</u>	<u>(9,354)</u>
Cash and temporary investments:			
Net decrease	(4,948)	(53,299)	(62,524)
Balance at beginning of period	8,830	95,115	75,115
Balance at end of period	<u>\$ 3,882</u>	<u>Ps. 41,816</u>	<u>Ps. 12,591</u>

See accompanying notes to unaudited condensed consolidated financial statements.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
For the six-month periods ended June 30, 2005 and 2004
(in thousands of Mexican pesos of purchasing power as of June 30, 2005)

1. Basis of presentation and principles of consolidation

Basis of presentation—The unaudited condensed consolidated financial statements of Controladora Casas Beta, S.A. de C.V. (“Beta”) and its subsidiaries (the “Company”) included herein have been prepared in accordance with generally accepted accounting principles in Mexico (“Mexican GAAP”) and are unaudited. Certain information and footnote disclosures normally prepared in accordance with Mexican GAAP have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information not misleading. The condensed consolidated balance sheet at December 31, 2004 is derived from the December 31, 2004 audited financial statements but does not include all disclosures required by Mexican GAAP. These unaudited condensed financial statements should be read in connection with the Company’s audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2004.

The unaudited condensed consolidated financial information included herein reflects all adjustments, consisting only of normal recurring adjustments, which are necessary, in the opinion of management, for a fair presentation of the Company’s consolidated financial position and consolidated results of operations, changes in stockholders’ equity and changes in financial position for the interim periods presented. The results of operations for interim periods are not necessarily indicative of the results to be expected for an entire year.

The unaudited condensed consolidated financial statements are stated in Mexican pesos, the currency of the country in which the Company is incorporated and operates. The translations of Mexican peso 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.10.7720 per one U.S. dollar, the noon buying rate of the Federal Reserve Bank of New York on June 30, 2005. Such translation 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.

Principles of consolidation of financial statements—The unaudited consolidated financial statements include those of Beta, and its consolidated subsidiaries, material intercompany balances and transactions have been eliminated in these unaudited consolidated financial statements. Equity interests of unaffiliated shareholders in consolidated subsidiaries are reflected as minority interest.

In June 2005, Casas Beta del Centro, S.A. de C.V. (“Casas Beta”) repurchased the equity interest of its minority stockholders. As a result of such repurchase, Beta’s ownership interest in Casas Beta increased from 89.9% to 99.9%. This transaction generated a dilution of the minority interest of Ps.60,849, which was recorded as an increase in retained earnings and a decrease in minority interest.

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
For the six-month periods ended June 30, 2005 and 2004
(in thousands of Mexican pesos of purchasing power as of June 30, 2005)

2. Inventories

Inventories consist of the following:

	June 30, 2005 (Unaudited)	December 31, 2004
Construction-in-progress	Ps.309,143	Ps.226,052
Land held for future development	190,216	200,582
Construction materials	37,273	46,240
Advances to suppliers	19,264	16,062
	<u>555,896</u>	<u>488,936</u>
Current portion of real estate inventories	<u>(365,610)</u>	<u>(296,786)</u>
Land held for future development	<u>\$ 190,216</u>	<u>\$ 192,150</u>

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
For the six-month periods ended June 30, 2005 and 2004
(in thousands of Mexican pesos of purchasing power as of June 30, 2005)

3. Notes payable to financial institutions

Notes payable to financial institutions consist of the following:

