OFFERING MEMORANDUM **CONFIDENTIAL**

105,637,794 Shares

Hoteles City

Hoteles City Express, S.A.B. de C.V.

Common Stock

We are offering 71,154,332 shares of common stock, no par value, or the "shares," in a global offering consisting of (1) an international offering of 41,985,620 shares in the United States to "qualified institutional buyers" as defined in Rule 144A under the U.S. Securities Act of 1933, as amended, or the "Securities Act," in transactions exempt from registration thereunder, and in other countries outside of Mexico and the United States to certain non-U.S. persons in reliance on Regulation S under the Securities Act, or the "international offering," and (2) a concurrent initial public offering of 29,168,712 shares in Mexico authorized by the Comisión Nacional Bancaria y de Valores (Mexican National Banking and Securities Commission, or the "CNBV") conducted through the Bolsa Mexicana de Valores, S.A.B. de C.V. (Mexican Stock Exchange, or the "BMV"), in which the selling shareholders will also sell 34,483,462 shares, or the "Mexican offering," and, together with the international offering, the "global offering." This offering memorandum relates only to the international offering. The shares being offered in the global offering may be reallocated between the international offering and the Mexican offering. See "Plan of Distribution." The closing of each of the Mexican offering and the international offering are conditioned on each other.

Offering Price: Ps.24.00 per share

We have granted the initial purchasers and the Mexican underwriters options to purchase up to an additional 15,845,668 shares within 30 days from the date of this offering memorandum solely to cover overallotments, if any. See "Plan of Distribution."

Investing in the shares involves risks. See "Risk Factors" beginning on page 17.

There is currently no public market for the shares. We have applied to register the shares in Mexico with the *Registro Nacional de Valores* (National Securities Registry, or "RNV") maintained by the CNBV and to list the shares for trading on the BMV under the symbol "HCity." The shares have not been and will not be listed in any national securities exchange or quoted in any automated interdealer quotation system in the United States or elsewhere outside Mexico. Registration of the shares with the RNV does not imply any certification as to the investment quality of the shares, our solvency or the accuracy or completeness of the information contained in this offering memorandum, and such registration does not ratify or validate acts or omissions, if any, undertaken in contravention of applicable law.

The shares have not been and will not be registered under the Securities Act or the securities laws of any jurisdiction, other than Mexico. The shares may not be offered and 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 under the Securities Act and to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. For further details about eligible offerees and transfer restrictions, see "Transfer Restrictions."

We expect that delivery of the shares will be made to investors on or about June 19, 2013, in book-entry form through the facilities of S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V., or "Indeval," in Mexico City, Mexico.

Joint Global Coordinators and Bookrunners **Joint Bookrunner**

Morgan Stanley **Citigroup** **BofA Merrill Lynch**

The date of this offering memorandum is June 13, 2013.

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hoteles

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hoteles

1 Saltillo (2003)
Rooms: 120
Owned

2 San Luis (2003)
Rooms: 120
Owned

3 Monterrey Santa Catarina (2003)
Rooms: 105
Owned

4 Querétaro (2003)
Rooms: 121
Owned

5 León (2003)
Rooms: 120
Owned

6 Anzures (2004)
Rooms: 26
Leased

7 Puebla (2004)
Rooms: 124
Owned

8 Nuevo Laredo (2004)
Rooms: 107
Managed

9 Ciudad Juárez (2004)
Rooms: 114
Co-investment

10 Irapuato (2004)
Rooms: 104
Owned

11 Reynosa (2005)
Rooms: 104
Co-investment

12 Cancun (2005)
Rooms: 128
Leased

13 Tepatitlán (2005)
Rooms: 80
Managed

14 Tuxtla Gutiérrez (2005)
Rooms: 124
Franchised

15 Querétaro (2005)
Rooms: 45
Managed

16 Chihuahua (2006)
Rooms: 104
Franchised

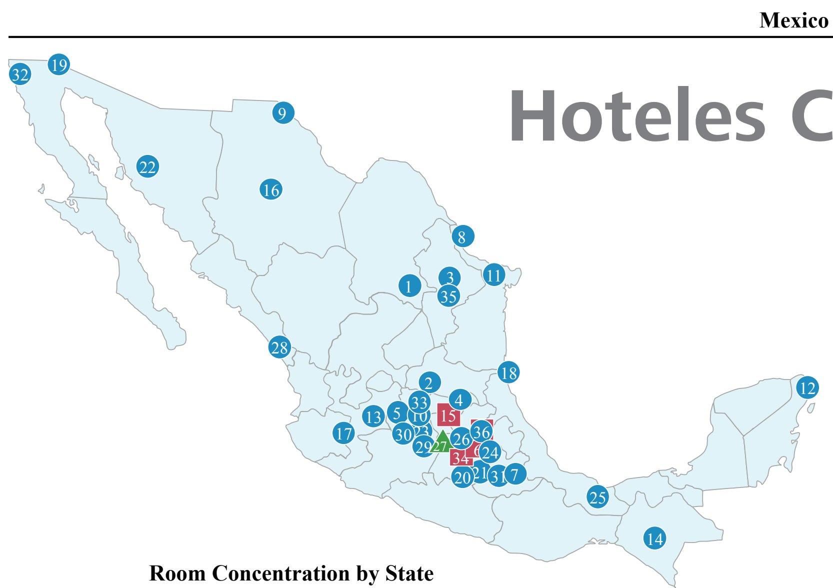
17 Guadalajara (2006)
Rooms: 145
Owned

18 Tampico (2006)
Rooms: 124
Co-investment

19 Mexicali (2006)
Rooms: 117
Owned

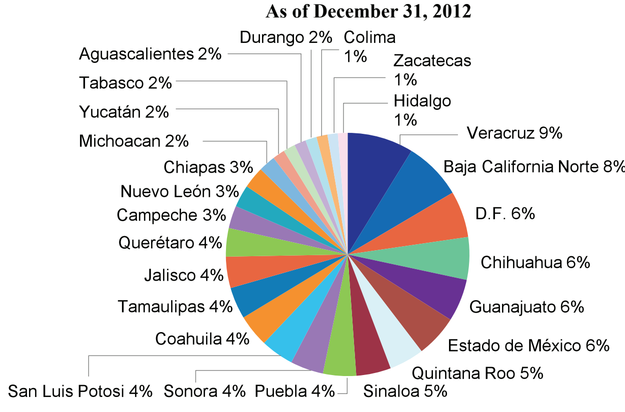
20 Toluca (2006)
Rooms: 141
Owned

21 EBC Reforma (2007)
Rooms: 67
Managed



Room Concentration by State

As of December 31, 2012



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▲ cityjunior hoteles

22 Hermosillo (2007)
Rooms: 120
Co-investment

23 Celaya (2007)
Rooms: 104
Leased

24 Insurgentes Sur (2007)
Rooms: 159
Owned

25 Coatzacoalcos (2007)
Rooms: 118
Co-investment

26 Tepozotlán (2007)
Rooms: 109
Leased

27 Toluca (2008)
Rooms: 106
Leased

28 Mazatlán (2008)
Rooms: 110
Managed

29 Morelia (2008)
Rooms: 60
Franchised

30 Lázaro Cárdenas (2008)
Rooms: 119
Co-investment

31 Puebla Angelópolis (2008)
Rooms: 118
Co-investment

32 Tijuana Río (2008)
Rooms: 131
Managed

33 Silao (2008)
Rooms: 121
Co-investment

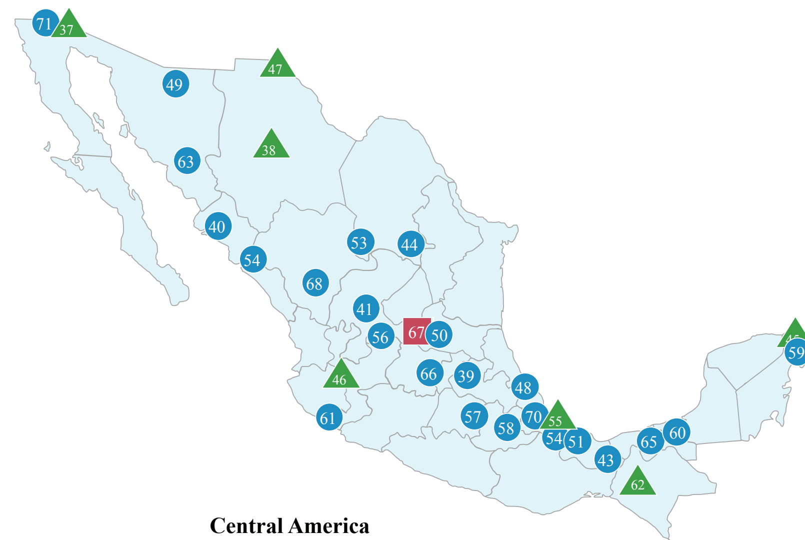
34 Toluca (2008)
Rooms: 91
Owned

35 Monterrey Aeropuerto (2008)
Rooms: 130
Owned

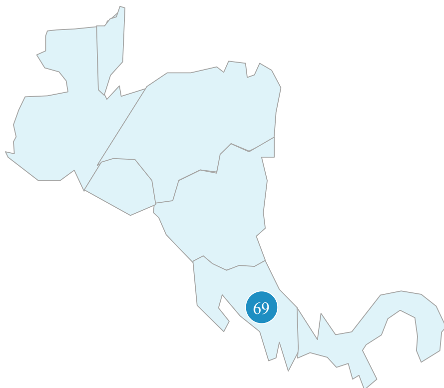
36 El Angel (2009)
Rooms: 137
Co-investment

No.	Hotel	# Rooms	Operation
37	Mexicali (2009)	# Rooms: 106	Owned
38	Chihuahua (2009)	# Rooms: 105	Franchised
39	Tula (2009)	# Rooms: 103	Managed
40	Los Mochis (2009)	# Rooms: 124	Owned
41	Zacatecas (2009)	# Rooms: 109	Managed
42	Tijuana (2009)	# Rooms: 134	Co-investment
43	Veracruz (2009)	# Rooms: 124	Leased
44	Saltillo Sur (2009)	# Rooms: 107	Managed
45	Cancun Las Americas (2009)	# Rooms: 106	Leased
46	Guadalajara Periferico Sur (2010)	# Rooms: 107	Leased
47	Ciudad Juárez (2010)	# Rooms: 128	Owned
48	Poza Rica (2010)	# Rooms: 118	Co-investment
49	Nogales (2010)	# Rooms: 109	Owned
50	San Luis Universidad (2010)	# Rooms: 109	Co-investment
51	Minatitlán (2011)	# Rooms: 109	Co-investment
52	Mérida (2011)	# Rooms: 130	Co-investment
53	Torreón (2011)	# Rooms: 115	Managed
54	Culiacan (2011)	# Rooms: 133	Co-investment
55	Veracruz (2011)	# Rooms: 104	Leased
56	Aguascalientes (2011)	# Rooms: 123	Owned
57	Buenavista (2011)	# Rooms: 103	Managed
58	Puebla Autopista (2011)	# Rooms: 108	Co-investment
59	Playa del Carmen (2011)	# Rooms: 135	Co-investment
60	Ciudad del Carmen (2011)	# Rooms: 129	Co-investment
61	Manzanillo (2011)	# Rooms: 116	Owned
62	Tuxtla Gutierrez (2011)	# Rooms: 106	Leased
63	Ciudad Obregon (2012)	# Rooms: 120	Owned
64	Campeche (2012)	# Rooms: 110	Owned
65	Villahermosa (2012)	# Rooms: 127	Owned
66	Queretaro Jurica (2012)	# Rooms: 135	Co-investment
67	San Luis Potosi (2012)	# Rooms: 120	Managed
68	Durango (2012)	# Rooms: 120	Co-investment
69	San José , Costa Rica (2012)	# Rooms: 134	Co-investment
70	Xalapa (2012)	# Rooms: 126	Managed
71	Tijuana Insurgentes (2012)	# Rooms: 127	Owned

Mexico



Central America



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NOTICE TO INVESTORS

This offering memorandum is highly confidential and has been prepared by us solely for use in connection with the proposed offering of the shares described in this offering memorandum. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire the shares. You are authorized to use this offering memorandum solely for the purpose of considering the purchase of our shares. Distribution of this offering memorandum to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized, and any disclosure of any of its contents, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and to make no photocopies of this offering memorandum or any documents referred to in this offering memorandum.

You should rely only on the information contained in this offering memorandum. Neither we nor the initial purchasers have authorized anyone to provide you any other information, and neither we nor the initial purchasers take any responsibility for any other information. You should assume that the information contained in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum. Neither the delivery of this offering memorandum nor any sale made hereunder will under any circumstances imply that the information herein is correct as of any date subsequent to the date on the front cover of this offering memorandum.

The Mexican offering is being made in the United Mexican States, or "Mexico," pursuant to a prospectus in Spanish with the same date as this offering memorandum. The Mexican prospectus, which has been filed with and reviewed by the CNBV, and this offering memorandum contain substantially similar information, in all material respects, except that the Mexican prospectus includes other information required by regulation in Mexico.

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved these securities or passed upon or endorsed the merits of this offering or the accuracy, adequacy or completeness of this offering memorandum. Any representation to the contrary is a criminal offense.

We have applied to register the shares in Mexico with the RNV maintained by the CNBV, and to list the shares for trading on the BMV. Registration of the shares with the RNV does not imply any certification as to the investment quality of the securities offered pursuant to this offering memorandum, our solvency or the accuracy or completeness of the information contained in this offering memorandum, and such registration does not ratify or validate acts or omissions, if any, undertaken in contravention of applicable law.

The distribution of this offering memorandum and the offering and sale of the shares in certain jurisdictions may be restricted by law. We and the initial purchasers require persons into whose possession this offering memorandum comes to inform themselves about and to observe any such restrictions. See "Transfer Restrictions." This document may only be used where it is legal to sell the shares. Neither we nor the initial purchasers are making an offer of the shares in any jurisdiction where the offer is not permitted.

By accepting delivery of this offering memorandum and by purchasing the shares, you will be deemed to have made certain acknowledgments, representations and agreements as set forth under "Transfer Restrictions" in this offering memorandum. The shares are subject to restrictions on transfer and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser of the shares, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

This offering memorandum is based on information provided by us and other sources that we believe to be reliable. Neither we nor the initial purchasers can assure you that this information is accurate or complete. This offering memorandum summarizes certain documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. We are not making any representation to any purchaser regarding the legality of an investment in the shares by such purchaser under any legal investment or similar laws or regulations.

In making an investment decision, prospective investors must rely on their own examination of us and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this offering memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the shares under applicable legal, investment or similar laws or regulations.

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.

INFORMATION FOR INVESTORS IN CERTAIN COUNTRIES

For information for investors in certain countries, see “Transfer Restrictions” and “Plan of Distribution.”

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

We are organized under the laws of Mexico. Substantially all of our directors and executive officers, our controlling shareholders and most of the experts named herein are non-residents of the United States, and substantially all of the assets of such non-resident persons and substantially all of our assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States or in any other jurisdiction outside Mexico upon such persons or to enforce against them or us in courts of any jurisdiction outside Mexico, judgments predicated upon the laws of any such jurisdiction. We have appointed National Corporate Research, Ltd. as our agent to receive service of process with respect to any action brought against us in any United States federal or New York state court located in the City and County of New York arising from this offering. There is doubt as to the enforceability in Mexican courts, in original actions or in actions for enforcement of judgments obtained in courts of jurisdictions outside Mexico, of civil liabilities arising under the laws of any jurisdiction outside Mexico, including any judgment predicated solely upon U.S. federal or state securities laws. We have been advised by our special Mexican counsel that no treaty is currently in effect between the United States and Mexico that covers the reciprocal enforcement of foreign judgments. In the past, Mexican courts have enforced judgments rendered in the United States by virtue of the legal principles of reciprocity and comity, consisting of the review in Mexico of the U.S. judgment in order to ascertain whether Mexican legal principles of due process and public policy (*orden público*) have been complied with, without reviewing the merits of the subject matter of the case. See "Risk Factors—Risks Related to Mexico."

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise specified or the context otherwise requires, references in this offering memorandum to the "Company," "Hoteles City," "Hoteles City Express," the "Issuer," "we," "us" and "our" refer to Hoteles City Express, S.A.B. de C.V. and its subsidiaries.

Financial Statements

This offering memorandum includes our audited consolidated financial statements as of December 31, 2012, 2011 and 2010 and January 1, 2010 and for the years ended December 31, 2012, 2011 and 2010, together with the notes thereto, or the "Audited Financial Statements," and our unaudited condensed consolidated interim financial statements as of March 31, 2013 and for the three-month periods ended March 31, 2013 and 2012, together with the notes thereto, or the "Interim Financial Statements," and together with the Audited Financial Statements, the "Financial Statements," beginning on page F-1. Our Financial Statements are presented for Hoteles City, S.A.P.I. de C.V. (*sociedad anónima promotora de inversión de capital variable*), which reflects our corporate form as a variable capital stock investment corporation during the relevant periods. Concurrently with this global offering, we will adopt the form of a publicly listed variable capital stock corporation and change our name to Hoteles City Express, S.A.B. de C.V. (*sociedad anónima bursátil de capital variable*).

The financial information in this offering memorandum as of and for the years ended December 31, 2012, 2011 and 2010, and as of March 31, 2013 and for the three-month periods ended March 31, 2013 and 2012, has been prepared in accordance with the International Financial Reporting Standards, or "IFRS," issued by the International Accounting Standards Board, or "IASB."

Pursuant to the *Disposiciones de Carácter General Aplicables a las Emisoras de Valores y a Otros Participantes del Mercado de Valores* (General Provisions Applicable to Securities Issuers and Other Participants in the Securities Markets, or the "Regulations") issued by the CNBV, beginning with the year ended December 31, 2012, Mexican companies with securities listed on a Mexican securities exchange are required to prepare and present financial information in accordance with IFRS. We have adopted IFRS for the year ended December 31, 2012, with a transition date of January 1, 2010. Our audited financial statements as of and for the years ended December 31, 2011 and 2010 were previously issued under Mexican Financial Reporting Standards (*Normas de Información Financiera*), or Mexican FRS. For an explanation of the effects of the transition to IFRS from Mexican FRS, see Notes 2 and 29 to our Audited Financial Statements.

Results from Operating Segments

We assess our operating results and financial performance and assign resources along our two operating segments: hotel operation and hotel management. Each of these operating segments includes activities from which we may earn revenues and incur expenses (including revenues and expenses relating to intercompany transactions). Substantially all revenues from hotel operation are generated by room rentals and include revenues generated by those hotels we own, those we co-own with an equity interest of 50.0% or greater and our leased hotels. Revenues from hotel management are generated primarily from fees we charge our owned, co-owned, leased and managed hotels in respect of hotel management, development and supervision, as well as from our franchise activities. In accordance with the rules for consolidation under IFRS, intercompany transactions, including the fees we receive from our owned, co-owned and leased hotels, are eliminated, and our Financial Statements present our consolidated results following such eliminations. In this offering memorandum, in addition to our consolidated results, we also present the results of our two operating segments along with the combined results of these segments (which do not eliminate the effects of transactions between the segments) because our Board of Directors and management evaluate our results of operations and make decisions about our operations on a segment basis. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results from Operating Segments," Note 16 to our Interim Financial Statements and Note 26 to our Audited Financial Statements.

Adjusted EBITDA

Adjusted EBITDA is a measure used in our financial analysis that is not recognized under IFRS but is calculated from amounts derived from our financial statements. We calculate Adjusted EBITDA by adding depreciation and non-recurring expenses associated with the opening of new hotels to our consolidated operating profit. We believe Adjusted EBITDA is a useful measure that enables comparison of our performance with other businesses, due to its common use in the hospitality industry, and of our performance across periods on a consolidated basis, as it removes from our operating results the impact of specific expenses associated with the opening of new hotels. We expect to continue to incur these expenses upon the opening of each of our new hotels; however, once a hotel is opened and in operation, it will no longer incur such expenses. Therefore, we do not consider that these expenses reflect core hotel operating performance on a consolidated basis, for which reason we classify them as non-recurring with respect to opened hotels and thus do not include them in our measure of Adjusted EBITDA. We may calculate Adjusted EBITDA differently than other hotel operators, and it should not be construed as an alternative to (i) comprehensive income as an indicator of our operating performance or (ii) cash flow from operations as a measure of our liquidity. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Adjusted EBITDA Reconciliation."

Currency and Other Information

Unless otherwise specified, financial information included in this offering memorandum is presented in Mexican pesos. References in this offering memorandum to "Ps.," "Mexican pesos" or "pesos" are to Mexican pesos and references to "US$," "U.S. dollars" or "dollars" are to United States dollars.

This offering memorandum contains translations of certain peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These convenience translations should not be construed as representations that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the specified rate or at all. Unless otherwise indicated, the exchange rates used for purposes of convenience translations are Ps.12.35 per U.S. dollar as of March 27, 2013, which is the exchange rate of pesos to U.S. dollars as determined by Banco de México for the payment of obligations denominated in foreign currency payable in Mexico and which was published in the Federal Official Gazette (*Diario Oficial de la Federación*, or the "Official Gazette") on such date. See "Exchange Rates" for information regarding exchange rates between the Mexican peso and the U.S. dollar.

Certain numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them due to rounding.

References to spreads refer to percentage amounts representing the difference between two interest rates or transaction values, as the context requires.

In this offering memorandum, where information is presented in thousands, millions or billions of Mexican pesos or thousands, millions or billions of U.S. dollars, amounts of less than one thousand, one million, or one billion, as the case may be, have been truncated unless otherwise specified. All percentages have been rounded to the nearest percent, one-tenth of one percent or one-hundredth of one percent, as the case may be. In some cases, amounts and percentages presented in tables in this offering memorandum may not add up due to such rounding adjustments or truncating.

Unless otherwise specified, all units of area shown in this offering memorandum are expressed in terms of square meters or m^2. One square meter is equivalent to 10.76 square feet.

Industry and Market Data

Market data and other statistical information (other than with respect to our financial results and performance) used throughout this offering memorandum are based on specialty publications by private-sector entities, government publications, reports by market research firms or other published independent sources, including the Mexican Ministry of Tourism (*Secretaría de Turismo*, or Sectur), the Mexican Ministry of Economy (*Secretaría de Economía*), Datatur, the National Institute for Statistics and Geography ("INEGI"), the Panorama of Tourism in Mexico (*Panorama de la Actividad Turística en México*) published quarterly by the National Tourism Business Council (*Consejo Nacional*

Empresarial Turístico) and the University of Anáhuac and Euromonitor International: Travel & Tourism 2011 (“Euromonitor”).

Some data are also based on our estimates, which are derived from our review of internal surveys and analyses, 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. In addition, these sources may use different definitions of the relevant market terms than those we present. Data regarding our industry are intended to provide general guidance but are inherently imprecise. Though we believe these estimates were reasonably derived, you should not place undue reliance on estimates, as they are inherently uncertain.

Intellectual Property

This offering memorandum includes references to trademarks and other intellectual property rights that we hold, as well as to trademarks and brands that are the intellectual property of others. The mention of such trademarks or brands of others is merely a reference and not intended to be a use of the intellectual property of others within the meaning of any of the applicable legislation.

GLOSSARY OF TERMS AND DEFINITIONS

"ADR" means average daily rate and, for any given period, is calculated by dividing total room revenues over such period by total room nights sold during such period.

"budget segment" means limited-service hotels within the Mexican hotel industry offering ADRs generally no greater than Ps.720.

"economy segment" means limited-service and select-service hotels within the Mexican hotel industry offering ADRs generally no greater than Ps.1,700.

"EDGE certification" means the Excellence in Design for Greater Efficiencies certification awarded by IFC, which recognizes efficiencies in water, energy and construction materials.

"Established Hotels" means, at any given point in time, hotels that have been in operation for at least 36 months, after which point a hotel is generally considered to have completed its ramp-up cycle while not necessarily having achieved its target occupancy rate or ADR.

"FF&E" means furniture, fixtures and equipment.

"GDP" means gross domestic product.

"IFC" means International Finance Corporation, an international organization established under its Articles of Agreement among its member countries, including Mexico, and a member of the World Bank Group.

"INEGI" means Mexico's National Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía*) by its Spanish acronym.

"LEED certification" means Leadership in Energy and Environmental Design certification, which is an internationally recognized green building voluntary, consensus-based program that provides third-party verification of green buildings.

"limited-service" means, with respect to hotels and accommodations, lodging that offers a mix of limited services and amenities, including internet, pool, public areas with limited dining options, limited meeting rooms, fitness centers and small business centers.

"NOI" means, with respect to a particular hotel or group of hotels, the operating profit of such hotel or group of hotels, *plus* the depreciation attributable to such hotel or group of hotels.

"NOI margin" means, with respect to a particular hotel or group of hotels, the NOI of such hotel or group of hotels, divided by revenue attributable to such hotel or group of hotels.

"occupancy rate" means the rate of occupancy of hotel rooms over a given period and is calculated by dividing the total number of hotel rooms rented in such period by the total number of rooms available each day during such period.

"RevPAR" means revenue per available room and is calculated by multiplying ADR for any given period by the occupancy rate for such period. RevPAR is a commonly used performance measure in the lodging industry used to identify trend information with respect to room revenues and to evaluate hotel performance on a group or segment basis.

"ROIC" means, with respect to a particular hotel or group of hotels, such return on invested capital, which we define as NOI divided by the sum of all direct costs associated with the development and opening of a hotel or group of hotels (including the value of the land, building, facilities and furnishings, as well as all the costs of the project, including permits, licenses, site supervision, salaries, marketing, opening costs, financing costs, legal fees and any other cost necessary to open a hotel or group of hotels); it is usually expressed as a percentage.

"select-service" means, with respect to hotels and accommodations, lodging that offers larger rooms than, and additional services to, those offered by limited-service hotels, including more dining options, usually within a limited-menu restaurant, parking and a larger supply of meeting rooms.

"TIIE" means the interbank equilibrium interest rate (*tasa de interes interbancario de equilibrio*) published by Banco de México, by its Spanish acronym.

AVAILABLE INFORMATION

We are not subject to the reporting requirements of the U.S. Securities Exchange Act of 1934, as amended, or the "Exchange Act." For so long as any of the shares remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we agree to furnish, upon the request of any holder of the shares, to the holder or beneficial owner or to each prospective purchaser designated by any such holder of the shares or interests therein, who is a qualified institutional buyer as defined in Rule 144A under the Securities Act, information required by Rule 144A(d)(4) under the Securities Act, unless we either maintain the exemption from reporting under Rule 12g3-2(b) of the Securities Act or furnish the information to the SEC in accordance with Section 13 or 15 of the Exchange Act.

Any such request may be made to us in writing at our principal offices, located at Juan Salvador Agraz 69, 12º Piso, Col. Zedec Santa Fe, Cuajimalpa, 05300 México, D.F., or at +(52) 55 5249 8050, Attention: Corporate Finance and Investor Relations, Abelardo Loscos. Once our shares are registered with the RNV, we will be required periodically to furnish certain information, including quarterly and annual reports, to the CNBV and to the BMV, which will be available in Spanish for inspection on the BMV's website at www.bmv.com.mx, or on the CNBV's website at www.cnbv.gob.mx.

We also expect to have information available on our website www.hotelescity.com. Information on our website is not and should not be considered as incorporated by reference in this offering memorandum or any other offering document.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Examples of such forward-looking statements include, but are not limited to: (i) statements regarding our results of operations and financial condition; (ii) statements of plans, objectives or goals, including those related to the development, construction, acquisition or opening of new hotels, occupancy rates or ADR or our operations in general; and (iii) statements of assumptions underlying such statements. Words such as "aim," "anticipate," "believe," "could," "estimate," "expect," "forecast," "guidance," "intend," "may," "plan," "potential," "predict," "seek," "should" and "will" and similar expressions are intended to identify projections and forward-looking statements but are not the exclusive means of identifying such projections and statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution investors that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed or implied in forward-looking statements, including the following factors:

- changes in travel spending habits or travel preferences of our guests;
- our ability to successfully implement our corporate or growth strategies, including the enhancement and expansion of our hotel network;
- competition with other hotel operators in the markets in which we operate;
- availability, or increases in prices, of construction materials and changes in the relationship with our suppliers or in the level of quality of our contractors;
- litigation or other disputes involving us and our guests, employees or suppliers or governmental authorities or any other third party;
- general economic and political conditions and the impact of security issues related to crime in Mexico and the countries in Latin America where we currently operate or intend to operate in the future;
- performance of financial markets and our ability to secure financing on competitive terms for our growth or to refinance our financial obligations as needed;
- restrictions on foreign currency convertibility and remittance outside Mexico;
- failure of our information technology systems, including data, communications and distribution systems;
- the effect of changes in accounting principles, new legislation, intervention by regulatory authorities, government directives and monetary or fiscal policy in Mexico, including fluctuations in foreign exchange rates, interest rates and inflation;
- negative impacts derived from risks associated with natural disasters, such as earthquakes, floods, hurricanes and tsunamis, among others;
- outbreak of epidemics and related changes in health regulations; and
- other risk factors discussed under "Risk Factors."

Should one or more of these factors or uncertainties materializes, or if underlying assumptions prove to be incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, forecasted or intended. Prospective investors should read the sections of this offering memorandum entitled "Summary," "Risk Factors," "Our Business" and "Management's Discussion and Analysis of Financial Condition and Results of

Operations" for a more complete discussion of the factors that could affect our future performance and the markets in which we operate.

In light of these risks, uncertainties and assumptions, the forward-looking events described in this offering memorandum may not occur. Any forward-looking statements speak only as of the date of this offering memorandum, and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information or future events or developments. Additional factors affecting our business emerge from time to time and it is not possible for us to predict all of these factors, nor can we assess the impact of all such factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. We cannot assure you that our plans, intentions or expectations will be achieved. In addition, you should not interpret statements regarding past trends or activities as assurances that those trends or activities will continue in the future. All written, oral and electronic forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

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SUMMARY

This summary highlights selected information and does not contain all the information you should consider before investing in the shares. For a complete description, investors should read this entire offering memorandum carefully, especially the risks of investing in the shares discussed under "Risk Factors" and the sections entitled "Our Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," together with our Financial Statements and related notes, included elsewhere in this offering memorandum, before investing in the shares.

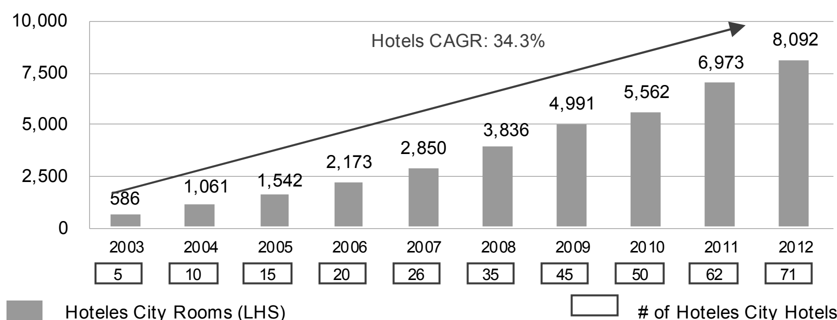
Our Company

We believe we are the leading and fastest growing limited-service hotel chain in Mexico, based on number of hotels, number of rooms, geographic footprint, market share and revenues. We focus on providing quality, safe and comfortable accommodation at affordable prices across our network of limited-service hotels that primarily target domestic business travelers. We operate as an integrated hospitality business platform developing, selectively acquiring, managing and franchising hotels in the economy and budget segments, substantially all of which are in Mexico. We believe our focus on the value-conscious domestic business traveler is unique among lodging companies in Mexico, giving us a competitive advantage through specialization in a market that we believe is highly fragmented and underpenetrated by national and international hotel operators. Furthermore, we believe that by implementing international hospitality best practices and an efficient and flexible operating model, we are able to offer differentiated quality and value within our niche market.

Since our first hotel opened in 2003, we have expanded, in terms of number of rooms, at a compounded annual growth rate of 34.3%, to 71 hotels with 8,092 rooms in operation as of December 31, 2012. In Mexico, we are the third largest hotel chain, the second largest hotel operator and the largest hotel operator within the economy and budget segments, based on number of rooms and hotels. We have placed into operation an average of one new hotel every 7.0 weeks since our first hotel opened, which we believe makes us one of the fastest growing hotel chains in Mexico.

During the year ended December 31, 2012, we derived 80.5% of our revenues from the operation of our owned, co-owned and leased hotels and 19.5% from the management of our owned, co-owned, leased and managed-only hotels, as well as from our franchise and hotel development activities.

The following graph illustrates our sustained growth in terms of hotels and room capacity since our first year of operation.



Source Company Data

As a result of our new-hotel development expertise and our growth trajectory, our hotel inventory has an average age of only 4.2 years, which we believe is among the newest room inventory in the Mexican lodging industry. We have built our hospitality business primarily through the construction of new hotels designed specifically to maintain industry-leading margins through low operating costs. This business model differentiates us within the hotel industry and allows our hotels to become profitable at average occupancy rates of approximately 30% at our target ADR.

The following table illustrates our hotels as of December 31, 2012 by year of opening.

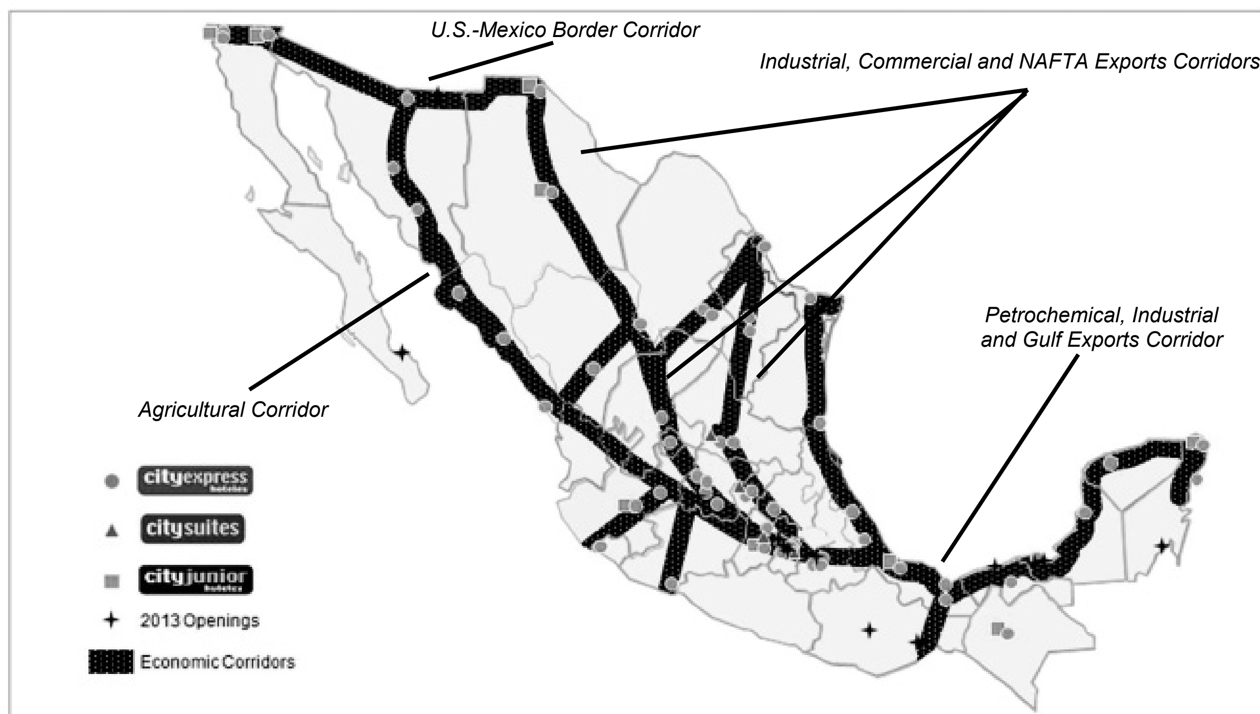
	Openings per Year		Cumulative
	Number of Hotels	**% of Total**	**Number of Hotels**
2003	5	7.0%	5
2004	5	7.0%	10
2005	5	7.0%	15
2006	5	7.0%	20
2007	6	8.5%	26
2008	9	12.7%	35
2009	10	14.1%	45
2010	5	7.0%	50
2011	12	16.9%	62
2012	9	12.7%	71
Total	71	100%	71

Approximately 36.6% of our hotels were opened in the three-year period prior to December 31, 2012 and thus, as of the end of 2012, had not completed their ramp-up cycle or achieved target occupancy rates and ADR. We expect to derive increased RevPAR, NOI and Adjusted EBITDA margins as these properties transition to Established Hotels and stabilize into mature properties once their target occupancy rates and ADR are reached.

Of our 71 hotels in operation, 70 are located in Mexico and one is located in Costa Rica. We are geographically diversified across Mexico with a presence in 26 of Mexico's 32 states as of December 31, 2012, and an expected presence in 28 states by the end of 2013, in addition to anticipated international expansion in Colombia and Chile. Our 8,092 rooms in operation as of December 31, 2012 are diversified across our three well-defined hotel brands that serve business travelers across the budget and economy segments. Our flagship brand, *City express*, caters to managers and other business travelers in the economy segment, offering ADRs ranging from Ps.680 to Ps.950. Our extended-stay brand, *City Suites*, offers fully equipped apartment-like rooms to business travelers at a slightly higher ADR (Ps.900 to Ps.1,700) than our *City express* brand, while still offering accommodations typical of the economy segment. *City junior*, our most affordable accommodation option, offers basic hotel services at highly competitive prices and targets non-management employees and other domestic travelers in the budget segment, offering ADRs ranging from Ps.550 to Ps.720. We offer a range of amenities that are essential for the business traveler, including wireless internet, complimentary breakfast, meeting rooms and business centers, along with fitness centers in our *City express* brand and *City Suites* brand hotels.

We believe our accommodations serve segments in which there is significant demand and strong prospects for growth. Our target customers—the value-conscious domestic travelers—comprise approximately 87% of all travelers in Mexico, based on information sourced from the Mexican Ministry of Tourism and INEGI. Our hotels are specifically designed to meet the needs of these travelers, which we believe have largely been underserved by existing national and international hotel brands, as well as independent non-branded hotels, in Mexico and elsewhere in Latin America. We also believe we serve segments in which there is significant growth potential for our company due the opportunity for us to substitute existing, obsolete room inventory in our target segments. We also expect to benefit from a stable and growing economy in Mexico and other targeted markets in Latin America, continued investments in infrastructure from both government and the private sector, a strong consumer base in Mexico, increased business activity from a more competitive manufacturing and export sector and consolidation of a highly fragmented hospitality industry, among other factors. Domestic travel is driven to a large degree by business travel, and we believe we are well-positioned to benefit from a potential increase in Mexican GDP, and consequently in domestic business travel, by virtue of our geographic footprint and strong brand recognition.

The map below illustrates our geographic footprint as of December 31, 2012, with properties strategically located in urban and suburban locations along the principal business, logistics, commercial and industrial routes in Mexico, as well as our anticipated openings for 2013 within Mexico.



We believe that locating our properties along the NAFTA manufacturing corridor, the NAFTA agricultural corridor, the U.S.-Mexico border, the petrochemical, exporting and industrial corridor of the Gulf of Mexico, the aerospace and automotive industrial hubs in central Mexico and the consumer-driven commercial sector of the most important cities in Mexico allows us to benefit from an increase in economic activity and consumer spending in Mexico.

We attribute our success to both our new-construction hotel development capabilities and our hotel operating, management and commercial platforms, which are each based on efficiency, convenience, and quality. Central to our business model is a disciplined, systematic and streamlined process for identifying potential markets and locations for new hotel openings and for managing the development of our hotels. By outsourcing our construction- and engineering-related work to high-quality contractors and service providers and awarding contracts through transparent bidding processes, we mitigate construction risk, create contractor competition and lower costs per room. We believe our in-house project management capabilities are critical to our business and have allowed us to achieve predictable and on-budget costs per room across Mexico and most recently in Costa Rica. This project management has allowed us to meet or exceed target rates of return on new investment opportunities. Each potential new hotel development undergoes a detailed analysis across macroeconomic drivers, industry and business sectors and market research that includes demographic and site-specific studies by our in-house market research team and subsequent approval by our investment committee to ensure that developments meet project-specific investment return criteria. We have conformed our room sizes, layouts and FF&E within each brand in order to facilitate efficient and scalable construction and operations of our properties. We also control our hotel management and commercial platform through our proprietary IT system at our headquarters in Mexico City, enabling us to centrally monitor our hotels in order to capitalize on opportunities, adjust pricing and optimize each hotel's performance while keeping our operating costs low.

We strive to make our operations as efficient as possible, from our hotel staffing to the manner in which we source breakfast items, resulting in a highly scalable operating structure that we believe has contributed to our strong profitability as measured by a NOI margin of 37.7% as well as a 12.4% average ROIC, each for our owned and co-owned Established Hotels as of December 31, 2012. As our owned and co-owned Established Hotels mature and reach

their target occupancy rates and ADRs, we expect their average ROIC to improve as a result of increased RevPAR and NOI margin in respect of such properties.

Based on our success over the last ten years, we intend to expand our presence throughout Mexico and into select markets within Latin America, such as Colombia and Chile, with our main focus being growth in the Mexican market. During the next 24 months, we intend to implement a growth strategy that includes development of up to 29 new-construction owned and co-owned hotels in Mexico as well as our first hotels in Colombia and Chile, opportunistic and strategic hotel acquisitions, including in Mexico City and other major cities in Mexico, and management of hotels belonging to third parties. We expect that this growth pipeline will add over 3,326 rooms to our inventory, representing an approximate 41.1% increase over our current number of rooms.