	<u>June 30, 2005</u> <u>(Unaudited)</u>	<u>December 31, 2004</u>
Bridge loan secured by inventories, bearing interest at the Interbank Equilibrium Rate as defined by the Central Bank of Mexico ("TIIE") rate plus 3%, maturing in 24 months from the date of advance or at the date on which title passes to the home buyer.	Ps. 151,725	Ps. —
Bridge loan secured by inventories, bearing interest at the TIIE rate plus 3%, maturing in 24 months from the date of advance or at the date on which title passes to the home buyer.	118,490	96,811
Bridge loan secured by inventories, bearing interest at the TIIE rate plus 3.75%, maturing in 18 months from the date of advance or at the date on which title pass to the home buyer.	25,412	52,585
Bridge loan secured by inventories, bearing interest at the TIIE rate plus 3.375%, maturing in 18 months from the date of advance or at the date on which the title passes to the home buyer.	22,225	25,884
Bridge loans secured by inventories, bearing interest at the TIIE rate plus 3.5 %, maturing in 24 months from the date of advance or at the date on which the title passes to the home buyer.	2,721	8,225
Capital lease obligations denominated in U.S. dollars for the acquisition of construction equipment, payable in July 2006, bearing interest at a rate that fluctuates from 6% to 8% at December 31, 2004.	6,349	9,152
Capital lease obligations for the acquisition of construction equipment, payable in December 2007, bearing interest at a rate that fluctuates from 10% to 17.40% at December 31, 2004.	14,031	8,985
Term loan for the acquisition of machinery and equipment bearing interest at the TIIE rate plus 5 basis points, payable in 12 months from the date of advance.	—	1,071
	340,953	202,713
Current portion of long-term debt	(337,982)	(194,285)
	<u>Ps. 2,971</u>	<u>Ps. 8,428</u>

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
For the six-month periods ended June 30, 2005 and 2004
(in thousands of Mexican pesos of purchasing power as of June 30, 2005)

3. Notes payable to financial institutions (Continued)

The scheduled maturities of notes payable to financial institutions at June 30, 2005, are as follows:

<u>Year</u>	
2007	<u>Ps. 2,971</u>

At of June 30, 2005 and December 31, 2004 the TIIE interest rate was 9.61% and 8.95%, respectively.

(1) These loans were either prepaid or paid when the title passes to the homebuyer.

4. Long term liabilities

On June 30, 2004, the National Banking and Securities Commission ("CNBV") authorized the Company to issue secured medium-term debt certificates for an amount not exceeding Ps.800,000 to finance real estate developments.

On July 8, 2004, the Company made the first issuance and public placement of 4,000,000 medium term debt certificates at par value of Ps.100 each, for a total amount of Ps.400,000 payable in six equal, consecutive quarterly amounts through January 8, 2008, with maturity of the residual amount on July 8, 2009. The Certificates bear interest at the TIIE rate plus 2.7 percentage points. At December 31, 2004, the applicable interest rate was 11.65%.

As established in its contract of formation, the Trust established to secure repayment of the Company's medium term debt certificates can only utilize the benefits held to fulfill its legal purpose, which primarily includes using the resources derived from issuing the Certificates to acquire land reserves, develop real estate projects, build housing and pay the Certificates upon maturity. Consequently, the Trust cannot grant loans or perform financial transactions other than those specified in its Trust contract. The resources obtained from issuing the Certificates are shown as a liability on the Company's balance sheet.

Following the issuance of the Certificates, the Company has obtained the amount of Ps.400,000 from the Trust to finance the acquisition of land reserves, develop real estate projects and build housing. At June 30, 2005 and December 31, 2004, the Company had cash collateral pledged in respect of the Certificates of Ps.128,779 (unaudited) and Ps.126,539, respectively, resulting in net liability at June 30, 2005 and December 31, 2004 of Ps.271,221 (unaudited) and Ps 273,461, respectively.

The scheduled maturities of long-term debt at June 30, 2005 (unaudited), are as follows:

<u>Year</u>	
2008	\$153,098
2009	<u>118,123</u>
	<u>\$271,221</u>

Controladora Casas Beta, S.A. de C.V. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements (Continued)
For the six-month periods ended June 30, 2005 and 2004
(in thousands of Mexican pesos of purchasing power as of June 30, 2005)

5. Income taxes, tax on assets and employee statutory profit sharing

In accordance with Mexican tax law, the Company is subject to income tax (ISR) and tax on assets (IMPAC), which take into consideration the taxable and deductible effects of inflation. The ISR rate was 33% in 2004 and 34% in 2003. 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.