Since we began operations in 2003 through December 31, 2012, our available room nights and occupied room nights have increased at a compound annual growth rate of 50.5% and 62.0% to 2.7 million and 1.5 million, respectively. On average for the past three years, occupancy, ADR, and RevPAR for Established Hotels was 60.4%, Ps.683 and Ps.412, respectively. For the year ended 2012, we generated combined business segment revenues of Ps.1,117.5 million, a 29.4% increase from 2011, and consolidated revenues of Ps.932.2 million, a 30.4% increase from 2011. Our Adjusted EBITDA in 2012 was Ps.279.7 million, a 47.5% increase from 2011.

Our Competitive Strengths

Unique Position as an Integrated Hospitality Business Platform that Develops, Owns, Manages and Franchises Limited-Service Hotels

Our business model involves fully integrating hotel ownership, development, management, marketing and franchising, which gives us control and flexibility with respect to our growth profile and our management and franchise strategy. As a result of this flexibility, we have been able to grow our number of hotels and rooms by 610.0% and 662.7%, respectively, from December 31, 2004 to December 31, 2012, compared to the Mexican lodging industry hotel and room growth rates of 35.2% and 28.0%, respectively, reported by Mexico's Ministry of Tourism for the same period.

During the year ended December 31, 2012, we derived 80.5% of our revenues from our hotel operation business segment and 19.5% from the management and franchising of hotels. As both the owner and operator, we can effectively manage hotel profitability, hotel quality, room distribution and critical aspects of our marketing programs, reservations and training of employees. Full integration allows us to diversify our sources of revenue among the operation of owned, co-owned and leased hotels, income generated from development activities, fees earned through our management and franchise platform and fees from hotels owned by third-parties. As a fully integrated hospitality company, we have the flexibility to deploy our own resources on projects that maximize our ROIC, while pursuing other growth opportunities through co-investment with third-parties and management contracts. As of December 31, 2012, we owned 23 hotels (2,787 rooms), co-owned 21 hotels (2,569 rooms), leased 10 hotels (1,020 rooms), managed 13 hotels (1,323 rooms) and franchised 4 hotels (393 rooms).

Highly Profitable and Scalable Business Model Supported by an Efficient Operating Structure and Proven Development Expertise

Over the past decade, our cost-efficient and flexible operation structure and our systematic, disciplined and streamlined development platform has enabled us to open an average of one hotel every 7.0 weeks and achieve an average ROIC of 12.4% for our owned and co-owned Established Hotels in 2012. Our hotels are mostly new developments, which we believe cost less than re-modeling or re-positioning existing properties and support the long-term value of our investments. Our average development cost per room for hotels developed under the *City express* brand, excluding those developed in Mexico City or Costa Rica, was approximately Ps.573,000 for the period between 2010 and 2012.

We consistently seek to improve the efficiency of our operations. On average, our properties are operated with 21 employees per 100 installed rooms. We have a flexible centralized monitoring system for all our hotel operations, enabling us to respond in real-time to the market and adjust prices and marketing accordingly. We maintain a central

repository of room inventory, which ensures that we can accurately and quickly manage reservations via a variety of direct and indirect channels. We also seek increased environmental efficiency. Our five EDGE-certified hotels have experienced, on average, a 24.0% and 32.6% reduction in energy and water use, respectively, compared to similarly positioned properties.

Our hotels are constructed by third-party contractors, whom we select through transparent bidding processes based on projected cost, experience, track record and technical qualifications, under the supervision and on-site project management of our own development team, which has significant expertise having developed over 16,000 hotel rooms. This experience helps differentiate us from our local competition. Our contractors follow highly detailed and standardized designs, which enhance our ability to meet budget and timing expectations. On average, the process from ground-breaking to opening for one of our hotels lasts between six and eleven months. Standardized room size, layout and FF&E further contribute to our efficiency and quality control. These streamlined and systematic development processes, combined with the quantity and continuous flow of our construction projects, allow us to benefit from economies of scale and preferential contracting and pricing terms.

As we are one of the largest hotel operators in Mexico, we have considerable scale relative to our competitors, particularly when compared to independent hotel owners/managers, and we are therefore able to achieve more operating synergies. Relative size and operating scale allows us to operate our hotel chain with a single and standardized management platform and business guidelines, work with large corporate clients that require safe and high-quality accommodation for their personnel across different locations in Mexico, negotiate better terms with suppliers in the hospitality industry and benefit from broader marketing strategies and programs that allow us to reach a larger guest base. As a result of the aforementioned, we have achieved historical compounded annual Adjusted EBITDA growth of 26.6% from 2010 to 2012. Our track record of building high-quality properties at low cost and operating hotels efficiently has provided us with a broad network of strong relationships with third parties with development and financing expertise across Mexico, enhancing our growth opportunities and our access to land sites across the country.

National Presence and Diversified Revenue Stream Through our Three Well-Defined Hotel Brands Located Throughout Mexico

As of December 31, 2012, we had a presence in 26 of Mexico's 32 states, which states, according to INEGI, cover over 90% of Mexico's population and over 94% of its GDP. We have focused on providing high-quality services in areas close to major business and commercial centers to meet the needs of junior- and mid-level business travelers and value-conscious travelers in general. Our hotels are situated along the main drivers of business-related demand, including industrial hubs, the U.S.-Mexico border corridor, the NAFTA manufacturing and agricultural corridors, the petrochemical, exporting and industrial corridor along the Gulf of Mexico, the aerospace and automotive industries of central Mexico and the commercial sector of the most important cities in Mexico. Our dedicated location-scouting and market research teams undertake several levels of analysis to select prime sites with maximum revenue potential within these areas. By the end of 2013, we expect to be present in 28 states, which together cover approximately 94% of Mexico's population and over 96% of Mexico's GDP, according to INEGI.

As Mexico's lodging market continues to evolve, we expect segment-specific demand within the economy and budget hotel segments to increase, driven by consumers looking for accommodations with international quality and safety standards tailored to their needs and price range. In anticipation of this increase in consumer selectivity, we have established a portfolio of three well-defined hotel brands, with a range of ADRs from Ps.550 to Ps.1,700, which positions us to offer affordable accommodations to the substantial majority of the Mexican population.

- Our flagship brand, *City express*, caters to professionals, mid-level managers, owners of small- and medium-sized enterprises and other business travelers in the economy segment, and generally offers ADRs between Ps.680 and Ps.950.

- Our extended-stay brand, *City Suites*, offers fully equipped apartment-like rooms to business travelers for higher ADRs of Ps.900 to Ps.1,700, while still offering accommodation within the economy segment.

- *City junior* targets non-managerial employees and other travelers in the budget segment, and generally offers ADRs between Ps.550 and Ps.720.

We believe our distinct product offerings have not only enabled us to increase our exposure to key high-growth lodging segments with different demand dynamics and to diversify our revenue mix and exposure across different economic segments, but also increase our resiliency to possible economic downturns.

Experienced Management Team with Extensive Track Record Developing and Operating Hotels

The majority of our senior management team has been with us since the company was founded; together, they have overseen our growth since our founding in 2002 and have delivered a compounded annual growth rate in number of hotels of 34.3% since 2003, our first full year of operation. Our senior management team has been responsible for the structuring, financing, development and operation of our 71 hotels, with a collective 8,092 rooms, since 2003, which represent more hotel and room openings than any other hotel chain in Mexico in such period. Our top six executives have over 100 years of combined experience in the hospitality industry, including tenure at other leading hospitality groups. Our co-founder and CEO, Luis Eduardo Barrios Sánchez, has extensive industry experience across Latin America, and, through his prior senior management roles within the industry, has led expansions into Brazil, Chile and Argentina, acquisition transactions and initial public offerings. We have a highly professional and experienced management team across all key areas of the hospitality business, including lodging-specific real estate structuring, investing and financing, hotel project management and development, hospitality operations and marketing.

Recognized National Brand Associated with Superior Value

We currently operate more limited-service hotels in the economy and budget segments in Mexico than any other international or domestic hotel chain and believe we are widely recognized as offering quality, safe and comfortable accommodation while maintaining affordable prices. By offering a tiered product under three well-defined brands, we believe that we have created a reliable product that caters to the largest combined segments of business travelers across Mexico. We believe our strong price-value proposition has helped us achieve greater market penetration than the brands we compete with in Mexico.

Through targeted marketing campaigns, effective use of social media and other digital platforms and commercial partnerships with leading airlines, rental car companies and other businesses, we have become a widely recognized brand associated with superior value and consistent service for the business traveler within the economy and budget segments. Our hotels rank highly in national brand recognition surveys, and our *City express* brand has been accorded the status of a "well-known brand" in Mexico by the *Instituto Mexicano de la Propiedad Industrial* ("IMPI"), the Mexican intellectual property authority. As of December 31, 2012, we had over 6,700 corporate accounts and over 3,600 locally managed agreements, which reflects a combined 23.0% increase in accounts over the previous year. Room rentals associated with corporate accounts and local agreements represented approximately 42% and 18% of our room nights occupied in 2012, respectively. We also have several corporate alliances, primarily with airlines such as Aeroméxico, Interjet and Avianca-Taca, whose customers can book room nights at our hotels simultaneously with the purchase of an airline ticket. We intend to continue to pursue these targeted marketing programs to increase our visibility among key populations.

Our fast-growing *City premios* guest loyalty program boasts over 300,000 subscribers. Points earned through *City premios* can be earned and used for goods and services across a wide variety of retail stores such as Walmart, airlines such as Aeroméxico, restaurants, entertainment venues and rental car agencies. In 2012, reservations at our hotels made by *City premios* members totaled approximately 22% of all reservations. We believe that the strength of our loyalty program, in addition to the nearly 90% of our reservations that were made through our proprietary reservation systems or through other direct channels or relationships with our hotels in 2012, demonstrates a strong consumer identification with our brand.

Differentiated Product Compared to the Majority of Existing Inventory in our Target Markets

We believe that we are uniquely positioned as the only limited-service hotel chain in Mexico focused exclusively on the value-conscious business traveler, which has historically been served by a highly fragmented hotel industry

comprised of smaller, independent, non-branded hotels lacking standardization and uniform safety and quality standards. These independent hotels comprise approximately 79% of the hotels available in Mexico as of 2011, according to Euromonitor.

We believe that we offer a lodging experience that is significantly distinct from national and international hotel chains in our target segments and independently owned hotels across Mexico. Within our target segments, accommodations largely consist of outdated inventory inconsistently available from independent, non-branded hotels. In contrast to much of the existing inventory, our hotels are largely new constructions with an average age of only 4.2 years.

As opposed to most independent, non-chained hotels, we offer rooms with attributes and features in line with international hospitality standards at lower prices than most chain hotels in Mexico. We offer a range of amenities that are essential for the business traveler, including wireless internet, complimentary breakfast, meeting rooms and business centers, along with fitness centers in our *City express* and *City Suites* brand hotels, which are not common to most independent limited-service hotels in Mexico. Our hotels are carefully designed to merge efficient functionality with modern and clean aesthetics, which we believe further differentiates our hotels from the substantial majority of inventory in our target markets.

In contrast to many of the existing hotels in our segments, we have made state-of-the-art technology a primary focus of our operations and guest experience. Our IT infrastructure connects all our hotels to our centralized monitoring and reservations platforms, so that we can optimize hotel performance, manage chain-wide room inventory and ensure our guests can make reliable reservations throughout our hotel network. We also focus on technologically advanced customer interaction with our brand, by, for example, creating proprietary mobile device and web-based applications so that our guests can access our reservation services remotely. Our proprietary mobile device application has been well received by guests and early adopters of such technology in Mexico, and approximately 10% of our reservations in 2012 were made via our proprietary website or mobile device applications.

In addition to providing consistent quality and accessibility across our hotel network, we build all of our hotels to be compliant with national and international fire, safety and environmental standards. Our hotels are also specifically designed to meet environmental efficiency standards. We have obtained LEED certifications for four of our properties, and we are in the process of obtaining certification for an additional nine properties; we have also obtained EDGE certifications for five of our properties. We are also in the process of having our hotels certified by the Biosphere Responsible Tourism program, a joint certification program of UNESCO and the Institute for Responsible Tourism, and we expect to have all of our hotels certified by 2015.

Our Shareholder Base Distinguishes Us From Other Participants in our Target Markets

We also benefit from the support and involvement of a large institutional shareholder base, which includes investors such as Morgan Stanley Real Estate Special Situation Fund III (MSSSFIII), the IFC (a member of the World Bank Group) and, indirectly, Mexican pension funds (*Afores*). Since our inception, our manner of conducting business, due to our corporate conviction and in part due to our contractual obligations to our international shareholder base, demonstrates our commitment to increased diligence and accountability regarding our business practices in general and also with respect to environmental, social impact, safety and corporate governance standards. We believe these standards differentiate us from most independent, non-branded hotels and make us more attractive to business travelers from multinational companies.

Our Business Strategy

Increase Market Leadership in our Segments Through the Continued Expansion of our Hotel Network in Mexico

Our primary business growth strategy is to continue leveraging our integrated business platform and to focus on ownership and co-ownership of new-construction hotels throughout Mexico. We also plan on engaging in strategic and opportunistic acquisitions of existing properties in markets where there is generally a scarcity of sites available for development of new-construction hotels. We expect to expand into new geographic territories to both reach a larger percentage of the Mexican population and increase our penetration within the industrial and commercial hubs in Mexico.

In addition, we anticipate augmenting brand coverage in areas in which at least one but not all of our brands are already present, particularly in cities that we believe have significant market demand for such additional coverage. We expect our land investments and projects under contract will support our development pipeline for up to 24 months. The diversity of our land investments means that we can choose to develop properties tactically to maximize our return on investment in doing so. Additionally, a substantial portion of this pipeline has already been funded by our existing equity and internal cash flow or other financing sources; thus, we intend to use proceeds from this global offering to accelerate our existing growth profile and take advantage of opportunities in Mexico and select markets in Latin America. We intend to capitalize on our existing operational platform to grow our development capabilities up to approximately 18 new hotels per 12-month cycle in the coming years, in addition to strategic hotel acquisitions. We also plan to continue rolling renovations of our existing properties to ensure that our guests can continue to rely on our hotels for superior quality in our target segments. Consistent with past practice, we expect to continue our primary strategy of developing new units to replace obsolete room inventory, belonging mainly to independent, non-chain hotels, throughout our target markets. We plan on capitalizing on our existing business platform and brand recognition to further expand our hotel network and solidify our presence across Mexico.

Capitalize on Macroeconomic Opportunities in Mexico and Attractive Target Market Dynamics

We believe that our integrated hospitality platform, our efficient operating model and our focus on the economy and budget limited-service segments position us well to benefit from the structural drivers of the Mexican economy and the ongoing growth of Mexico's middle-class population. According to INEGI, Mexico is the second-largest economy in Latin America and is experiencing rebounding growth following the global credit crisis, with GDP growth of 5.3% in 2010 and 3.9% in both 2011 and 2012, in each case above the average annual historic rate of 3.2% since 1995. The Mexican manufacturing sector, in particular, has become highly competitive globally, attracting significant investment from domestic and multinational companies, while Mexico's petrochemical sector has also seen an important increase in investment and infrastructure development. Prudent fiscal policies, which include inflation levels and stable interest rates below 5.0%, each over the past three years, and a low debt-to-GDP ratio of 27.0% in 2012, have positively impacted Mexico's recovery. In addition, positive trends in Mexican demographics include increased per capita income, access to credit and expanded domestic consumption, together with a sustainable birth rate, which translate into a sustainable demand for goods in the future. According to the Mexican National Population Council (*Consejo Nacional de Población*, or "CONAPO"), over 50% of the Mexican population is under the age of 26. As this population group ages and transitions into seeking jobs, buying homes and obtaining economic independence, further increases in domestic consumption are expected.

We believe that an increase in economic activity in Mexico will benefit us by increasing domestic business travel and, consequently, demand for hospitality services in our target segments. Domestic travelers account for approximately 87% of all tourism spending in Mexico, according to information from Mexico's Ministry of Tourism.

We also believe these target customers have been underserved by hotel chains, as chain hotels represent only approximately 21% of the total existing hotels in Mexico, compared to approximately 69% of the room inventory in the United States. Of the chains operating in Mexico, only four chains, of which only one is an international chain, currently have 35 or more hotels. By contrast, we expect to expand our 71 hotels to 84 by the end of 2013 and have established a reputation for modern facilities and consistent value and quality across Mexico. Our scale, combined with the fragmented existing hotel network, offers significant market share and organic growth opportunities for operators like us with a highly recognized product, superior brands and nationwide coverage.

As per capita income and Mexican GDP continue to grow, we believe value-conscious travelers will be increasingly selective in their lodging choices, a trend that we believe we can capitalize on through our price-value proposition, our three distinct, well-defined and recognized brands and our distribution network. Additionally, we believe we can benefit from an increase in ADRs driven by rising industry-wide occupancy rates and increasing consumer purchasing power. Our integrated business platform and flexible operating model enabled us to adapt our development plans to the global economic crisis of 2009 by, for example, promptly adjusting the rate of new-hotel developments to preserve our balance sheet, increasing the use of our IT platform to enhance productivity across the business and revising our marketing and commercial initiatives to sustain or grow RevPAR during the economic crisis. While industry-wide investment in new rooms has not fully recovered since the economic crisis, we believe we invested more than any other hotel chain in Mexico in new-room growth over the past four years. Due to our operating efficiencies, we were able to maintain

consistent RevPARs for Established Hotels over the same period. We therefore believe we are well-positioned to increase our market leadership as Mexican lodging demand and GDP continue to recover.

Target Organic Growth and Improved Profitability by Building on our Strong Business Platform

Our business platform offers guests limited-service accommodations with consistent standards of quality, safety and comfort across Mexico at affordable prices. By continuing to focus on this business platform, we expect to consistently grow our revenue and Adjusted EBITDA organically through new-construction hotel openings and higher ADRs and occupancy as our new properties continue their ramp-up cycle and become Established Hotels. As of December 31, 2012, 36.6% of our hotels and 38.3% of our rooms had not yet become Established Hotels and were still in their initial ramp-up cycle. We intend to use a significant portion of our free cash flow and balance sheet capacity to invest in greenfield hotel projects and strategic hotel property acquisitions. We also intend to increase cost-efficiencies at our Established Hotels, by causing such properties to become more productive. As we grow, we expect to benefit from additional economies of scale to optimize costs for supplies, hotel development and operations. Our significant investment in technology is expected to further streamline our centralized systems, increase our operating efficiency and improve our marketing efforts and guest satisfaction. We also seek to improve our profitability by focusing our capital investments on properties with the greatest potential to deliver high returns.

Given the opportunities in the market, we expect to grow our business of managing third-party owned hotels. This type of growth allows us to increase the number of hotels we manage without making significant capital investments and provides exposure to urban areas in which there are limited opportunities to acquire land or hotels. In addition, we will continue to reinvest a significant portion of our management and franchise services fees in our brands in order to improve our market position in Mexico and penetrate select markets in Latin America.

Expand our Hotel Network in Latin America Through Select Strategic Opportunities

While our main focus will continue to be expansion within Mexico, we expect to continue our international expansion plans in countries in which our business model can be most effectively deployed. We view expansion into certain Latin American markets as a natural extension of our current business strategies and expect to benefit from a penetration of chain hotels in Latin America that is even lower than in Mexico. We expect to carry out this selective expansion through joint-venture arrangements with local business partners. As of December 31, 2012, we had already entered into two joint-venture agreements in respect of new hotel developments in Costa Rica, Colombia, Peru and Chile. We have also begun to strategically acquire parcels of land to support these projects.

Recent Developments

In February 2013, we opened a 109-room *City express* in Chetumal, the capital city of the state Quintano Roo.

In May 2013, we closed on the acquisition of the 67-room *City express* EBC Reforma hotel property in Zona Rosa, Mexico City, which we previously managed for a third-party owner.

On May 13, 2013, we entered into agreements with three of our investment partners to acquire their minority interests in order to own 100% of (i) Sac Be Ventures, LLC, our joint venture to develop hotels in Central America and Colombia, including the 134-room *City express* hotel in San José, Costa Rica; (ii) the subsidiary that owns the 137-room *City express* Reforma "El Angel" hotel in Mexico City. Pursuant to these agreements and immediately prior to the consummation of the global offering, we will acquire these minority interests and issue our investment partners equity interests in us (the "Roll–Up Transactions"); and (iii) Promotora Hotelera City Express, S.A. de C.V., our international holding subsidiary. Pursuant to the Roll-Up Transactions, each investment partner shall be compensated through the delivery of a number our shares, calculated by dividing the value of each of these operations by the price per share at which the offering is conducted in Mexico under the Mexican underwriting agreement. As a result, on June 13, 2013, we subscribed and paid for 12,185,724 shares. Given that we have historically consolidated the results of operation of these subsidiaries, we do not expect that the Roll-Up Transactions will have any impact on our results of operations.