On December 1, 2004, certain amendments to the ISR and IMPAC Laws were enacted and are effective as of 2005. The most significant amendments were as follows: a) the ISR rate was reduced to 30% in 2005, 29% in 2006, and 28% as of 2007 and thereafter; (b) for ISR purposes, cost of sales will be deducted instead of inventory purchases in the period; c) companies may elect in 2005 to ratably increase taxable income over a period from four to 12 years by the tax value of inventories on hand as of December 31, 2004 determined in conformity with the respective tax rules, which include deducting any previous tax basis of inventories and any unamortized tax loss carryforwards, and the tax basis of such inventories may be deducted as sold; d) as of 2006, paid employee statutory profit sharing will be fully deductible for ISR purposes; e) bank liabilities and liabilities with foreign entities are now included in the determination of the IMPAC taxable base.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Combined Accounts of Desarrolladora Homex, S.A. de C.V. and its Subsidiaries and Controladora Casas Beta, SA. de C.V. and its Subsidiaries

On July 1, 2005 Desarrolladora Homex, S.A. de C.V. ("Homex") acquired Controladora Casa Beta, S.A. de C.V. ("Beta"). The purchase price for Beta was approximately Ps.2,041.9 million (US\$188.9 million). The acquisition of Beta involved the purchase of 53.0% of Beta's stock for approximately Ps.1,063.9 million (US\$98.4 million) in cash and the purchase of the remaining 47.0% of Beta's stock in exchange for 22.0 million of our common shares valued at Ps.977.6 million (US\$90.5 million). Following the acquisition, Beta was merged into Homex, with Homex being the surviving entity. As a result of the Beta acquisition, former Beta shareholders own approximately 6.6% of Homex's capital stock.

Homex will account for the merger in conformity with Bulletin B-7 "Business Acquisitions" ("B-7") issued by the Mexican Institute of Public Accountants. B-7 provides rules for the accounting treatment of business acquisitions and investments in associated entities, and establishes, among other matters, the requirement to apply the purchase method of accounting for all business combinations. The following unaudited pro forma condensed combined balance sheet as of June 30, 2005 and the unaudited pro forma condensed combined statements of operations for the six-month period ended June 30, 2005 and for the year ended December 31, 2004 are based on the historical consolidated financial statements of Homex, and on the historical consolidated financial statements of Beta.

The unaudited pro forma condensed combined statements of operations give effect to the merger as if it had occurred on January 1, 2004 and the unaudited pro forma condensed combined balance sheet gives effect to the merger as if it had occurred on June 30, 2005. The two major categories of adjustments reflected in the pro forma condensed combined financial statements are "Purchase Accounting Adjustments" and "Conforming Accounting Policies."

Purchase Accounting Adjustments

Purchase accounting adjustments include adjustments necessary to (1) allocate the purchase price to the tangible and intangible assets and liabilities of Beta based on their fair values, and (2) the adjustments to recognize the effect of the merger as if it had occurred on January 1, 2004 (purchase accounting adjustment) in respect of statement of operations data. A more detailed description of each of these purchase accounting adjustments is described below.

Fair Market Value Adjustments

The unaudited pro forma condensed combined financial statements reflect the purchase price allocation based on a preliminary assessment of fair market values assigned to the assets and liabilities. Fair market values in the pro forma financial statements were determined based on preliminary consultation with independent valuation consultants, industry trends and by reference to market rates and transactions. After the closing of the merger, Homex, with the assistance of valuation consultants, will complete its evaluation of the fair value of the assets acquired. Fair market value adjustments reflected in the pro forma financial statements may be subject to significant revisions and adjustments pending finalization of those valuation studies. Significant assets and liabilities adjusted to fair market value which are subject to finalization of valuation studies include construction in progress and land held for future development.

Purchase Price Allocation

The acquisition of Beta involved the purchase of 53.0% of Beta's stock for approximately Ps.1,063.9 million (US\$98.4 million) in cash and the purchase of the remaining 47.0% of Beta's stock in

exchange for 22.0 million of our common shares, the fair value of that common stock is Ps.977.6 million (US\$90.5 million) based on the average price per share of Ps.44.41. The following table summarizes the estimated purchase price.

Fair value of our common stock issued	Ps. 977,600
Cash paid	<u>1,063,899</u>
Total purchase price	<u>Ps.2,041,499</u>

The following table summarizes the pro forma net assets acquired and liabilities assumed in connection with the merger and the preliminary allocation of the purchase price.

Current assets	Ps.1,777,555
Land held for future development	260,780
Property, plant and equipment, net	110,441
Other assets	20,944
Goodwill	1,237,141
Liabilities assumed	(1,298,050)
Minority interest	<u>(67,312)</u>
Total purchase price	<u>Ps.2,041,499</u>

Other Merger Adjustments

In connection with the merger, Homex executed a bridge loan agreement with HSBC to finance the Beta acquisition. On September 8, 2005, Homex established a new HSBC unsecured credit facility to refinance the HSBC bridge loan. Homex expects to refinance the bridge loan with the new credit facility on or prior to the September 29, 2005 maturity of the bridge loan. The new credit facility has an interest rate of TIIE plus 1% and a term of five years.

Conforming Accounting Policies

The pro forma financial statements reflect the following adjustments to conform the accounting policies of Beta with those of Homex.

a. ***Capitalization of financing cost as part of real estate inventory***

Beta is conforming its policy of capitalizing the financing costs incurred in respect of mortgage loans during development of projects in process to Homex's accounting policy of not capitalizing such financing costs.

b. ***Capitalization of sales commissions and promotion and selling expenses***

Beta is conforming its accounting policy of including in its construction cost the sales commissions and promotion and selling expense that are incurred in promoting its real estate developments to Homex's accounting policy of not including in its construction cost the sales commissions and promotion and selling expenses that are incurred in its real estate developments.

c. ***Revenue and cost recognition***

Both Homex and Beta use the percentage-of-completion method of accounting to recognize revenues and costs related to their activities as a real estate developer. The percentage of completion method is determined by comparing the total actual costs incurred to total estimated costs that will be incurred for each development project.

Due to the differences described in the aforementioned policies, Beta's cost basis for calculating the percentage-of-completion method mentioned in the preceding paragraph was modified and therefore such percentage was recalculated, generating an additional adjustment to accounts receivable, inventories and cost of sales from Beta's activities as a developer.

d. ***Deferred income tax***

Both Homex and Beta have the policy of recording income tax and employee statutory profit sharing in results of the year in which they are incurred. Deferred income tax assets 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 carry forwards.

As a result of the adjustments mentioned above, the effect of deferred income tax has been recalculated, resulting in an additional adjustment in the pro forma financial statements of Homex and Beta

Integration Activities—The pro forma financial statements do not include any adjustments for liabilities that may result from integration activities, as management is in the process of making these assessments, and estimates of these costs are currently unknown. However, in the future, liabilities may ultimately be recorded for Beta's employee severance and other costs associated with certain exiting activities. Any such liabilities would be recorded as an adjustment to the purchase price and an increase in goodwill.

Synergies—Homex and Beta anticipate that their merger will result in additional annual revenue, and operating cost reductions due to synergies that would not be achievable without completing the merger. Since the realization of those amounts is uncertain, such cost reductions have not been reflected in the pro forma financial statements.