On May 22, 2013, our shareholders approved a three for one stock split of our shares, which became effective on June 11, 2013 (the "Stock Split"). The Stock Split increased the number of shares of outstanding common stock to approximately 192 million shares. For the purpose of illustrating the dilutive effects of the global offering and the shareholder interests after the global offering, we have incorporated the effect of the Stock Split. See "Dilution" and "Principal and Selling Shareholders."

In June 2013, we expect to open a wholly owned mixed-use project in Santa Fe, Mexico City, which will consist of a 160-room *City express*, a 41-room *City Suites* and a ground-level commercial area and office space. The commercial area has been fully rented to third parties that provide services that complement our hotel business, and the office space will be occupied by our central office. We believe consolidating our central office allows us to eliminate rental expenses associated with our central office activities in Mexico City and to increase operating efficiencies by housing all our corporate, finance, administration, development, operations, IT, sales and marketing activities in one building. In addition, this central office has the capacity to accommodate our expected growth over the next five years.

THE GLOBAL OFFERING

The following is a brief summary of certain terms of the global offering. For a more complete description of our shares, see "Description of Our Capital Stock and Bylaws."

Issuer	Hoteles City Express, S.A.B. de C.V.
Selling shareholders	The selling shareholders are offering 34,483,462 shares as part of the Mexican offering. For more information regarding our principal shareholders and selling shareholders, see "Principal and Selling Shareholders."
Shares offered	105,637,794 shares of common stock, no par value.
Offering price per share	The initial offering price is Ps.24.00 per share, equivalent to US$1.87 per share based on the exchange rate of Ps.12.84 per U.S. dollar published on June 13, 2013.
The international offering	We are offering 41,985,620 shares through the initial purchasers in the United States to qualified institutional buyers as defined in Rule 144A under the Securities Act, and in other countries outside Mexico and the United States, to non-U.S. persons in reliance on Regulation S under the Securities Act.
The Mexican offering	Concurrently with the international offering, we are offering 29,168,712 shares in an initial public offering in Mexico and the selling shareholders are offering 34,483,462 shares in Mexico to the general public in a secondary offering. See "Plan of Distribution."
Reallocations	The number of shares being offered in the global offering (including any shares issued pursuant to the option to purchase additional shares) may be reallocated between the international offering and the Mexican offering, depending upon demand and other factors in the Mexican market and the international market. The closing of the international offering and the Mexican offering are conditioned upon each other.
Option to purchase additional shares	We have granted the initial purchasers and the Mexican underwriters independent options, to be exercised on a coordinated basis, within 30 days from the date of this offering memorandum, to purchase up to an additional 15,845,668 shares to cover overallotment options, if any.
Shares outstanding after the global offering	Immediately following the global offering and the Roll-Up Transactions, we will have an aggregate of 275,111,459 shares outstanding assuming no exercise of the option to purchase additional shares.
Use of proceeds	The net proceeds to us from the sale of the shares being offered in the global offering will be Ps.1,583.7 million, assuming no exercise of the option to purchase additional shares, after deducting underwriting discounts, commissions and estimated offering expenses.

We intend to use the net proceeds from the global offering primarily to continue our plans for expanding our hotel network, including the development, opening, operation and marketing of future hotel projects in the areas in which we currently operate, to continue with the development of our brands primarily throughout Mexico and for general corporate purposes. In addition, in accordance with our past practice and in the ordinary course of business, we may use a portion of these proceeds for future acquisitions of the minority interests in our co-owned hotels that we do not hold. See "Use of Proceeds."

We will not receive any of the proceeds from the sale of shares by the selling shareholders.

Listing	An application has been filed to register the shares with the RNV maintained by the CNBV and to list the shares on the BMV. Upon consummation of the global offering, such registration and listing will have been effected. Prior to the global offering, there has been no trading market for the shares in Mexico, the United States or elsewhere. We cannot assure you that a trading market will develop or will continue if developed.
BMV symbol	"HCity"
Settlement and delivery	Settlement of the shares will be made in book-entry form only through the facilities of Indeval. Payment for the shares must be made in pesos.
Voting rights	All of our shares have equal voting rights in our general shareholders' meetings. Each share grants full and identical voting rights to its holder. See "Description of our Capital Stock and Bylaws" for a discussion of your voting rights.
Dividends	See "Dividends and Dividend Policy" for further information.
Taxation	Under Mexican law, dividends paid by us to holders of our shares who are not residents of Mexico for tax purposes are not subject to any Mexican withholding or other similar taxes, but generally will be subject to corporate taxes, payable by us, if the dividend distribution is not made out of the net after-tax profits account. For certain Mexican and U.S. federal income tax consequences of holding and disposing of our shares, see "Taxation."
Transfer restrictions	The shares have not been and are not expected to be registered under the Securities Act or with any securities regulatory authority of any U.S. state or other jurisdiction and, accordingly, may not be offered, sold, pledged or otherwise transferred or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except as set forth in "Transfer Restrictions." In accordance with our bylaws, in certain cases the authorization of our Board of Directions or our shareholders is required prior to acquiring our shares or entering into agreements to vote in respect

	thereof. See "Description of our Capital Stock and Corporate Bylaws—Anti-Takeover Protections."
Lock-up agreements and other restricted sales ...	We, our directors and officers and our shareholders have agreed, subject to certain exceptions, for a period of 180 days from the date of the offering memorandum, without the prior written consent of the representatives, not to issue, offer, sell, contract to sell, pledge or otherwise dispose of, any shares of our capital stock or any securities convertible into or exchangeable for, or that represent the right to receive, shares of our capital stock (the "Lock-up Agreements"). See "Plan of Distribution." Additionally, our current shareholders have entered into an agreement pursuant to which they have agreed to restrictions related to the sale of our shares for a period of up to 540 days following the expiration of the Lock-up Agreements. See "Principal and Selling Shareholders."
Risk factors	Investing in our shares involves risks. See "Risk Factors" and the other information in this offering memorandum for a discussion of factors you should carefully consider before deciding to invest in the shares.

SUMMARY FINANCIAL AND OPERATING INFORMATION

The following tables present summary financial and operating information for the periods presented derived from our Audited Financial Statements and our Interim Financial Statements. These tables should be read together with "Presentation of Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements included elsewhere in this offering memorandum. Our Audited Financial Statements and our Interim Financial Statements have been prepared in accordance with IFRS.

Our Financial Statements and other financial information included in this offering memorandum, unless otherwise specified, are stated in Mexican pesos. The U.S. dollar amounts provided below are translations from the Mexican peso amounts, solely for the convenience of the reader. See "Presentation of Financial and Other Information—Currency Information" for an explanation of the exchange rates used to translate Mexican peso amounts into U.S. dollars. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated or at any other rate.

	For the Three Months Ended March 31,			For the Year Ended December 31,		
	2013	2013	2012	2012	2011	2010
	(thousands of US$)	(thousands of Ps.)		(thousands of Ps.)		
Consolidated statements of profit and other comprehensive income						
Revenues from hotel operation	18,844.7	232,818.4	198,075.1	890,715.7	686,767.1	573,913.9
Revenues from hotel management	613.7	7,582.5	6,076.1	41,487.6	28,280.9	29,440.9
Total	19,458.4	240,400.9	204,151.2	932,203.3	715,048.0	603,354.8
Hotel operating costs and expenses	10,338.4	127,727.0	114,414.8	502,353.3	409,821.0	325,682.3
Selling and administrative expenses	3,106.1	38,374.3	28,848.8	147,540.8	113,155.0	103,070.4
Depreciation	2,989.5	36,933.9	33,093.0	144,498.5	107,750.8	89,248.2
Cost and expenses	16,434.0	203,035.1	176,356.6	794,392.6	630,726.8	518,000.9
Expenses associated with opening of new hotels	289.5	3,576.3	2,802.4	12,277.5	13,527.4	6,506.3
Other (income) expenses	(142.2)	(1,756.6)	(2,221.0)	2,594.1	2,380.1	9.8
Consolidated operating profit	2,877.2	35,546.2	27,213.2	122,939.0	68,413.6	78,837.8
Finance costs	1,879.2	23,216.5	16,385.4	(97,480.6)	(81,348.6)	(68,050.4)
Finance income	(230.5)	(2,847.3)	(3,351.5)	17,264.6	13,186.0	6,218.9
Exchange result, net	179.4	2,216.5	12,434.8	(10,137.5)	14,794.7	(4,936.1)
Effects of valuation of financial instruments	(38.1)	(470.6)	374.6	(1,435.3)	1,701.1	1,471.2
Profit before tax	1,087.1	13,431.1	1,369.9	31,150.2	16,746.9	13,541.4
Income tax expense	217.4	2,686.2	(246.8)	5,557.8	6,743.8	1,203.4
Consolidated net profit	869.7	10,744.9	1,616.4	25,592.3	10,003.1	12,337.8
Other comprehensive income (loss):						
Exchange differences on translating foreign operations	(859.6)	(10,619.7)	(2,883.0)	(3,765.6)	5,979.3	-
Net actuarial (gain) loss	-	-	(42.7)	(170.9)	113.6	222.2
Deferred tax effects of net actuarial (gain) loss from employee benefits	-	-	(4.3)	(17.2)	32.6	(66.7)
Total other comprehensive income	(859.6)	(10,619.7)	(2,930.0)	(3,953.7)	6,125.5	155.5
Total consolidated comprehensive income (loss)	10.1	125.2	(1,313.6)	21,638.7	16,128.5	12,493.4

	As of March 31,		As of December 31,		
	2013	2013	2012	2011	2010
	(thousands of US$)	(thousands of Ps.)	(thousands of Ps.)		
Consolidated statements of financial position					
Current assets:					
Cash, cash equivalents and restricted cash	36,729.8	453,782.6	555,008.6	571,182.9	896,108.2
Trade receivables, net	4,189.6	51,761.1	43,325.0	32,199.0	22,298.6
Recoverable taxes – mainly value-added tax	8,657.1	106,955.2	121,930.1	85,093.7	37,964.2
Prepaid expenses	3,278.9	40,509.8	36,689.8	37,915.7	26,116.8
Total current assets	52,855.5	653,008.6	756,953.6	726,391.3	982,487.8
Property, equipment and leasehold improvements	374,933.2	4,632,149.5	4,494,785.8	3,881,235.8	3,097,394.2
Guarantee deposits	234.6	2,897.8	2,897.8	2,396.7	1,734.8
Other assets	7,795.0	96,303.5	108,122.7	8,681.9	-
Derivative financial instruments	11.0	136.0	344.0	2,700.1	2,195.7
Total assets	435,829.2	5,384,495.4	5,363,104.0	4,621,405.8	4,103,799.9
Liabilities and equity					
Current liabilities:					
Bank loans and current portion of long-term debt	7,701.9	95,153.6	86,688.4	55,844.5	55,893.7
Trade accounts payable	3,898.5	48,164.5	47,750.6	38,410.8	25,770.1
Other taxes and accrued expenses	6,001.7	74,149.1	85,836.8	31,828.2	27,263.0
Derivative financial instruments	10.4	129.0	262.9	1,183.6	2,380.4
Income tax and business flat tax	680.3	8,404.4	10,387.4	8,349.7	7,159.3
Direct employee benefits	32.2	397.9	6,067.3	4,871.1	992.1
Total current liabilities	**18,325.0**	**226,398.4**	**236,993.4**	**140,487.9**	**119,458.6**
Long-term debt	130,094.6	1,607,267.1	1,625,551.1	1,049,320.5	684,333.3
Deferred revenue	1,496.3	18,485.8	17,851.2	13,234.2	9,057.0
Employee benefits	86.4	1,067.4	1,033.4	465.4	300.4
Deferred income tax	17,959.6	221,883.9	224,713.5	248,381.0	260,846.6
Total liabilities	**167,961.9**	**2,075,102.5**	**2,106,142.7**	**1,451,889.0**	**1,073,995.9**
Equity					
Equity attributable to owners of the Company:					
Issued capital	58,030.4	716,942.8	716,942.8	716,942.8	716,942.8
Additional paid-in capital	86,948.9	1,074,219.2	1,074,219.2	1,074,219.2	1,074,219.2
Retained earnings	51,315.9	633,987.8	651,702.8	644,867.5	623,370.1
Accumulated other comprehensive income	(501.1)	(6,191.2)	1,187.2	3,211.4	139.0
Total equity attributable to owners of the Company	**195,794.2**	**2,418,958.6**	**2,444,052.0**	**2,439,240.9**	**2,414,671.1**
Non-controlling interests	72,073.1	890,434.3	812,909.2	730,275.9	615,132.9
Total equity	267,867.3	3,309,392.9	3,256,961.3	3,169,516.8	3,029,804.0
Total liabilities and equity	**435,829.2**	**5,384,495.4**	**5,363,104.0**	**4,621,405.8**	**4,103,799.9**

	For the Three Months Ended March 31,			For the Year Ended December 31,		
	2013	2013	2012	2012	2011	2010
	(thousands of US$)	(thousands of Ps.)		(thousands of Ps.)		
Non-IFRS Financial Data						
Adjusted EBITDA	6,156.1	76,056.3	63,108.6	279,715.0	189,691.8	174,592.3

See "—Adjusted EBITDA Reconciliation" below for a reconciliation of our operating profit to Adjusted EBITDA.

	As of or for the Year Ended December 31,		
	2012	2011	2010
Operating Data			
Number of hotels at year end	71	62	50
Number of rooms at year end	8,092	6,973	5,562
Room growth (%)	16.0%	25.4%	11.4%
Average Occupancy Rate	56.8%	54.8%	56.7%
ADR (Ps.)	683	668	654
RevPAR (Ps.)	388	366	371

	As of or for the Year Ended December 31,		
Established Hotels Operating Data	2012	2011	2010
Number of Established Hotels at year end	45	35	26
Average Occupancy Rate	59.8%	59.4%	61.9%
ADR (Ps.)	691	682	676
RevPAR (Ps.)	413	405	418
	(in thousands of Ps. unless otherwise indicated)		
Revenues	766,608.9	557,371.7	444,131.0
Operating costs	454,294.8	326,531.6	254,975.4
Profit attributable to Established Hotels	312,314.1	230,840.1	189,155.5

RISK FACTORS

An investment in our shares involves risks. Before making a decision to buy any shares in this offering, you should carefully consider the risks described below as well as the other information contained in this offering memorandum. Any of the following risks could materially affect our business, financial condition, results of operations or prospects. In such case, the price or liquidity of our shares could decline and you could lose all or part of your investment. The risks described below are those that we currently believe may adversely affect us. Additional risks that are presently unknown to us may also impair our business, financial condition, results of operations or prospects.

Risks Related to our Business

We are subject to various operating and business risks common to the lodging industry in general.

Our hotels are subject to various operating and business risks common to the lodging industry, including the following:

- changes in the general global economic conditions and, in particular, adverse effects of local economic, regional and national market conditions;
- domestic and international political and geopolitical developments that could adversely affect travel conditions in the countries in which we operate;
- competition from other hotel properties or lodging facilities in our markets and lodging segments;
- attractiveness of our hotels, including our locations, ADRs and amenities, to our guests;
- over-supply of, or reduction in demand for, hotels in our markets and lodging segments, which would adversely affect occupancy and revenues at our hotels;
- the impact of security issues and criminal activity on the quantity and destinations of business travel;
- dependence on business and commercial travelers and their travel patterns, preferences and methods of transportation;
- increases in operating costs and expenses, including but not limited to the cost of human capital, energy, water, insurance or other operating costs, including due to inflation;
- risks related to investments in real property generally, including changes in interest rates, taxes and the ongoing need for capital improvements;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations;
- unforeseen events beyond our control, such as terrorist attacks, travel related health concerns, including pandemics and epidemics, such as avian flu, SARS or H1N1 influenza, political instability, regional hostilities, travel related accidents and unusual weather patterns, including natural disasters such as hurricanes, tsunamis or earthquakes;
- litigation brought by our guests, employees, third-party property owners, business partners, suppliers and any with whom we do business;
- the financial condition of third-party property owners of our hotels;

- foreign exchange fluctuations and the availability of financial institutions to continue funding our investments; and

- the financial situation of the aviation industry and its impact in the lodging industry.

Changes in any of these conditions could adversely affect our occupancy rates or ADRs or otherwise adversely affect our results of operations and financial condition.

The geographic concentration of our properties in Mexico may leave us vulnerable to changes in political, economic and other events, such as drug-related violence, that affect Mexico and lodging demand in our markets.

We are organized in Mexico and all but one of our operating hotels are currently located in Mexico. Due to the geographic concentration of our properties in Mexico, we are particularly exposed to adverse developments that specifically affect Mexico, such as potential downturns in the Mexican economy, political developments and the public's attitude towards the safety of travel in Mexico. The Mexican economy was significantly and adversely affected by the recent global financial crisis, as evidenced by a 6.0% decrease in the country's GDP in 2009. The economic recession presented many challenges for the hotel ownership and management industry and our target markets. Among other factors, we are exposed to variations in employment levels and inflation, which affect companies' spending habits. Economic or political changes that reduce disposable income or consumer or business confidence may affect demand for business-related travel. Decreases in lodging demand could lead to price discounting that, in turn, could also reduce the profitability of our business. High crime rates, violence resulting from drug-trafficking activities and kidnappings have been experienced in several areas of Mexico, including areas in which we operate, and have been widely covered in the international media. Business travelers have been and may continue to be deterred from traveling to Mexico or certain areas within Mexico in which we operate based on these events and the resulting media coverage. Lodging demand has been and is expected to continue to be affected by these and other similar circumstances, which could adversely and significantly affect our activities, financial condition, results of operations, capacity to pay dividends, the trading price of our shares and the value of our properties.

The lodging industry is highly competitive, and, if we are unable to compete successfully, our financial condition and results of operations may be harmed.

The lodging industry is highly competitive. Our target segment is value-conscious business travel and we compete primarily with other hotel chains as well as independent lodging facilities where the competition is mainly based on location, room rates, commercial and distribution capacity, brand recognition, the quality of the accommodations and service levels. In addition, we may face competition from new entrants in the business and in our target segments in Mexico and in the countries in which we have business interests, including Colombia, Chile, Peru and Costa Rica. Some competitors, including those affiliated with large chain operations, may have significantly greater financial, marketing and other resources than we have. Furthermore, we compete with all other hotels for guests in each market in which we operate, as our typical business guests may change their travel, spending and consumption patterns and choose hotels in different segments. Competitors may offer more competitive rates, greater convenience, services or amenities or superior facilities, which could attract guests away from our hotels, resulting in a decrease in occupancy rates and ADRs for our hotels. Any of these factors may have an adverse effect on our competitive position, results of operations and financial condition.

Our principal business strategy is to develop new hotels in the limited-service segment and to selectively acquire hotels in Mexico. We are subject to risks inherent in concentrated investments in a particular industry and within selected segments of such industry. Increased competition in the hotel industry in general or in the segments in which we operate could have a greater impact on us than if we had diversified our investments outside limited-service hotels or the hotel industry or in additional market segments and could have a material adverse effect on our financial condition and our results of operations.

In addition, while we seek to grow through increasing the number of hotel properties we own, a portion of our existing business is to lease or manage hotel properties owned by others, and we face competition from other entities seeking the same opportunities. Although in the past we have generally been successful in renewing our existing

contracts, and in finding new properties to manage, there can be no assurance that we will continue to be as successful in the future. Competition may generally reduce the number of suitable growth opportunities available to us, increase the bargaining power of property owners and reduce our operating margins. In addition, the terms of management contracts and leases that we enter into in the future may not be as favorable as agreements that we have entered into previously.

We may not be able to achieve our growth objectives.

We have implemented an accelerated growth strategy for our hotel business. In addition to the nine hotels we began operating in Mexico in 2012, we opened our first international hotel in San José, Costa Rica in November 2012 with a joint-venture partner. We have hotels in our development pipeline primarily in Mexico, as well as in Colombia and Chile. Our ability to expand will depend on a number of factors including, but not limited to, economic conditions, our ability to attract and retain employees and labor, the availability of new properties that we can lease or manage, the availability of suitable locations for new-construction hotels and all the risks inherent in acquisitions and property development. In addition, we have entered into joint-venture arrangements in respect of our international operations, and our growth plan is dependent on successful relationships with our partners, including that our partners honor their commitments, financial and otherwise. There can be no assurance that our expansion plans both in Mexico and in Latin America can be accomplished, or that new hotels will meet with consumer acceptance, be operated profitably or justify the associated capital invested.