Unaudited Pro Forma Condensed Combined Balance Sheet
June 30, 2005
(in thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	Homex June 30, 2005	BETA June 30, 2005	Purchase Accounting Adjustments	Adjustments to Conform Accounting Policies	Pro forma
Assets					
Current assets:					
Cash and temporary investments	Ps. 405,555	Ps. 41,816	Ps. 17,101(a)	Ps. —	Ps. 464,472
Trade accounts receivable, net	3,782,471	1,596,216	—	(175,634)	5,203,053
Inventories	2,390,466	365,610	14,083(b)	(67,207)	2,702,952
Other current assets	105,177	2,671	—	—	107,848
Total current assets	6,683,669	2,006,313	31,184	(242,841)	8,478,325
Land held for future development	663,065	190,216	70,564(b)	—	923,845
Restricted investments	299	—	—	—	299
Property, plant and equipment—net	261,219	110,441	—	—	371,660
Investment in equity method investee	—	326	—	—	326
Goodwill	—	12,087	1,237,141(c)	—	1,249,228
Other assets	71,749	8,531	—	—	80,280
Total	<u>Ps.7,680,001</u>	<u>Ps.2,327,914</u>	<u>Ps. 1,338,889</u>	<u>Ps.(242,841)</u>	<u>Ps.11,103,963</u>
Liabilities and stockholders' equity					
Current liabilities:					
Notes payable to financial institutions	Ps.1,117,348	Ps. 337,982	Ps. —	Ps. —	Ps. 1,455,330
Trade accounts payable	1,367,208	307,748	—	—	1,674,956
Advances from customers	109,152	—	—	—	109,152
Accrued expenses and taxes, other than income taxes	24,004	32,825	—	—	56,829
Income tax payable	102,442	—	—	—	102,442
Employee statutory profit sharing	1,198	1,559	—	—	2,757
Total current liabilities	2,721,352	680,114	—	—	3,401,466
Long-term debt	—	271,221	—	—	271,221
Long-term notes payable to financial institutions	47,167	2,971	1,081,000(d)	—	1,131,138
Deferred income tax and employee statutory profit sharing . .	704,410	385,898	25,394(e)	(67,548)	1,048,154
Total liabilities	3,472,929	1,340,204	1,106,394	(67,548)	5,851,979
Stockholders' equity:					
Common stock	219,398	283,072	(24,264)(f)	—	478,206
Additional paid-in capital	2,252,018	—	718,792 (f)	—	2,970,810
Retained earnings	1,518,340	623,647	(462,033)(g)	(161,614)	1,518,340
Excess in restated stockholders equity	313,948	—	—	—	313,948
Cumulative initial effect of deferred income taxes	(142,940)	—	—	—	(142,940)
Majority stockholders' equity	4,160,764	906,719	232,495	(161,614)	5,138,364
Minority interest in consolidated subsidiaries	46,308	80,991	—	(13,679)	113,620
Total stockholders' equity	4,207,072	987,710	232,495	(175,293)	5,251,984
Total	<u>Ps.7,680,001</u>	<u>Ps.2,327,914</u>	<u>Ps. 1,338,889</u>	<u>Ps.(242,841)</u>	<u>Ps.11,103,963</u>

See accompanying notes to unaudited pro forma condensed combined financial statements.

Unaudited Pro Forma Condensed Combined Statements of Operations
For the Six Months Ended June 30, 2005
(in thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	Homex June 30, 2005	BETA June 30, 2005	Purchase Accounting Adjustments	Adjustments to Conform Accounting Policies	Pro Forma
Revenues	Ps.2,863,328	Ps.1,240,082	Ps. —	Ps.(24,222)	Ps.4,079,188
Costs	1,972,835	947,663	—	(58,425)	2,862,073
Gross profit	890,493	292,419	—	34,203	1,217,115
Selling and administrative expenses	273,992	95,335	—	34,154	403,481
Income from operations	616,501	197,084	—	49	813,634
Other income (expense)—net	16,623	(42)	—	—	16,581
Net comprehensive financing (income) cost:					
Interest expense	95,818	2,955	63,383 (h)	43,906	206,062
Interest income	(22,806)	(3,120)	—	—	(25,926)
Exchange gain—net	(5,864)	(32)	—	—	(5,896)
Monetary position loss	1,397	(4,931)	—	—	(3,534)
	68,545	(5,128)	63,383	43,906	170,706
Income before income tax expense	564,579	202,170	(63,383)	(43,857)	659,509
Income tax expense (benefit)	173,782	49,452	(19,000)(i)	—	204,234
Consolidated net income	Ps. 390,797	Ps. 152,718	Ps.(44,383)	Ps.(43,857)	Ps. 455,275
Net income of majority stockholders . . .	Ps. 394,849	Ps. 135,376			Ps. 443,165
Net income of minority stockholders . . .	(4,052)	17,342			12,110
Consolidated net income	Ps. 390,797	Ps. 152,718			Ps. 455,275

See accompanying notes to unaudited pro forma condensed combined financial statements.