If the opportunity arises, we may explore acquisitions of undeveloped properties or hotels in new markets across Latin America. Successful execution of our growth plan will require significant capital expenditures before any significant associated revenues are generated, and each of the risks applicable to our ability to successfully develop and operate hotels in our current markets is also applicable to our ability to develop and operate hotels in new markets. Our international operations are subject to numerous additional risks including political, geopolitical and social developments in the relevant countries; our lack of familiarity with the dynamics and market conditions of any new markets we may enter; exposure to local economic conditions; compliance with the various legal requirements of each relevant jurisdiction; potential adverse changes in the relations of foreign countries with Mexico; restrictions and taxes on the withdrawal of foreign investment and earnings; government policies against businesses owned by foreigners; investment restrictions or requirements; diminished ability to legally enforce our contractual rights in foreign countries; fluctuations in foreign currency exchange rates; and adverse tax rates. We may be unable to expand into new markets or achieve a return on our investments in new markets, which could adversely affect our business, financial condition and results of operations and cash flow. In addition, our growth plans may detract financial and other resources, including management resources, from our existing operations, in the event that we are unable to effectively manage and implement our growth strategy and our operations. The risks associated with the international expansion of our operations are difficult to predict or mitigate and could have a material adverse effect on our business, financial condition and results of operations.

We are exposed to risks associated with property development.

We have focused on acquiring land parcels and developing our own hotel properties as greenfield developments. Our business plan is centered on the development of detailed and standardized parameters for hotel construction that allow for a consistent and replicable development process, which in turn minimizes variations in development costs and project times. Development and construction projects, however, subject us to inherent development risks, including, without limitation:

- the identification of suitable strategically located properties and the acquisition of such properties on favorable terms;
- competition from other lodging business-related companies that may have more financial resources than us, which may increase the purchase price of a desired property;
- the resulting lack of capitalization on any investment related to identifying and valuing development opportunities, should we subsequently decide to abandon such opportunities;

- availability and timely receipt of zoning and other regulatory approvals, the denial of which could delay or prevent placing a hotel into operation;

- the cost and timely completion of construction (including unanticipated risks beyond our control, such as weather or labor conditions, shortages of materials or labor and construction overruns);

- our dependency on the third parties whom we contract to construct our hotels, including their ability to meet construction timing, quality and budget expectations;

- design or construction defects that could result in additional costs associated with repair, delay or the closing of part or all of a property during such repair period;

- insufficient cash from operations, or an inability to obtain the necessary debt or equity financing on satisfactory terms, to consummate an acquisition or development project; and

- the ability to achieve an acceptable level of occupancy upon completion of construction.

These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development or redevelopment projects once undertaken, making the project less profitable than originally estimated or not profitable at all and therefore having an adverse effect on our business, financial condition, results of operations and cash flow.

Our business is capital-intensive, and we may not have access to adequate financing.

For our hotel properties to remain attractive and competitive, we have to consistently invest resources to keep the properties well-maintained, modernized and refurbished. Furthermore, the hospitality industry continues to demand the use of sophisticated technology and systems, which can be expected to require enhancements and new interfaces, including those to comply with legal requirements such as privacy regulations and specifications established by third parties such as the payment card industry. The development and maintenance of these technologies may require significant capital. In addition, to execute our growth strategy and maintain a strong and visible network of hotels we need to invest resources to develop new hotels or to acquire hotels in strategic locations. We also intend to purchase over time the minority interests of certain partners in respect of the hotels we co-own. These efforts create an ongoing need for cash and, to the extent we cannot fund expenditures from cash generated by operations, funds generally must be borrowed or otherwise obtained.

In the past, we have been able to obtain equity or debt financing on terms attractive to us. The availability of financing to Mexican companies and the interest rates and general terms and conditions, however, are often not competitive with those of countries such as the United States and other developed economies. Recent events, including the failures and near failures of financial services companies and the decrease in liquidity and available capital, have tightened the availability of credit and increased the cost of obtaining financing for hotel investments. Our access to capital will depend upon a number of factors over which we have little or no control, including general market conditions, the market's perception of our current and potential future earnings and cash distributions and the market price of our shares. We cannot assure you that we will be able to continue to raise financing from past sources, or from other sources, on terms comparable to our existing financing or at all. If the cost of such financing increases or we are unable to obtain such financing, we may be forced to incur higher financing costs than we currently incur, which could have an adverse impact on the execution of our growth strategy and business.

Our financing arrangements contain debt service obligations and restrictive covenants that may adversely affect our operations, overall operating results and our and our subsidiaries' ability to make distributions in the future.

As of December 31, 2012 we held, through our subsidiaries, Ps.1,712.2 million of total indebtedness. Of such total indebtedness, approximately Ps.86.7 million was short-term indebtedness (including the current portion of long-term indebtedness) and approximately Ps.1,625.6 million was long-term indebtedness. In addition, we intend to incur additional debt to fund our growth strategy and develop new hotels. Current and future debt obligations subject us to many risks, including:

- interest rates may increase or exchange rates may fluctuate in a way that adversely affects our borrowing costs;

- our operating cash flow may be insufficient to make required payments of principal and interest;

- our leverage may increase our vulnerability to adverse economic and industry conditions;

- our compliance with certain restrictive covenants may limit our ability to, among other things and subject to certain exceptions, borrow additional money, make prepayments on our debt, consummate acquisitions or investments, dispose of assets, incur liens, enter into transactions with affiliates or pay dividends;

- we may be required to dedicate a substantial portion of our operating cash flow from operations to payments on our debt, thereby reducing funds available for operations and capital expenditures, future business opportunities, dividends or other purposes; and

- the terms of any refinancing we seek may not be as favorable as the terms of the debt being refinanced.

In particular, certain of our subsidiaries are subject to financial ratio covenants, including: (i) leverage ratios, calculated by dividing total liabilities by total equity; (ii) interest coverage ratios, calculated by dividing gross operating profit plus depreciation by net interest; and (iii) debt coverage ratios, calculated by dividing gross operating profit plus depreciation by the current portion of long-term total debt plus interest paid. In addition, the terms of some of these financial obligations restrict our subsidiaries from disposing of or distributing assets without the consent of the relevant financial institution or creditor, which could affect our ability to pay dividends. See "—We are a holding company, and we depend on the results of operations of our subsidiaries."

If we violate covenants in our debt agreements, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all.

We face risks related to fluctuations in interest rates, which could negatively affect the results of our operations and our ability to repay our debts and other obligations.

As of December 31, 2012, we had a total of Ps.1,551.7 million in financial liabilities that bore interest at variable rates. Fluctuations in interest rates will affect the cost of these liabilities. If interest rates increase, the payment obligations on variable interest rate debt will increase (even if the principal amounts remain the same) and the net profits available to pay off this debt will decrease. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Risk Management—Interest Rates." As a result, our financial condition, results of operations and liquidity could be adversely affected. In addition, our attempts to minimize the risks related to interest rates by financing our liabilities in the long term with fixed interest rates and the use of derivatives, such as interest rate swaps, could result in a failure to achieve savings if interest rates were to decline.

We are subject to governmental regulations.

We are subject to laws, ordinances and regulations relating to, among other things, taxes, environmental matters, accessibility for disabled persons, equal opportunity, construction, occupational health and safety and general building and zoning requirements in the various jurisdictions in which our hotels are located. Owners and managers of hotels may also be subject to laws governing the relationship with hotel employees, including minimum wage requirements, overtime, working conditions and work permit requirements. In November 2012, Mexican federal labor laws were amended to regulate discrimination in the workplace, trial and temporary employment and sub-contracting. We cannot predict whether these reforms will increase labor costs and expenses or have an effect on the terms and conditions of our employment contracts or the working conditions of our employees. In addition, compliance with these laws may be cumbersome and difficult to monitor, and failure to comply with them may materially and adversely affect our results of operations. We cannot assure you that existing regulatory policies will not adversely affect us or the timing or cost of any future acquisitions, developments or renovations, or that additional regulations will not be adopted that would increase such delays or result in additional costs.

Local and municipal regulations, including zoning and other restrictions, may restrict the use of our hotels and require at any time the authorization of local authorities or private community organizations regarding our real estate properties, including before their acquisition or development, and after development, for any refurbishments of any of our real estate properties. Among others, such restrictions may have fire hazard and safety requirements. Our growth strategy may be affected by our capacity to obtain permits, licenses and zoning approvals. Failing to obtain such permits, licenses and zoning approvals may have an adverse effect on our business, financial condition and results of operations.

In addition, Mexican environmental regulations have become increasingly stringent over the last decade. The Mexican government has implemented an environmental program enacting regulations related to ecological planning, risk evaluation and environmental impact, air pollution, protected natural areas, protection of flora and fauna, conservation and rational use of natural resources and ground pollution, among many others. Environmental laws, ordinances and regulations of the various jurisdictions in which we operate regulate our properties and could make us liable for the costs of removing or cleaning up hazardous or toxic substances on, under, or in property we currently own, operate or lease or that we previously owned, operated or leased without regard to whether we knew of, or were responsible for, the presence of hazardous or toxic substances. The presence of hazardous or toxic substances, or the failure to properly clean up such substances when present, could jeopardize our ability to develop, use, sell or rent the affected real property or borrow money using such property as collateral. The Mexican federal authorities, such as the Environment and Natural Resources Ministry (*Secretaría de Medio Ambiente y Recursos Naturales*), the Federal Environmental Protection Agency (*Procuraduría Federal de Protección al Ambiente*) and the National Water Commission (*Comisión Nacional del Agua*), as well as municipal authorities, have the authority to file civil, administrative and criminal proceedings against companies that breach the applicable environmental laws, and may also stop any development that does not comply with such laws. Future changes in environmental laws or the discovery of currently unknown environmental conditions may have a material adverse effect on our financial condition and results of operations. See "Our Business—Regulation."

Our operating costs or our expenses may remain constant or increase, even if our revenue does not increase, causing our results of operations to be adversely affected.

We are subject to factors that may adversely affect our ability to control operating costs, including the need to pay for insurance, real estate taxes, repairs or renovations of our hotels, compliance with governmental regulation, including zoning, environmental and tax laws, interest rates and personnel. Inflation could increase disproportionately to the pace at which we can profitably raise our ADRs. While our management team may be able to implement cost control measures to combat inflationary effects, we may still experience increased operating costs. If our operating costs increase as a result of any of the foregoing expenses, or any other expenses that may arise in the future, our results of operations may be materially and adversely affected. The expenses of owning and operating a hotel are not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from the hotel. As a result, if revenue declines, we may not be able to reduce our expenses accordingly. Costs associated with lodging investments, such as real estate taxes, insurance, loan payments and maintenance, generally will not be reduced even if a hotel is not at full occupancy or other circumstances cause our revenues to decrease.

Our assets may be subject to impairment charges, which would have an adverse effect on our net asset value and our results of operations.

We periodically evaluate our hotels and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, hotel performance and legal structure. For example, operating losses or negative cash flows in a given financial period, if combined with a history or a projection of losses, depreciation and amortization charged to our operating results that, in percentage terms, with respect to revenues, are substantially greater than those of prior financial years, obsolescence, reduction in the demand for services provided, competition and the presence of other economic and legal factors may lead to an impairment charge. If we determine that an impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset, which could have a material adverse effect on our net asset value and results of operations in the period in which the impairment charge is recorded.

Our real estate taxes could increase as a result of changes in the real estate tax rate or a revaluation, which could adversely affect our cash flows.

We have an obligation to pay state and local taxes in respect of each of our hotels. Such real estate taxes may increase as a result of the change in the tax regime, the applicable tax rate or as a result of the valuation or revaluation of our hotels by the tax authorities. Therefore, the real estate tax amount to be paid in the future may differ from the real estate tax amount paid in the past. If such real estate tax amounts increase, it could adversely affect our financial condition, results of operations and cash flow.

Our financial and operating performance may be adversely affected by epidemics, natural disasters and other catastrophes.

Any outbreaks or recurrence of avian flu, SARS, H1N1 influenza or other adverse public health developments in Mexico may have a material adverse effect on our business operations. In April 2009, an outbreak of H1N1 influenza occurred in Mexico and the United States that spread to more than 70 countries. In Mexico, localized public-health measures were implemented as a result of outbreaks of H1N1 influenza, including travel bans, the closings of schools and businesses and cancellations of events. Similar epidemics could impact travel and lead to the implementation of additional public-health measures and result in reduced demand for places of public accommodation, such as our hotels, and negatively affect our business and results of operations. Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business and results of operations.

Certain of our properties are located in areas that are more susceptible to, and could be significantly affected by, natural disasters. In particular, a number of our properties are located in regions that are susceptible to earthquakes, floods and hurricanes. In 2005 and 2008, strong hurricanes disrupted the operations of our hotels on the Gulf of Mexico and the Caribbean. These storms had a temporary adverse impact on our business and results of operations, even though our hotels were able to continue operating and returned to normal operations in a timely fashion. If similar events were to occur in the future, we could suffer interruptions in our operations, work stoppages or damage to our properties, which could have a significant adverse effect on our results of operations. Moreover, a number of our properties are also located in regions that are susceptible to droughts and water scarcity, which could lead to unexpected increases in our operating costs.

Losses caused by epidemics and natural disasters, including earthquakes or hurricanes, are either uninsurable or too expensive to justify insuring against in Mexico. In the event an uninsured loss or a loss in excess of insured limits occurs, we could lose all or a portion of the capital we have invested in a hotel, as well as the anticipated future revenues from the hotel. In that event, we might nevertheless remain obligated for any financial commitments related to the hotel. Also, in such a case, we may not have sufficient available cash, or access to equity or debt financing necessary to reconstruct or replace the affected properties. Similarly, wars (including the potential for war), terrorist activity (including threats of terrorist activity), social unrest and heightened travel security measures instituted in response to social unrest, travel-related accidents, as well as geopolitical uncertainty and international conflict, will affect travel and may in turn have a material adverse effect on our business, financial condition, and results of operations. We may not be adequately prepared in contingency planning or recovery capability in relation to any of the foregoing incidents or crises, and as a result, our operational continuity may be adversely and materially affected and our reputation may be harmed.

Co-owned or joint-venture properties may carry certain additional risks relative to wholly owned properties.

As of December 31, 2012, we co-owned 21 hotels in Mexico. In addition, we have recently entered into joint-venture arrangements for our hotel in Costa Rica and our international expansion plans in Colombia, Chile and Peru. We expect to continue to invest in real estate and other hospitality related co-ownership arrangements, including joint ventures. We may encounter difficulty identifying, or reaching agreement with, our current or potential business partners, which may delay or restrict our ability to carry out our business plan. In addition, co-ownership and joint ventures often have shared control over the operation of the relevant assets, and these investments therefore may involve risks such as a lack of control with respect to a real estate property or joint venture or the possibility that the co-owner or joint venture partner in an investment might become bankrupt, not have the financial resources to meet its obligations or have economic or business interests or goals that are inconsistent with our

business interests or goals. Co-owners and joint-venture partners may block or delay the necessary decisions or make decisions or take other actions in opposition to our business plan or policies. Any dispute between us and our co-owners or joint-venture partners may lead to an arbitration or litigation, which could increase our expenses and prevent management from focusing their time and efforts on our business. Consequently, actions by a co-owner or joint-venture partner may subject us to additional risk or result in actions that are inconsistent with our business interests or goals.

Our management contracts and leases may be terminated or not renewed under various circumstances, which may have a material impact on our results of operations.

As of December 31, 2012, we managed 13 hotels owned by third-parties pursuant to management contracts and four hotels pursuant to franchise agreements. Under certain of our management contracts, the owner may cease our management of the property and terminate the contracts if we breach any substantial obligation under these agreements, subject to an early termination penalty payment by the breaching party. We also lease ten hotel properties and manage them. Although our hotel management contracts or leases ordinarily limit the owner's ability to transfer or convey such hotels or to assign its rights to a third party and seek other protections, we cannot assure you that such transfer or conveyance will not occur nor that the third party to which the land or rights are conveyed will continue performing under such agreements. We have not experienced any material problems with respect to renewing our management or lease agreements, but we cannot assure you that the termination protections included in our management contracts and leases will prevail in our favor.

The termination of management contracts as a result of hotel dispositions or our inability to renew such contracts on terms as favorable to us could have an adverse effect on our revenues. In addition, hotel owners may choose to allow our management contracts to expire. The average term of our management contracts is 15 years, and the average term for our hotel leases is 15 years. In addition, we have the right to assign a management contract to an unrelated third party without prior written consent of the relevant hotel owner. We do not have the right to assign lease agreements to third parties without the prior written consent of the lessor. The termination of management contracts or hotel leases could have a material adverse effect on our results of operations.

We are reliant on our labor force and management team.

Our managerial and other employees interact with our guests on a daily basis. They are critical to maintaining the quality and consistency of our services as well as our established brands and reputation. In general, employee turnover, especially those in lower-level positions, is relatively high in the lodging industry. As a result, it is important for us to retain as well as attract qualified managerial and other employees who are experienced in lodging or other consumer-service industries. We must provide continuous training to our managerial and other employees so that they have up-to-date knowledge of various aspects of our hotel operations and can meet our demand for high-quality services. If we fail to do so, the quality of our services may decrease, which in turn, may have a material and adverse effect on our products and our business.

Approximately 45% of our employees belong to various unions. Union contracts for hotel employees in several major markets are renewed periodically. Although we have not experienced labor stoppages or disruptions in the past, labor disputes or the failure to timely renegotiate expiring union contracts could result in labor stoppages or disruptions, which could adversely affect our revenues and profitability.

We also depend to a significant degree on the talent, abilities and experience of the members of our management team, each of whom would be difficult to replace due to his or her extensive experience in the hotel industry and the technical knowledge relating to our operations. The loss of any of these individuals or our inability to attract and retain sufficient qualified senior management could have a material adverse effect on our business and future operations.

We are subject to risks relating to investments in real property.

We are subject to risks that generally relate to investments in real property because of the properties we own and lease. Real property may not generate the expected investment returns due to a variety of reasons, including the

amount of income earned, capital appreciation generated and expenses incurred. In addition, regulations and interest rates can make it more expensive and/or time-consuming to develop real property or expand, modify or renovate hotels. Under expropriation and similar laws, governments can take or expropriate real property in exchange for some measure of "reasonable" compensation. Sometimes the compensation paid in an expropriation is less than the owner believes the property is worth. Under the Federal Law of Eminent Domain, Mexican federal authorities also have the authority to order the seizure of any property, without compensation and prior to judgment, if such property was used for the commission of drug trafficking crimes. Furthermore, we use a variety of legal structures to purchase and dispose of our real estate investments, including trusts and other holding entities. In addition, certain of our hotels are in condominiums and are subject to the rules and regulations of the condominium's association, as well as common area charges. Any of these factors could have a material adverse impact on our results of operations or financial condition.

Real estate investments are not as liquid as other types of investments, and this lack of liquidity may limit our ability to react promptly to changes in economic, market or other conditions. Our ability to dispose of real estate assets on advantageous terms depends on factors beyond our control, including competition from other sellers, demand from potential buyers and the availability of attractive financing for potential buyers. We cannot predict the various market conditions affecting real estate investments that will exist at any particular time in the future. Due to the uncertainty of market conditions that may affect the future disposition of our real estate assets, we cannot assure you that we will be able to sell our real estate assets at a profit in the future.

Interruption or failure of our information systems could impair our ability to effectively provide our services, which could damage our reputation.

Our ability to provide consistent and high-quality services, to monitor our operations on a real time basis throughout our hotels and to successfully achieve our corporate and financial goals depends on the continued operation of our information technology systems, which include three core application engines that handle on-site hotel management and reporting, reservations, and centralized back office management. Any damage to or failure of our systems could affect the manner of our services in terms of efficiency, consistency and quality and reduce our guest satisfaction.

Our technology platform plays a central role in our management of hotel room inventory, revenues, loyalty program and franchises. Furthermore, we rely on our centralized reservation system to capture reservations from a wide range of sources and to facilitate and standardize the reservation process for our corporate clients. Our systems remain vulnerable to damage or interruption as a result of power loss, fires, natural disasters, interruptions in access to our toll-free numbers, hacking or other attempts to harm our systems and other similar events. Some of our systems are not fully redundant, and our disaster recovery planning does not account for all possible scenarios. Furthermore, our systems and technologies, including our website and database, could contain undetected errors or become outdated, and we may not be able to replace or introduce upgraded systems as quickly as our competitors or within budgeted costs for such upgrades. If we experience system failures, our quality of services, guest satisfaction, and operational efficiency could be severely harmed, which could also adversely affect our reputation.

We may be unable to complete hotel acquisitions that would grow our business, and, even if we consummate such acquisitions, we may fail to successfully integrate and operate acquired properties.