Unaudited Pro Forma Condensed Combined Statements of Operations
For the Year Ended December 31, 2004
(in thousands of Mexican pesos (Ps.) of purchasing power of June 30, 2005)

	Homex December 31, 2004	BETA December 31, 2004	Purchase Accounting Adjustments	Adjustments to Conform Accounting Policies	Pro Forma
Revenues	Ps.5,369,428	Ps.2,497,700	Ps. —	Ps.(146,916)	Ps.7,720,212
Costs	<u>3,738,718</u>	<u>1,867,125</u>	<u>—</u>	<u>(137,089)</u>	<u>5,468,754</u>
Gross profit	1,630,710	630,575	—	(9,827)	2,251,458
Selling and administrative expenses . .	<u>437,961</u>	<u>132,165</u>	<u>—</u>	<u>61,322</u>	<u>631,448</u>
Income from operations	1,192,749	498,410	—	(71,149)	1,620,010
Other income (expense)—net	43,486	1,417	—	—	44,903
Net comprehensive financing cost:					
Interest income	(47,275)	(11,228)	—	—	(58,503)
Interest expense	133,601	1,810	126,766 (h)	93,717	355,894
Exchange gain—net	(7,191)	281	—	—	(6,910)
Monetary position loss	<u>82,151</u>	<u>23,083</u>	<u>—</u>	<u>—</u>	<u>105,234</u>
	<u>161,286</u>	<u>13,946</u>	<u>126,766</u>	<u>93,717</u>	<u>395,715</u>
Income before income tax expense, employees statutory profit sharing and equity in loss of equity method investees	1,074,949	485,881	(126,766)	(164,866)	1,269,198
Income tax expense	343,157	148,945	(38,000)(i)	(56,309)	397,793
Employees statutory profit sharing expense	8,611	3,340	—	—	11,951
Equity in loss of equity method investees	<u>—</u>	<u>2,587</u>	<u>—</u>	<u>—</u>	<u>2,587</u>
Consolidated net income	Ps. 723,181	Ps. 331,009	Ps. (88,766)	Ps.(108,557)	Ps. 856,867
Net income of majority stockholders . .	Ps. 714,022	Ps. 307,084			Ps. 848,567
Net income of minority stockholders . .	<u>9,159</u>	<u>23,925</u>			<u>8,300</u>
Consolidated net income	<u>Ps. 723,181</u>	<u>Ps. 331,009</u>			<u>Ps. 856,867</u>

See accompanying notes to unaudited pro forma condensed combined financial statements.

**Notes to Unaudited Pro Forma Condensed
Combined Financial Statements**

- (a) To reflect increases in cash and temporary investments as described in the table below:

Cash receive from loan obtained	Ps. 1,081,000
Cash paid in the acquisition of Beta	<u>(1,063,899)</u>
Total increase in cash and temporary investments	<u>Ps. 17,101</u>

- (b) Adjustment to reflect the fair market value based on preliminary consultation with independent consultants for the land held for future development and inventories.
- (c) Adjustment to reflect the establishment of goodwill as part of purchase accounting of Ps.1,237,141.
- (d) Adjustment to reflect the loan obtained by Homex in connection with the acquisition of Beta.

Loan in thousands of US dollars	\$ 100,000
Exchange rate	<u>10.81</u>
	<u>Ps. 1,081,000</u>

- (e) Adjustment to recognize the deferred income tax effect of the adjustment in (b) above.
- (f) Adjustment to reflect the purchase of 47.0% of the common stock of Beta for approximately 22.0 million common shares of Homex valued at \$977,599,994.

Homex common shares	22,013
Average price per share	Ps. 44.41
Fair value of common stock issued	<u>Ps. 977,600</u>

Change in common stock as summarized below:

Adjustment to eliminate common stock of Beta	Ps. (283,072)
Allocation of fair value of common stock issued in common stock	<u>258,808</u>
	<u>Ps. (24,264)</u>

Change in additional paid-in capital as summarized below:

Allocation of fair value of common stock issued in additional paid in capital . .	<u>Ps. 718,792</u>
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- (h) Adjustment to recognize the accrued interest on the loan obtained in connection with the acquisition of Beta as mentioned in (d) above.
- (i) Adjustment to recognize the deferred income tax effect of the adjustment in (i) above.

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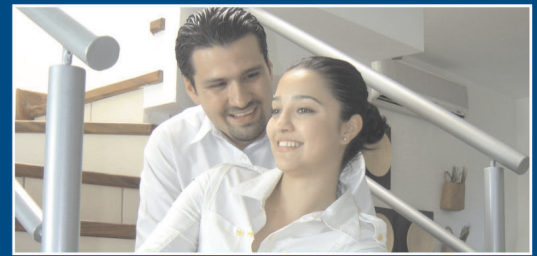
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