While we intend to continue to grow our business through the development and construction of new hotels, we may, from time to time, engage in selective and strategic acquisition of existing hotels. The acquisition of existing hotels is subject to different risks than property development. In particular, we face the risk that we overestimate the value of the proposed acquisition, including as a result of deficiencies in our due diligence investigations or our budgeted amounts for renovation or redevelopment. Generally, we also make certain deposits in connection with acquisitions that we may not be refunded should we fail to consummate the acquisition. In addition, we may acquire hotels without any recourse, or with only limited recourse, for liabilities, whether known or unknown, such as clean-up of environmental contamination, claims by guests, vendors or other persons against the former owners of the hotels and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the hotels. Our ability to successfully integrate and operate acquired hotels is also subject risks, including:

- acquisition of properties that are not accretive to our results upon acquisition;

- the cost or time to complete the renovation or redevelopment will exceed the budgeted amounts;
- diverting the attention of senior management from our existing business operations; and
- failure to successfully re-brand or re-position the acquired hotel for our target segments.

If we cannot complete hotel acquisitions on favorable terms, or operate acquired hotels to meet our goals or expectations, our business, financial condition, results of operations and cash flow, the trading price of our shares and our ability to make distributions to holders of our shares and to satisfy any future debt service obligations could be materially and adversely affected.

The need for business-related travel and, thus, demand for rooms in our hotels may be materially and adversely affected by the increased use of business-related technology.

The increased use of teleconference and video-conference technology by businesses could result in decreased business travel as companies increase the use of technologies that allow multiple parties from different locations to participate at meetings without traveling to a centralized meeting location, such as our hotels. To the extent that such technologies play an increased role in day-to-day business and the necessity for business-related travel decreases, demand for our hotel rooms may decrease and we could be materially and adversely affected.

Concentration in internet distribution channels may negatively impact our distribution costs.

Metadata travel intermediaries that research, plan and book a broad range of travel products are increasingly used to facilitate hotel bookings over the internet. As the percentage of internet bookings increases, these internet travel intermediaries may have increased leverage to obtain higher commissions or reduced room rates. Moreover, some of these internet travel intermediaries are attempting to commoditize hotel rooms, by increasing the importance of price and general indicators of quality at the expense of brand identification. The business plan of these intermediaries is based on an assumption that consumers will eventually develop brand loyalties to their reservations systems rather than to the service provider brands. Although we expect to derive most of our business from our direct distribution channels and traditional channels, if the amount of sales made through internet intermediaries increases significantly, our business and profitability may be harmed.

The termination of commercial partnerships could affect our results of operations.

We have established a broad range of commercial partnerships with well-known airlines, car rental companies, retailers and other businesses, whose customers are able to reserve rooms in our hotels based on preferential rates and other benefits offered through these partnerships. Our commercial partners are subject to various risks that could adversely affect us, including negative developments in the respective industries of our counterparties, any loss of prestige of our counterparties' respective brands or wars, natural disasters or other similar events outside the control of our counterparties. We may also be affected by changes in the negotiating power of our commercial partners and our ability to negotiate terms and conditions that are favorable to us. There is no certainty that all our counterparties in these partnerships will continue to honor their obligations under the existing contracts, nor that we will be able to renegotiate, modify or extend the terms of such contracts in a manner that is favorable to us. In the event any of our commercial partnerships expires without renewal or is terminated, we cannot guarantee that we will be able to find another partner that will provide improved or similar benefits. While we do not depend significantly on any one of these commercial partnerships, the loss of these partnerships could have a negative effect on occupancy rates, ADRs and our financial condition and results of operations.

Failure to maintain the integrity of internal or guest data could result in harm to our reputation or subject us to costs, liabilities, fines or lawsuits.

Our business involves collecting and retaining large volumes of internal and guest data, including credit card numbers and other personal information as our various information technology systems enter, process, summarize and report such data. We also maintain information about various aspects of our business operations as well as our employees. The integrity and protection of our guest, employee and company data is critical to our business. Our

guests and employees expect that we will adequately protect their personal information. A theft, loss, fraudulent or unlawful use of guest, employee or company data could harm our reputation or result in remedial and other costs, liabilities, fines or lawsuits.

Any failure to protect our trademarks and other intellectual property rights could have a negative impact on the value of our brand names and adversely affect our business.

We believe our trademarks and other intellectual property rights are an important component of our business. We rely on trademark laws to protect our proprietary rights. The success of our business depends in part upon our continued ability to use our trademarks to increase brand awareness and further develop our brand in both the Mexican and international markets. Monitoring the unauthorized use of our intellectual property is difficult and burdensome. In the future, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation of this type could result in substantial costs and diversion of resources, may result in counterclaims or other claims against us or divert management attention and could significantly harm our results of operations. From time to time, we apply to have certain trademarks registered in Mexico and other countries in Latin America. There is no guarantee that such trademark registrations will be granted. We cannot assure you that all of the steps we have taken to protect our trademarks in Mexico and other countries in Latin America will be adequate to prevent infringement of our trademarks by others. The unauthorized reproduction of our trademarks could diminish the value of our brand and its market acceptance, competitive advantages or goodwill, which could adversely affect our business.

The assets we acquire may be subject to unknown liabilities that could affect the value and profitability of these properties.

In connection with our acquisitions of real estate properties and buildings, we assume existing liabilities associated with such real estate properties or buildings, some of which may be unknown or unquantifiable at the time of the global offering. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of tenants, vendors or other persons dealing with the entities prior to the acquisition by us of such properties, tax liabilities, employment-related issues, and accrued but unpaid liabilities, whether incurred in the ordinary course of business or otherwise. If the magnitude of such unknown liabilities is high, either singly or in the aggregate, such liabilities could adversely affect our business, financial condition, results of operations and cash flow and the trading price of our shares.

Delays in the constructions of new buildings or improvements on our properties may have an adverse effect on our financial condition and results of operations.

Delays in the construction of new buildings or improvements in our existing buildings could adversely affect our results of operations and financial condition. The construction, design, engineering, furnishing and opening phases related to our new hotels typically take six to eleven months in total, while the time period for improvements to our existing buildings varies depending upon the specific project and property. If we experience delays in the delivery of the construction works and design and engineering services for our new buildings or improvements for our existing buildings or if our contractors fail to comply with their obligations under their respective agreements, we will not be able to start operations until completion of the construction of new buildings or improvements on our existing properties. Furthermore, this may impact our business as it could be viewed as affecting our service levels. Therefore, our results of operations and financial condition may be materially adversely affected.

Our revenues may not be sufficient to cover our obligations under our lease agreements.

Of the hotels we operate, we currently lease ten hotels from third-party owners. We make lease payments based on a fixed component and in certain instances a variable component based on the hotel's performance. Under each lease agreement, we are required to reserve up to 2% of hotel revenues for capital improvements, maintenance and refurbishments. We must comply with our lease obligations, including lease payment obligations and other obligations that require us to incur certain operating expenses, even if the hotel operation is not profitable. Our financial and operating condition may be adversely affected to the extent that our revenues and operating profits are not sufficient to cover our obligations under the lease agreements.

If we were to incur uninsured or uninsurable losses, or losses in excess of our insurance coverage, we would be required to pay for such losses, which could adversely affect our financial condition and our cash flow.

We carry certain insurance, including civil liability, property, casualty and business interruption insurance. Certain types of losses may be either uninsurable or not economically insurable, such as losses due to acts of war. Should an uninsured loss occur, we could lose both our investment in and anticipated profits and cash flow from a property. If any such loss is insured, we may be required to pay a significant deductible on any claim for recovery of such a loss prior to our insurer being obligated to reimburse us for the loss, or the amount of the loss may exceed our coverage for the loss. In addition, future lenders may require such insurance, and our failure to obtain such insurance could constitute a default under our loan agreements. In addition, we may reduce or discontinue earthquake, flood or other insurance on some or all of our properties in the future if the cost of premiums for any of these policies exceeds, in our judgment, the value of the coverage discounted for the risk of loss. In addition, if any one of our insurance carriers were to become insolvent, we would be forced to replace the existing insurance coverage with another suitable carrier at potentially unfavorable rates, and any outstanding claims would be at risk for collection. If we were to incur uninsured or uninsurable losses, or losses in excess of our current coverage, our business, financial condition, results of operations, cash flow, trading price of our shares and our ability to make distributions to holders may be materially and adversely affected.

Our success could be adversely affected by the performance of our managed and franchised hotels.

Our success could be adversely affected by the performance of our managed and franchised hotels, over which we have lesser control compared to our owned, co-owned and leased hotels. As of December 31, 2012, we had 13 managed hotels, representing 18.3% of our total rooms, and four franchised hotels, representing approximately 5% of our total rooms. Our franchisees may not be able to develop hotel properties on a timely basis, which could adversely affect our growth strategy and may impact our ability to collect fees from them on a timely basis. Furthermore, given that our franchisees are typically responsible for the costs of developing and operating the hotels, including renovating or developing hotel property to our standards, and all of the operating expenses, the quality of our franchised and managed hotel operations may be diminished by factors beyond our control, and franchisees may not successfully operate hotels in a manner consistent with our standards and requirements. While we ultimately can take action to terminate franchises that do not comply with the terms of our franchise-and-management agreements, we may not be able to identify problems and make timely responses and, as a result, our image and reputation may suffer, which may have a material adverse effect on our results of operations.

Fluctuations in foreign currency exchange rates could negatively affect our operating results.

Although to date substantially all of our revenue is denominated in Mexican pesos, and our operating expenses are denominated in Mexican pesos, a portion of our indebtedness related to our hotel in Costa Rica is denominated in U.S. dollars; similarly, a portion of our indebtedness related to land we have acquired in Chile is denominated in Chilean pesos. In addition, as we expand internationally into other countries in Latin America, we expect to have revenues and expenses in the currencies of Chile and Colombia in the near term. As historically we have not entered into foreign exchange hedges, we may be subject to exchange rate fluctuations, which could negatively affect our results of operation and financial condition.

We are subject to risks related to litigation filed by or against us.

We are subject to a number of legal actions in the ordinary course of business, as well as exposed to the risk of future litigation. As a property owner and administrator of hotels, we are subject to accident claims, civil liability or other similar claims on behalf of our guests and employees. If such claims are not resolved in our favor, we may be liable for negligence in respect of incidents that occur in our hotels. As a hotel developer, we contract with and supervise third-party contractors during the construction of our hotels. We may be subject to legal disputes or proceedings that involve our development sites and cannot ensure that we will not be held responsible for the claimed compensation.

In addition, we are currently, and may in future be, involved in other litigation or proceedings arising from claims with respect to our assets and operations, including claims on behalf of suppliers, neighbors and governmental authorities and labor issues. We cannot predict with certainty the ultimate outcome and related

damages and costs of litigation and other proceedings filed by or against us. Adverse results in litigation and other proceedings may harm our business.

Risks Related to Doing Business in Mexico

Adverse economic conditions in Mexico may adversely affect our financial performance.

The recent global credit crisis and the economic recession have had significant adverse consequences on the Mexican economy, which, according to INEGI, contracted by 6.0% in 2009 in terms of GDP. The Mexican economy is currently recovering from a recession, with GDP growth of 5.3% in 2010 and 3.9%, both in 2011 and 2012, respectively. However, we cannot assure you that this recovery will continue or that a future recession will not occur.

In the past, Mexico has also experienced periods of economic crisis, caused by internal and external factors over which we have no control. Those periods have been characterized by exchange rate instability, high inflation, high domestic interest rates, economic contraction, a reduction of international capital flows, a reduction of liquidity in the banking sector and high unemployment rates. Decreases in the growth rate of the local economies where our properties are located, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our properties. Because a large percentage of our costs and expenses are fixed, we may not be able to reduce costs and expenses upon the occurrence of any of these events, and our profit margins may suffer as a result. We cannot assure you that economic conditions in Mexico will not worsen, or that those conditions will not have an adverse effect on our financial condition and results of operations.

Recent disruptions in the global credit markets and their effects on the global and Mexican economies could adversely affect our business.

Substantial volatility, unavailability of attractive financing and disruptions in the global capital markets since the 2008 financial crisis have had a significant negative impact on financial markets, as well as on the global and domestic economies. Although economic conditions have been improving since 2010 and the availability of credit increased while interest rates remained stable, the recent Eurozone debt crisis has caused, and may continue to cause, disruption in the global financial markets. The recent economic recession, continued economic uncertainty and the slow recovery in Mexico, the United States, Europe and much of the rest of the world has had a negative impact on the hotel industry. The effects of these disruptions and continued general instability are widespread and difficult to quantify or mitigate, and it is impossible to predict the rate at which the global economy will recover. Both our future financial results and growth could be affected if efforts to recover from these economic disruptions slow or reverse. Accordingly, our financial position has been impacted by the economic slowdown, and both our financial results and growth in the future could be further affected if current global economic conditions persist or worsen, resulting in wide-ranging, adverse and prolonged effects on our general business and a material adverse effect on our results of operations and liquidity.

Political, social and other developments in Mexico could affect our business.

Political, social and other developments in Mexico could affect our business. Currently, no single party has an absolute majority in any chamber of the Mexican Federal Congress, which could hamper the legislative progress. The absence of a clear majority and misalignment between the legislature and the administration could result in deadlock and prevent the timely implementation of structural reforms, which in turn could have an adverse effect on the Mexican economy. In addition, Enrique Peña Nieto, a member of the *Partido Revolucionario Institucional*, or PRI party, was elected as the new president of Mexico in July 2012 and took office on December 1, 2012. As with any change in administration, this may trigger significant changes in laws, regulations and/or governmental policies and may contribute to economic uncertainty or cause heightened volatility of the Mexican capital markets and securities issued by Mexican companies. Reforms or changes with respect to labor, tax, credit or environmental matters, among others, could have a material adverse effect on our results of operations. We cannot assure you that political developments in Mexico will not have an adverse effect on our business, financial condition or results of operations. Mexican governmental actions concerning the economy could have a significant impact on private sector entities in general and us in particular, as well as on market conditions and prices of, and returns on, Mexican securities. In particular, Mexican authorities have the ability to expropriate assets without consideration and prior to judgment, under certain circumstances, including if the asset has been used for illicit purposes, such as drug trafficking.

Mexico has experienced increased levels of violence related to combating drug trafficking and organized crime in certain cities central to the transportation of drugs into the United States, such as Ciudad Juarez, Reynosa, Nuevo Laredo, Nogales, Monterrey, Durango, Lázaro Cárdenas, Morelia and Veracruz. This increase in violence has resulted in a deterioration of the business environment in certain cities in which we operate, which has affected the occupancy of hotels therein and could have a negative impact on our financial condition and results of operations. The mitigation of such issues is subject to the level of action and decision of federal and local government.

Furthermore, we are also exposed to natural disasters (such as earthquakes, hurricanes, floods and other unpredictable events), adverse climate conditions or negative conditions produced by third parties (such as strikes, suspension of labor, demonstrations, acts of violence and terrorism) in the Mexican states in which we operate.

Fluctuations in the value of the peso against the U.S. dollar, as well as the reinstatement of exchange controls and restrictions, could adversely affect our financial performance.

Our results of operations are dependent on economic conditions in Mexico, including fluctuating currency rates. Fluctuations in currency rates may adversely affect our ability to acquire assets denominated in other currencies and may also adversely affect the performance of the investments in such assets. Banco de México may from time to time participate in the foreign exchange market to minimize volatility and support an orderly market. Banco de México and the Mexican government have also promoted market-based mechanisms for stabilizing foreign exchange rates and providing liquidity to the exchange market. However, the peso is currently subject to significant fluctuations against the U.S. dollar and may be subject to such fluctuations in the future. Since the second half of 2008, the value of the peso relative to the U.S. dollar has fluctuated significantly. According to Banco de México, during this period the exchange rate registered a low of Ps.9.91 per US$1.00 on August 6, 2008 and a high of Ps.15.36 per US$1.00 on March 3, 2009 and was Ps.12.35 per US$1.00 as of March 27, 2013. Because the shares are denominated in pesos and not in Investment Units (*Unidades de Inversión*), holders of shares bear the risk of fluctuations in the National Consumer Price Index (*Índice Nacional de Precios al Consumidor*), which may decrease the acquisition value of pesos received by holders of the shares as distributions.

We will pay distributions to holders of our shares in pesos. Any significant fluctuations in the exchange rates between pesos and U.S. dollars or other currencies could have an adverse impact on the U.S. dollar or other currency-equivalent amounts holders of our shares receive from the conversion. In addition, the amount paid by us in pesos may not be readily convertible into U.S. dollars or other currencies. While the Mexican federal government does not currently restrict, and for many years has not restricted, the ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or other currencies, it has done so in the past and could reinstate exchange controls in the future. Future fluctuations in exchange rates and the effect of any exchange control measures adopted by the Mexican government on the Mexican economy cannot be predicted.

Developments in other countries may adversely affect the Mexican economy, our financial performance and the price of our shares.

The Mexican economy and the market value of Mexican companies may be, to varying degrees, affected by economic and market conditions in other countries. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in other countries may have an adverse effect on the market value of securities of Mexican issuers or of Mexican assets. In recent years, for example, prices of both Mexican debt securities and Mexican equity securities dropped substantially as a result of developments in the economies of Russia, Asia, Brazil and the European Union, particularly Greece. Most recently, credit issues in the United States related principally to the sale of sub-prime mortgages resulted in significant fluctuations in global financial markets, including Mexico.

In addition, economic conditions in Mexico are highly correlated with economic conditions in the United States as a result of the North American Free Trade Agreement ("NAFTA"), increased economic activity between the two countries and the remittance of funds from Mexican immigrants working in the United States to Mexican residents. Therefore, adverse economic conditions in the United States, the termination of, or modifications to, NAFTA or other related events could have a significant adverse effect on the Mexican economy. We cannot assure you that events in other emerging market countries, in the United State or elsewhere, will not adversely affect our business, financial condition and results of operations.

We are subject to different disclosure and accounting standards than companies in other countries.

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, including accounting 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. We will be subject to reporting obligations in respect of the shares to be listed on the Mexican Stock Exchange. The disclosure standards imposed by the Mexican Stock Exchange may be different than those imposed by securities exchanges in other countries or regions such as the United States. As a result, the level of information that is available may not correspond to what non-Mexican investors are accustomed to. In addition, accounting standards and disclosure requirements in Mexico differ from those of the United States. In particular, our financial statements are prepared in accordance with IFRS, which differ from U.S. GAAP in a number of respects. Items on the financial statements of a company prepared in accordance with IFRS may not reflect its financial position or results of operations in the way they would be reflected had such financial statements been prepared in accordance with U.S. GAAP.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy.

The Mexican federal government has exercised, and continues to exercise, significant influence over the Mexican economy. Accordingly, Mexican federal governmental actions and policies concerning the economy, state-owned enterprises and state-controlled, -funded or -influenced financial institutions could have a significant impact on private sector entities in general, on us in particular, and on market conditions, prices and returns of Mexican securities. The Mexican federal government occasionally makes significant changes in policies and regulations and may do so again in the future. Actions to control inflation and other regulations and policies have involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations and capital controls and limits on imports. Tax and labor legislation, in particular, in Mexico is subject to continuous change, and we cannot assure you that the Mexican government will maintain existing political, social, economic or other policies or that such changes would not have a material adverse effect on our financial performance.

It may be difficult to enforce civil liabilities against us or our directors, executive officers and controlling persons.

We are a company formed under the laws of Mexico. Substantially all of the members of our Board of Directors and our officers and controlling persons reside, and substantially all of the assets of such persons are located, in Mexico. Furthermore, substantially all of our assets are located in Mexico. As a result, it may be difficult for you to effect service of process within the United States or in any other jurisdiction outside of Mexico upon these persons or to enforce against them or us in any jurisdiction outside of Mexico judgments predicated upon the laws of any such jurisdiction, including any judgment predicated upon the federal and state securities laws of the United States. There is doubt as to the enforceability, in original actions in Mexican courts or in original actions or actions for enforcement of judgments obtained in courts of jurisdictions outside of Mexico, of civil liabilities under the laws of any jurisdiction outside of Mexico, including any judgment predicated solely upon the federal and state securities laws of the United States. See "Service of Process and Enforcement of Civil Liabilities."

Risks Related to our Shares

The shares have never been publicly traded, an active or liquid market for our shares may not develop, and as a result, you may not be able to sell your shares at your desired price or time, and the market price of our shares could decrease after the offering.

There has been no public market for our shares in the past. Although we have applied for our shares to be admitted for trading on the BMV under the symbol "HCity," an active trading market may not develop or, if developed, may not be maintained or be sufficiently liquid. The Mexican securities markets, including the BMV as the primary trading market, are substantially smaller, less liquid, more volatile, have a lower institutional investor base and are more concentrated than major international securities markets, such as those in the United States. Such market characteristics may substantially limit the capacity of holders of our shares to sell them, or to sell them at the price and time which such holders want to sell them, and this may negatively affect the market price of, and liquidity

for our shares. In addition, the BMV may suspend trading of our shares if the price of our shares (as a percentage of the initial offering price) fluctuates above or below certain levels, or if certain minimum requirements set forth by the Mexican Securities Market Law (*Ley del Mercado de Valores*, or the "LMV") and the General Provisions Applicable to Securities Issuers and other Participants in the Securities Market (*Disposiciones de Carácter general Aplicables a las Emisoras de Valores y a otros Participantes del Mercado de Valores*, or "General Issuers Rules") are not met, including a minimum number of shareholders and periodic filings by us, among others. As a result, holders of our shares could be unable to sell their shares at their desired price or time, or even to sell them at all. We also cannot predict the extent to which a secondary market will develop for our shares in Mexico, the United States or elsewhere, nor can we predict the level of liquidity of such a market, should such a market develop.

Shares of companies offered in an initial public offering often trade at a discount to the initial offering price due to underwriting discounts and related offering expenses. This represents an immediate dilution in shareholders' equity value per share to new investors purchasing shares in the offering at the initial public offering price. As a result of this dilution, investors purchasing shares in the offering may receive significantly less than the full purchase price that they paid for the shares purchased in the offering in the event of a liquidation. The initial offering price, the negotiations between us and the initial purchasers and the Mexican underwriters may not be indicative of the price that will prevail in the securities market after the offering, if such market develops. The possibility that our shares may trade at a discount to our net book value is separate and distinct from the risk that our net book value per share may decline. We cannot predict whether our shares will trade above, at or below net book value.

The market price of our shares may fluctuate significantly, and you could lose all or part of your investment.

Volatility in the market price of our shares may prevent you from being able to sell your shares at or above the price you paid for your shares. The market price and liquidity of the market for our shares may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance.

In addition, actions by our controlling shareholder with respect to the disposition of the shares they beneficially own or the perception that such actions might occur may affect our share price. Although we and our principal shareholders will agree, subject to certain exceptions described under "Plan of Distribution," for a period of 180 days after the date of the offering memorandum, without the prior written consent of the representatives, not to issue, offer, sell, contract to sell, pledge or otherwise dispose of, any shares of our capital stock or any securities convertible into or exchangeable for, or that represent the right to receive, shares of our capital stock. After this lock-up period expires, the shares subject to such restriction will be subject, except in limited circumstances, to a liquidity agreement for up to an additional 540 days. After the termination or expiration of such liquidity agreement or the release of part or all of our shares, such shares will be eligible for sale in the market. In the future, we may issue additional equity securities or our controlling shareholder may dispose of its interest in us. Any such issuances or sales or the prospect of any such issuances or sales could result in a dilution of shareholders' economic and voting rights in us or a negative market perception and potentially a decrease in the market price of the shares.

Future offerings of securities with preferred rights over our shares could limit our operational and financial flexibility, adversely affect the market price and dilute the value of our shares.

We may issue debt instruments or incur additional indebtedness in the future with preferred rights over our shares. Such debt instruments and indebtedness could include covenants that may restrict our operational flexibility and limit our ability to distribute dividends to our shareholders. In addition, we may issue convertible or exchangeable securities in the future with preferred rights over our shares, including preferred rights with respect to the payment of dividends or distributions, which could result in a dilution of the value of our shares. Because our decision to offer new debt securities or incur additional indebtedness in the future is dependent upon market conditions and other factors that are outside of our control, we cannot predict or estimate the amount, time or nature of such securities or indebtedness, which could have the effect of reducing the market price of our shares or diluting their value.

Our bylaws include provisions preventing a change of control in the Company, which could have the effect of precluding or delaying a takeover of our Company or otherwise impacting the liquidity of our shares.

Our bylaws contain certain anti-takeover provisions that require: (i) the authorization of the Board of Directors for a third party to acquire our shares, if such acquisition would result in the ownership by such person or group of persons of an amount equal to or greater than 9.99% of our total shares; (ii) once such percentage has been reached, notice to the Board of Directors of any acquisitions that represent an increase in the shares owned by such person or group of persons of 2.0% or more of our total shares; and (iii) the authorization of the Board of Directors (or in certain instances, shareholder approval) for a third party to acquire more than 20.0% of our shares or to take any action that involves a change in control, or for the shareholders to enter into voting agreements involving more than 20.0% of our shares or including the taking of any action that involves a change in control, in which case such acquiror or shareholders are required to make a public tender offer to acquire all of our shares at a certain minimum price. Such actions could dissuade certain potential buyers from making an offer or from successfully obtaining the required authorization from the Board of Directors (or in certain instances, shareholder approval). Any party that acquires shares in violation of these anti-takeover provisions will not be allowed to exercise the corporate rights related to those shares, notably the right to vote. Furthermore, the Board of Directors may enact the following measures, among others: (i) the reversal of the relevant transactions, with mutual restitution among the parties to the extent possible or (ii) the transfer of the shares that were that subject of the acquisition, to a third party approved by the Board of Directors at a minimum price determined by the Board of Directors. For more information, see "Description of our Capital Stock and Corporate Bylaws—Anti-Takeover Protections."

Our bylaws restrict the ability of non-Mexican shareholders to invoke the protection of their governments with respect to their rights as shareholders.

As required by Mexican law, our bylaws provide that non-Mexican shareholders will be considered to be Mexicans in respect of their ownership interests in us and our exclusive rights, concessions and rights and obligations under agreements executed with the Mexican government. Under this provision, non-Mexican shareholders are deemed to have agreed not to invoke the protection of their own government through such government interposing a diplomatic claim against the Mexican government with respect to the shareholder's rights as a shareholder, but are not deemed to have waived any other rights they may have, including any rights under the U.S. securities laws, with respect to their investment in us. If a non-Mexican shareholder should invoke such governmental protection, its shares could be forfeited in favor of the Mexican government.

The protections afforded to minority shareholders in Mexico are not as comprehensive as those in other jurisdictions such as the United States.

Under Mexican law, the protections afforded to minority shareholders and the fiduciary duties of officers and directors are, in certain respects, not as comprehensive or as developed as those in the United States or other jurisdictions. Although Mexican law allows shareholders to initiate shareholder derivative suits and establishes specific duties of care and loyalty applicable to our officers and directors, the Mexican legal regime concerning fiduciary duties of officers and directors and shareholder derivative lawsuits is not as comprehensive as in other jurisdictions and, to some extent, has not been the subject of judicial interpretation. As a result, it may be more difficult for minority shareholders to enforce their rights against us or our officers and directors than it would be for shareholders of a U.S. or other non-Mexican company.

Preemptive rights may be unavailable to non-Mexican shareholders.

Under current Mexican law, whenever we issue new shares for cash, subject to certain exceptions (including exceptions related to public offerings), we must grant preemptive rights to our then-existing shareholders, giving them the right to purchase a sufficient number of shares to maintain their existing ownership percentage. We may not be able to offer shares to non-Mexican shareholders pursuant to preemptive rights granted to our shareholders in connection with any future issuance of shares, unless we comply with specified requirements established by the laws of the respective non-Mexican shareholders' jurisdictions. In the case of U.S. shareholders, we may not be able to offer them shares pursuant to preemptive rights granted to our shareholders in connection with any future issuance of shares unless a registration statement under the Securities Act is effective with respect to such rights and shares or an exemption from the registration requirements of the Securities Act is available.

We intend to evaluate at the time of any rights offering the costs and potential liabilities associated with filing a registration statement or any similar requirement to enable non-Mexican shareholders to exercise their preemptive rights, the indirect benefits of enabling U.S. shareholders and other non-Mexican shareholders to exercise preemptive rights and any other factors that we may consider appropriate at the time. We will then decide whether to file such a registration statement or fulfill any similar requirement.

In the event that a required registration statement or similar requirement is not filed or satisfied, non-Mexican shareholders may not be able to exercise their preemptive rights in connection with future issuances of our shares. In this event, the economic and voting interest of non-Mexican shareholders in our total equity would decrease in proportion to the size of the issuance. Depending on the price at which our shares are offered, such an issuance could result in dilution to non-Mexican shareholders.

The payment and amount of dividends are subject to the determination of our shareholders.

Our Board of Directors must submit our audited annual consolidated financial statements for the previous fiscal year to our annual general ordinary shareholders' meeting for approval. Once our shareholders approve our audited annual consolidated financial statements, shareholders must allocate net profits for the previous fiscal year.

After giving effect to the offering of the shares, our Board of Directors will propose a dividend policy to be approved at our shareholders meeting. As a result of the dividend policy, there may be years in which we do not distribute dividends and other years in which we distribute a substantial portion of our earnings. In the latter situation, our growth potential may be affected. The dividend policy recommended by our Board of Directors may be based on a number of factors, including results of operation, financial position, cash flow requirements, business plans, tax implications, restrictive covenants in our financing terms and other factors that our Board of Directors and shareholders may take into consideration. In any case, under Mexican law we can only pay amounts in respect of full year financials that have been absorbed or paid by shareholders, if losses for prior fiscal years have been recovered and if the applicable payment has been expressly approved by our shareholders.

In addition, under Mexican law, prior to any distribution of dividends, at least 5.0% of our net earnings must be allocated to a legal reserve fund, until such legal reserve fund is equal to at least 20.0% of our paid-in capital stock. As of December 31, 2012, our legal reserve fund contained approximately Ps.2.7 million. Additional amounts may be allocated to other reserve funds as the shareholders may determine, including the amount allocated to a fund for the repurchase of shares. The remaining balance, if any, may be distributed as dividends.

If we issue additional equity securities in the future, you may suffer dilution, and the trading prices for our securities may decline.

We may issue additional shares for financing future acquisitions or new projects or for other general corporate purposes. Our existing shareholders may dispose of some of their shares. Any such issuance or sale could result in a dilution of your ownership stake and/or the perception of any such issuances or sales could have an adverse impact on the market price of the shares.

Dividend distributions to holders of our shares will be made in pesos.

We will make dividend distributions to holders of our shares in pesos. Any significant fluctuations in the exchange rates between pesos and U.S. dollars or other currencies could have an adverse impact on the U.S. dollar or other currency equivalent amounts holders of our shares receive from the conversion. In addition, the amount paid by us in pesos may not be readily convertible into U.S. dollars or other currencies. While the Mexican federal government does not currently restrict the ability of Mexican or foreign persons or entities to convert pesos into U.S. dollars or other currencies, the federal government could institute restrictive exchange control policies in the future. Future fluctuations in exchange rates and the effect of any exchange control measures adopted by the Mexican federal government on the Mexican economy cannot be predicted.

We are a holding company, and we depend on the results of operations of our subsidiaries.

We are a holding company with no independent operations or substantial assets apart from the share capital of our operating subsidiaries. As a result, we depend on the results of operations of such subsidiaries, and, to the extent we decide to do so, our ability to pay dividends primarily depends on the ability of our subsidiaries to generate earnings and to pay dividends to us. Each one of these subsidiaries is a distinct legal entity, and, in certain circumstances, contractual and legal restrictions, such as those derived from the financing contracts of our subsidiaries, could limit our capacity to obtain dividends from our subsidiaries. In addition, in conformity with Mexican law, our Mexican subsidiaries can only pay dividends: (i) from retained earnings accounts included in the financial statements approved at a shareholder meeting; (ii) after all the losses from previous fiscal years have been amortized; and (iii) if the subsidiary has increased its legal reserve such that it reaches 5.0% of annual net income (until such legal reserve reaches 20.0% of the share capital of such subsidiary). Any adverse change in the financial situation or in the results of operations of our subsidiaries could affect our financial situation.

USE OF PROCEEDS

The net proceeds to us from the sale of the shares being offered in the global offering will be approximately Ps.1,583.7 million, assuming no exercise of the option to purchase additional shares, after deducting underwriting discounts, commissions and estimated offering expenses.

We intend to use the net proceeds from the global offering primarily to continue our plans for expanding the number of hotels in our network, including the development, opening, operation and marketing of future hotel projects in the areas in which we currently operate, to continue the development of our brands primarily throughout Mexico and for general corporate purposes. In addition, in accordance with our past practice and in the ordinary course of business, we may use a portion of these proceeds for future acquisitions of the minority interests in our co-owned hotels that we do not hold.

We do not intend to use the proceeds from the global offering to acquire assets other than those acquired in the ordinary course of business, nor do we intend to partially or fully repay any of our debts or liabilities with such proceeds.

We will not receive any proceeds from the sale of shares by the selling shareholders.

CAPITALIZATION

The following table sets forth our historic capitalization as of March 31, 2013 and our capitalization as of March 31, 2013 as adjusted to reflect the receipt of the net proceeds from the sale of the shares in the global offering considering the use of such proceeds as described under "Use of Proceeds." You should read this table together with the information under the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements and the notes thereto included elsewhere in this offering memorandum.

The U.S. dollar amounts provided below are translations from Mexican peso amounts, solely for the convenience of the reader at the exchange rate for March 27, 2012, published by Banco de México in the Federal Official Gazette on such date, which was Ps.12.35 per U.S. dollar.

	As of March 31, 2013			
	Actual		As Adjusted	
	Ps.	US$	Ps.	US$
	(in thousands)			
Cash, cash equivalents and restricted cash	453,782.6	36,743.5	2,037,464.9	164,976.9
Bank loans and current portion of long-term debt	95,153.6	7,704.7	95,153.6	7,704.7
Other current liabilities	131,244.8	10,627.1	131,244.8	10,627.1
Long-term debt	1,607,267.1	130,143.1	1,607,267.1	130,143.1
Other long-term liabilities	241,437.1	19,549.6	241,437.1	19,549.6
Total long-term liabilities	1,848,704.2	149,692.6	1,848,704.2	149,692.6
Total liabilities	2,075,101.6	168,024.4	2,075,101.6	168,024.4
Total equity attributable to the owners of the entity	2,418,958.6	195,867.1	4,239,946.2	343,315.5
Non-controlling interests	890,434.3	72,099.9	653,129.0	52,884.9
Total equity	3,309,392.9	267,967.0	4,893,075.2	396,200.4
Total liabilities and equity	5,384,495.4	435,991.5	6,968,177.8	564,224.9

The as-adjusted figures reflect the consummation of the Roll-Up Transactions and assume no exercise of the option to purchase additional shares.

DILUTION

This section includes a description of the amount and percentage of dilution in the global offering as a result of the difference between the offering price per share and net book value per share. The dilution effect below is presented on a pro forma basis as if the Stock Split had occurred on March 31, 2013. The dilution effect is also based on income and net book value per share as a result of the sale of shares in the global offering and the consummation of the Roll-Up Transactions.

As of March 31, 2013, our net book value per share was Ps.13.29. Net book value per share represents the book value of our total assets minus our total liabilities, divided by the number of our shares outstanding. Our pro forma net book value per share as of March 31, 2013 would increase to Ps.15.61 per share, assuming no exercise of the option to purchase additional shares after:

- giving effect to the sale of 71,154,332 shares at an initial offering price of Ps.24.00 per share; and
- deducting underwriting discounts and commissions and estimated offering expenses to be owed and payable by us in connection with the global offering.

This amount represents an immediate increase of Ps.2.32 in net book value per share to our existing shareholders and an immediate dilution of Ps.8.39 in net book value per share to new investors purchasing shares at an initial offering price of Ps.24.00 per share.

The following table illustrates the dilution in net book value per share, assuming no exercise of the option to purchase additional shares:

	Per Share
	(Ps.)
Offering price	24.00
Net book value before the global offering	13.29
Increase in net book value attributable to the sale of shares	2.32
Net book value after the global offering	15.61
Dilution in net book value	8.39

For the three months ended March 31, 2013, our consolidated net income per share was Ps.0.05. Giving effect to a primary base offering of 71,154,332 shares, our consolidated comprehensive income per share would have been Ps.0.04 as of March 31, 2013. This represents a decrease of 26.0% in our consolidated comprehensive income per share at such date.

DIVIDENDS AND DIVIDEND POLICY

We have not declared dividends in the past and do not anticipate paying dividends in the immediately foreseeable future since we intend to invest our earnings in order to support our growth strategy.

Under the Mexican Corporations Law (*Ley General de Sociedades Mercantiles*, or "LGSM"), the distribution of profits can only be made after the financial statements that contain them have been duly approved by our shareholders. There can be no distribution of profits unless any losses from previous fiscal years have otherwise been recovered or absorbed or our capital stock has been decreased. The declaration, amount and payment of dividends must be approved by the majority vote of our shareholders present at a shareholders' meeting. In general, the declaration of dividends is based on a recommendation of our Board of Directors, although such recommendation is not legally required. In addition, prior to any distribution of dividends, we are required to allocate 5.0% of our net profits to a legal reserve fund until such legal reserve fund equals 20.0% of our capital stock. Such legal reserve must be replenished if it is reduced for any reason.

For additional information regarding taxation of dividends, see "Taxation—Mexican Tax Considerations—Payment of Dividends" and "Taxation—Certain U.S. Federal Income Tax Considerations—Taxation of Dividends."

EXCHANGE RATES

On December 21, 1994, Banco de México implemented a floating foreign exchange rate regime under which the peso is allowed to float freely against the U.S. dollar and other foreign currencies. Banco de México typically intervenes directly in the foreign exchange market only to reduce what it deems to be excessive short-term volatility. Since mid-2003, Banco de México has been conducting auctions of U.S. dollars in an attempt to reduce the levels of its foreign reserves. Banco de México conducts open market operations on a regular basis to adjust the size of Mexico's monetary base. Changes in Mexico's monetary base have an impact on the exchange rate. Banco de México may increase or decrease the reserve of funds that financial institutions are required to maintain. If the reserve requirement is increased, financial institutions are required to allocate more funds to their reserves, which will in turn reduce the amount of funds available for operations. This causes the amount of available funds in the market to decrease and the cost, or interest rate, to obtain funds to increase. The opposite happens if reserve requirements are lowered. This mechanism, known as "short" or "long," as the case may be, or more formally "the daily settlement balance target," represents a mechanism used by Banco de México to adjust the monetary base and the level of interest rates.

We cannot assure you that Banco de México will maintain its current policies with respect to the peso or that the peso will not depreciate significantly in the future. Additionally, in the event of a shortage of foreign currency, we cannot assure you that foreign currency would continue to be available to private-sector companies or that foreign currency needed by us to service foreign currency obligations, if any, would continue to be available without substantial additional cost.

The following table sets forth, for the periods indicated, the high, low, average and period-end, free-market exchange rate expressed in pesos per U.S. dollar. The data provided in this table are based on the rate applicable to the payment of foreign currency-denominated obligations in Mexico (*Tipo de Cambio Para Solventar Obligaciones Denominadas en Moneda Extranjera Pagaderas en la Republica Mexicana*), published by Banco de México in the Official Gazette. We have not restated the rates in constant currency units. No representation is made that the peso amounts referred to in this offering memorandum could have been or could be converted into U.S. dollars at any particular rate or at all.

	Exchange Rate (Ps. per $)			
Years Ended December 31,	**Low**	**High**	**Average**	**Period-End**
2008	9.92	13.92	11.13	13.77
2009	12.60	15.37	13.50	13.04
2010	12.16	13.18	12.63	12.38
2011	11.50	14.24	12.42	13.98
2012	12.63	14.39	13.17	12.99
Month Ended				
December 31, 2012	12.72	13.01	12.87	12.99
January 31, 2013	12.59	12.97	12.71	12.74
February 28, 2013	12.63	12.87	12.72	12.83
March 27, 2013	12.35	12.80	12.55	12.35
April 30, 2013	12.07	12.36	12.21	12.13
May 31, 2013	11.98	12.78	12.28	12.78

Source: Banco de México

THE MEXICAN SECURITIES MARKET

The information concerning the Mexican securities market set forth below has been prepared based on materials obtained from public sources, including the CNBV, the Mexican Stock Exchange or the BMV, Banco de México and information made public by market participants. The following summary does not purport to be a comprehensive description of all of the material aspects related to the Mexican securities market and its regulations.

Prior to the global offering, there has been no trading market for any of our outstanding capital stock in Mexico, the United States or elsewhere. We have applied to register our shares with the RNV maintained by the CNBV, and we have applied for listing on the BMV under the symbol "HCity."

We cannot predict the extent to which a trading market in Mexico, the United States or elsewhere will develop with respect to our shares. We also cannot predict the liquidity of any trading market for our shares, should any develop. If the number of holders or trading volume of our shares on the BMV falls below certain levels, our shares may be delisted or deregistered in that market.

Trading on the BMV

The BMV, located in Mexico City, is the only stock exchange in Mexico. Operating continuously since 1907, the BMV is organized as a variable capital public stock corporation, or *sociedad anónima bursátil de capital variable*. Securities trading on the BMV occurs each business day from 8:30 a.m. to 3:00 p.m., Mexico City time, subject to adjustments to operate uniformly with certain stock markets in the United States.

Since January 1999, all trading on the BMV has been electronic. The BMV may impose a number of measures to promote an orderly and transparent trading price of securities, including the operation of a system of automatic suspension of trading in shares of a particular issuer, when price fluctuations exceed certain limits.

Settlement on the BMV is effected three business days after a share transaction. Deferred settlement is not permitted without the approval of the BMV, even where it is mutually agreed between the market participants. Most securities traded on the BMV, including our shares when traded, are on deposit in book-entry form though the facilities of Indeval, a securities depositary owned by the BMV that acts as a clearinghouse, depositary and custodian, as well as a settlement, transfer and registration agent for BMV transactions, eliminating the need for physical transfer of securities.

Transactions must be settled in pesos except under limited circumstances in which a settlement in foreign currencies may be permitted. Although the Mexican Securities Market Law (*Ley del Mercado de Valores*, or "LMV") provides for the existence of an over-the-counter market, no such market for securities in Mexico has formally developed.

The LMV provides that foreign-issued securities may be traded by brokerage firms and lending institutions through the International Trading System (*Sistema Internacional de Cotizaciones*, or "SIC"). These securities may be listed through the SIC if: (i) they are not already registered with the RNV; (ii) the market of origin or the company issuing the shares has received, based on their characteristics, recognition from the CNBV; (iii) the securities are listed on the applicable exchange and are publicly distributed in the applicable market; and (iv) assurances are given to the effect that periodic reports will be provided to the BMV.

In addition, the BMV operates a system which suspends trading of shares of a particular issuer upon price or volume volatility or changes in the offer or demand for such shares that are not consistent with the historic performance of the shares and cannot be explained solely through information publicly available through BMV systems, pursuant to the CNBV's general regulations.

The LMV includes appropriate placement exemptions pursuant to which foreign securities may be sold to institutional and accredited investors without registration with the RNV.

Market Regulation and Registration Standards

In 1925, the Mexican Banking Commission (*Comisión Nacional Bancaria*) was established to regulate banking activity, and in 1946, the Mexican Securities Commission (*Comisión Nacional de Valores*) was established to regulate stock market activity. In 1995, these two entities were merged to form the CNBV.

Among other things, the CNBV regulates the public offering and trading of securities and participants in the Mexican securities market and imposes sanctions for the illegal use of insider information and other violations of the LMV. The CNBV regulates the Mexican securities market, the BMV and brokerage firms through its staff and a board of governors comprised of thirteen members.

Mexican Securities Market Law

On December 30, 2005, the current LMV was enacted and published in the Official Gazette; it became effective on June 28, 2006. The LMV changed the Mexican securities' regulation in various material aspects. The reforms introduced by this law were intended to update the Mexican regulatory framework applicable to the securities market and publicly traded companies, as compared to international standards. Publicly traded companies are regulated by the LMV and, secondarily, by the Mexican General Corporations Law. The LMV is supplemented by certain regulations issued by the CNBV. See "—Regulations Applicable to Issuers, Brokerage Firms and Other Market Participants."

The LMV: (i) establishes that public entities and the entities controlled by them are considered a single economic unit (*e.g.*, holding companies and wholly owned subsidiaries); (ii) clarifies the rules for tender offers, dividing them into voluntary and mandatory categories; (iii) clarifies standards for disclosure of holdings of shareholders of public companies; (iv) expands and strengthens the role of the board of directors of public companies, including by requiring independent directors; (v) defines the standards applicable to the board of directors and the duties of the board, each director, its secretary, the chief executive officer and other executive officers (introducing concepts such as the duty of care, duty of loyalty and safe harbors); (vi) replaces the statutory auditor (*comisario*) and its duties with an audit committee, a corporate practices committee and external auditors; (vii) defines the roles and responsibilities of executive officers; (viii) improves the rights of minority shareholders relating to legal remedies and access to company information; (ix) introduces concepts such as consortiums, groups of related persons or entities, control, related parties and decision-making power; (x) expands the definition of applicable sanctions for violations of the LMV, including punitive damages and criminal penalties; (xi) clarifies rules relating to types of equity securities that may be offered by public companies; (xii) sets forth rules for share repurchases; and (xiii) specifies requirements for anti-takeover measures.

Under the LMV, public companies must have a board of directors comprised of no more than 21 members, of which at least 25% must be independent. Independent members must be selected at the issuer's general ordinary shareholders' meeting based on their experience, ability and reputation, among other factors. The conclusion as to whether a director is independent must be determined by the issuer's shareholders, and such determination may be challenged by the CNBV. Departing from legislative precedents, the LMV permits then-acting members of the board of directors, under certain circumstances, to appoint, on a temporary basis, new members of the board of directors.

The board of directors of a public company is required to meet at least four times during each calendar year. Its principal duties are: (i) the determination of the issuer's general business strategies; (ii) the approval of guidelines for the use of corporate assets; (iii) the approval, on an individual basis, of transactions with related parties, subject to certain limited exceptions; (iv) the approval of unusual or non-recurring transactions and any transaction related to the acquisition or sale of assets with a value equal to or exceeding 5.0% of the issuer's consolidated assets, or the granting of collateral or guarantees, or the assumption of liabilities, equal to or exceeding 5.0% of the issuer's consolidated assets; (v) the appointment or removal of the chief executive officer; (vi) the approval of accounting and internal control policies; and (vii) the approval of policies for disclosure of information. Directors are required to seek the best interests of the issuer and may not favor any shareholder or group of shareholders.

The LMV requires the creation of one or more committees in charge of the audit and corporate practices functions of an issuer. These committees must consist of at least three members appointed by the board of directors,

and each member must be independent (except for corporations controlled by a person or group holding 50.0% or more of the outstanding capital stock, in which case only the majority of the members of the committee in charge of the corporate practices functions must be independent).

The committee entrusted with the audit function is responsible, among other things, for: (i) providing opinions to the board of directors with respect to internal control guidelines, accounting policies, financial statements and the engagement of outside auditors; (ii) evaluating outside auditors and analyzing their reports; (iii) analyzing and supervising the preparation of financial statements; (iv) informing the board regarding internal controls and their adequacy; (v) assisting the board in the preparation of annual reports and other reporting obligations; (vi) investigating non-compliance with operating and accounting guidelines and policies or with the internal control system; (vii) informing the board of any irregularities that it may encounter; (viii) calling shareholders' meetings; (ix) supervising compliance by the chief executive officer with shareholders' and board of directors' resolutions; and (x) verifying the implementation of internal control mechanisms.

The principal responsibilities of the committee in charge of the corporate practices function are: providing opinions on related party transactions and other material transactions, as well as engaging and obtaining opinions from independent third-party experts in respect of such transactions; calling shareholders' meetings; assisting the board in the preparation of annual reports and other reporting requirements and making nominating and compensation proposals to the board.

The LMV imposes a duty of care and a duty of loyalty on directors.

The duty of care generally requires that directors obtain sufficient information and be sufficiently prepared to support their decisions and to act in the best interests of the issuer. The duty of care is principally discharged by a director by requesting and obtaining from the issuer or officers of the issuer, as the case may be, all information that may be necessary to participate in discussions requiring the presence of such director, by requesting and obtaining information from third-party experts, by attending board meetings and by disclosing material information in possession of such director. Failure of directors to act with due care makes the relevant directors jointly and severally liable for damages and losses caused to the issuer and its subsidiaries. Liability for breach of the duty of care may be limited by the company's bylaws or by resolution of a shareholders' meeting, except in the case of bad faith, willful misconduct or illegal acts. Such liability may also be covered by indemnification provisions and director and officer insurance policies.

The duty of loyalty primarily consists of maintaining the confidentiality of information received in connection with the performance of the director's duties and abstaining from discussing or voting on matters where the director has a conflict of interest. In addition, the duty of loyalty is violated if a shareholder or group of shareholders is knowingly favored or if, without the express approval of the board of directors, a director takes advantage of a corporate opportunity. The duty of loyalty also implies not disclosing information that is false or misleading or omitting to register any such information in the issuer's corporate books and records. The violation of the duty of loyalty makes the relevant directors jointly and severally liable for damages and losses caused to the issuer and its subsidiaries. This liability also arises if damages and losses are sustained as a result of benefits wrongfully obtained by the director or directors or third parties as a result of activities carried out by the breaching directors. Liability for breach of the duty of loyalty may not be limited by the company's bylaws, by resolution of a shareholders' meeting or otherwise. The duty of loyalty is also breached if the director uses corporate assets or approves the use of corporate assets in violation of an issuer's policies, discloses false or misleading information, orders, or causes, an incorrect entry of any transaction in an issuer's records that could affect its financial statements or causes material information not to be disclosed or to be modified.

Liability for breach of the duty of care or the duty of loyalty may be exercised solely for the benefit of the issuer (as a derivative suit) and may only be exercised by the issuer or by shareholders representing at least 5.0% of any outstanding shares in the aggregate, and criminal actions may be brought only by the Mexican Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*), after consulting with the CNBV. The directors of the issuer that are subject to criminal action may face up to 12 years' imprisonment for certain illegal acts involving willful misconduct that result in losses to the issuer. Such acts include the alteration of financial statements and records.

As a safe-harbor for directors, the liability discussed above does not arise if the director acted in good faith and: (i) complied with applicable law and the bylaws of the issuer; (ii) made the decision based upon information provided by officers, external auditors or third party experts, the capacity and credibility of which were not the subject of reasonable doubt; (iii) selected the most appropriate alternative in good faith and any negative effects of such decision were not reasonably foreseeable; and (iv) actions were taken in compliance with resolutions adopted at the shareholders' meeting.

The issuer's principal executives are also required, under the LMV, to act for the benefit of the issuer and not for the benefit of any shareholder or group of shareholders. These executives are required to submit the major business strategies to the board of directors for approval, to submit proposals for internal controls to the audit committee, to disclose all material information to the public and to maintain adequate accounting and registration systems and mechanisms for internal control.

The LMV also requires that any transaction or series of transactions that represent 20.0% or more of the consolidated assets of a public issuer during any fiscal year be approved at a shareholders' meeting

In addition to the rights granted to minority shareholders representing 5.0% or more of the outstanding shares of a public company, in order to initiate a shareholder derivative suit for the benefit of the issuer in an amount equal to the damages or losses incurred by the issuer against directors for a breach of the duties of care or loyalty, the LMV sets forth the right of shareholders representing 10.0% of the outstanding voting shares to appoint a director, call a shareholders' meeting and request that the vote on resolutions in respect of which they were not sufficiently informed be postponed. Also, holders of 20.0% of the outstanding voting shares may judicially oppose resolutions that were passed by a shareholders' meeting and file a petition for a court order to suspend the resolution, if the claim is filed within 15 days following the adjournment of the meeting at which the action was taken, provided that: (i) the challenged resolution violates Mexican law or the company's bylaws; (ii) the opposing stockholders either did not attend the meeting or voted against the challenged resolution; and (iii) the opposing stockholders deliver a bond to the court to secure payment of any damages that we may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing stockholder. These provisions have seldom been invoked in Mexico, and, as a result, any action that may be taken by a competent court is uncertain.

Limited or Non-voting Shares

The LMV does not permit issuers to implement mechanisms for common shares and limited or non-voting shares to be bundled or jointly traded or offered to public investors, unless the limited or non-voting shares are convertible into common shares within a term of up to five years or when, as a result of the nationality of the holder, the shares or the securities representing the shares limit the right to vote to comply with foreign investment laws. In addition, the aggregate amount of the shares with limited or non-voting rights may not exceed 25.0% of the aggregate amount of shares deemed as publicly held. The CNBV may increase this 25.0% limit, provided that the limited or non-voting shares exceeding 25.0% of the aggregate amount of publicly held shares are convertible into common shares within five years of their issuance.

Disclosure of Shareholders' Agreements

Any shareholders' agreements containing non-compete clauses, any agreements related to the sale, transfer or exercise of preemptive rights (as set forth under article 132 of the LGSM) and any agreements which allow for the sale and purchase of shares, voting rights and sale of shares in a public offering, must be notified to the issuer within five business days following their execution to allow the issuer to disclose such agreements to the investors through the stock exchanges on which its securities are being traded and to be made public in an annual report prepared by the issuer. These agreements: (i) will be available for the public to review at the issuer's offices; (ii) will not be enforceable against the issuer and a breach of such agreements will not affect the validity of the vote at a shareholders' meetings; and (iii) will only be effective between the parties once they have been disclosed to the public.

Regulations Applicable to Issuers, Brokerage Firms and Other Market Participants

In March 2003, the CNBV issued general regulations, the General Issuers Rules that are applicable to issuers and other market participants (*Disposiciones de Carácter General Aplicables a las Emisoras de Valores y a otros Participantes del Mercado de Valores*), which have been amended from time to time since such date. The General Issuers Rules, which repealed several previously enacted CNBV regulations (*circulares*), now provide a single set of rules governing issuers and issuer activity, among other things. In September 2006, these general regulations were amended to give effect to the provisions of the then recently enacted LMV.

In addition, in September 2004, the CNBV issued general rules applicable to brokerage firms, the Rules for Brokerage Firms (*Disposiciones de Carácter General Aplicables a Casas de Bolsa*). The Rules for Brokerage Firms now provide a single set of rules governing participation of Mexican underwriters in public offerings, among other things.

Registration and Listing Standards

To offer securities to the public in Mexico, an issuer must meet specific qualitative and quantitative requirements. In addition, only securities that have been registered with the RNV pursuant to the CNBV's approval may be listed on the BMV, other than unregistered securities listed on the SIC, which may also be traded on the BMV.

The CNBV's approval for registration does not imply any kind of certification or assurance related to the investment quality of the securities, the solvency of the issuer or the accuracy or completeness of any information delivered to the CNBV, nor does such registration ratify or validate acts or omissions, if any, undertaken in contravention of applicable law. The General Issuers Rules provide that the BMV must adopt minimum requirements for issuers to list and to maintain their securities in Mexico. These requirements relate to matters such as operating history, financial and capital structure, minimum public floats, minimum number of holders and corporate governance among others. The CNBV may waive some of these requirements in certain circumstances. In addition, some of the requirements are applicable to each series of shares of the relevant issuer.

The BMV will review compliance with the foregoing requirements and other requirements on an annual, semi-annual and quarterly basis, provided it may also review compliance at any other time.

The BMV must inform the CNBV of the results of its review, and this information must, in turn, be disclosed to investors. If an issuer fails to comply with any of the foregoing requirements, the BMV will request that the issuer propose a plan to comply with such requirements. If the issuer fails to propose a plan, if the plan is not satisfactory to the BMV or if an issuer does not make substantial progress with respect to the corrective measures, trading of the relevant series of shares on the BMV may be temporarily suspended. In addition, if an issuer fails to propose a plan or ceases to follow the plan once proposed, the CNBV may cancel the registration of the shares, in which case the majority shareholder or any controlling group must carry out a tender offer to acquire all of the outstanding shares of the issuer in accordance with the tender offer rules discussed below.

Reporting Obligations

Issuers of listed securities in Mexico are required to file unaudited quarterly financial statements and audited annual financial statements, as well as various periodic reports with the CNBV and the BMV. Mexican issuers of listed securities must file the following reports with the CNBV:

- an annual report prepared in accordance with the CNBV's general regulations by no later than April 30 of each year;
- quarterly reports within 20 business days following the end of each of the first three quarters and 40 business days following the end of the fourth quarter;
- reports disclosing material events promptly upon their occurrence;

- reports regarding corporate restructurings such as mergers, acquisitions, splits or asset sales approved at shareholders' meetings or by the board of directors; and

- reports regarding the policies and guidelines with respect of the use of the company's (or its subsidiaries') assets by "related persons."

Pursuant to the CNBV's General Issuers Rules, the internal rules of the BMV were amended to implement an automated electronic information transfer system for information required to be filed with the BMV. Issuers of listed securities must prepare and disclose their financial information and any other required information via a BMV-approved electronic financial information system (the *Sistema Electrónico de Comunicación con Emisoras de Valores*, or "EMISNET"). Immediately upon its receipt, the BMV makes the financial information or other information that was submitted via EMISNET by the issuer available to the public.

The CNBV's General Issuers Rules and the rules of the BMV require issuers of listed securities to file and disclose material events and information (eventos relevantes) through EMISNET that relate to any act, event or circumstance that could influence an issuer's share price. If listed securities experience unusual price volatility or if there is any third party information available to the public with respect to such issuer that may affect the price of its securities, the BMV will immediately request that the issuer inform the public as to the causes of the volatility or, if the issuer is unaware of the causes, that the issuer make a statement to that effect and/or the accuracy of the third party information publicly available. In addition, the BMV may immediately request that the issuer disclose any information relating to relevant material events when it deems the information currently disclosed to be insufficient, as well as instruct the issuer to clarify the information when necessary. The BMV may request that issuers confirm or deny any material events that have been disclosed to the public by third parties when it deems that the material event may affect or influence the securities being traded. The BMV must immediately inform the CNBV of any such requests.

In addition, the CNBV may also make any of these requests directly to issuers. An issuer may defer the disclosure of material events under some circumstances, as long as:

- the issuer maintains adequate confidentiality measures (including maintaining records of persons or entities in possession of material non-public information);

- the information is related to transactions that have not been completed;

- there is no misleading public information relating to the material event; and

- no unusual price or volume fluctuation occurs.

Similarly, if an issuer's securities are traded on both the BMV and a foreign securities exchange, the issuer must simultaneously file the information that it is required to file pursuant to the laws and regulations of the foreign jurisdiction with the CNBV and the BMV and vice versa.

Suspension of Trading

Under its internal regulations, the BMV may suspend trading in the shares of a particular issuer as a result of:

- the disclosure of material events;

- unusual price or volume fluctuations;

- failure by the issuer to timely or adequately comply with its reporting obligations, including the obligation to disclose material events; or

- significant exceptions or comments contained in the auditors' opinion of the issuer's financial statements, or determinations that such financial statements were not prepared in accordance with the applicable accounting procedures and policies.

In cases where an issuer's shares are traded simultaneously on other stock exchanges outside of Mexico, the BMV may consider the measures adopted by such other stock exchanges in order to suspend and/or resume trading in the issuer's shares.

In addition to the authority of the BMV under its internal regulations as described above, the CNBV and the BMV may, pursuant to the rules of the CNBV, suspend trading of an issuer's shares:

- if the issuer does not disclose a material event or if the disclosed information is not sufficiently clear; or

- upon price or volume volatility or changes in the offer or demand for such shares that are not consistent with their historic performance and cannot be explained solely through information made publicly available pursuant to the CNBV's general regulations.

The BMV must immediately inform the CNBV and the general public of any such suspension. An issuer may request that the CNBV or the BMV resume trading, provided that the issuer demonstrates that the causes triggering the suspension have been resolved and, if applicable, that it is in full compliance with the periodic reporting requirements under applicable law. The BMV may reinstate trading in suspended shares when: (i) it deems that the material events have been adequately disclosed to investors; (ii) it deems that the issuer has adequately explained the reasons for the changes in offer and demand, volume traded, or prevailing share price; or (iii) the events affecting the share prices have ceased to exist. If an issuer's request has been granted, the BMV will determine the appropriate mechanism to resume trading. If trading of an issuer's securities is suspended for more than 20 business days and the issuer is authorized to resume trading without conducting a public offering, the issuer must disclose via EMISNET the causes that resulted in the suspension and reasons why it is now authorized to resume trading, before trading may resume.

Under current regulations, the BMV may consider the measures adopted by other non-Mexican stock exchanges to suspend and/or resume trading of an issuer's shares in cases where the relevant securities are simultaneously traded on stock exchanges located outside of Mexico.

Insider Trading, Trading Restrictions and Disclosure Requirements

The LMV contains specific regulations regarding insider trading, including the requirement that persons in possession of information deemed privileged abstain: (i) from trading, directly or indirectly, in any relevant issuer's securities, including options and derivatives of the underlying security issued by such issuer, whose trading price could be affected by such information; (ii) from making recommendations or providing advice to third parties to trade in such securities; and (iii) from disclosing or communicating such privileged information to third parties (except for those entitled to such information due to their role or employment position).

Pursuant to the LMV, the following persons must notify the CNBV of any transactions undertaken as they relate to a listed issuer's stock:

- members of a listed issuer's board of directors;

- shareholders controlling 10.0% or more of a listed issuer's outstanding share capital;

- groups controlling 25.0% or more of a listed issuer's outstanding share capital; and

- other insiders, such as executive officers and agents with authority to act for the issuers, among others.

In addition, under the LMV, insiders must abstain from purchasing or selling securities of the issuer within 90 days from the last sale or purchase, respectively.

Subject to certain exceptions, any acquisition of a public company's shares that results in the acquirer owning 10.0% or more, but less than 30.0%, of an issuer's outstanding share capital must be publicly disclosed to the CNBV and the BMV by no later than one business day following the acquisition.

Any acquisition by an insider that results in the insider holding an additional 5.0% or more of a public company's outstanding share capital must also be publicly disclosed to the CNBV and the BMV no later than one business day following the acquisition. Some insiders must also notify the CNBV of share purchases or sales that occur within any three-month or five-day period and that exceed certain value thresholds. The LMV requires that convertible securities, warrants and derivatives to be settled in kind be taken into account in the calculation of share ownership percentages.

Tender Offers

The LMV contains provisions relating to public tender offers in Mexico. According to the LMV, tender offers may be voluntary or mandatory. Both are subject to the prior approval of the CNBV and must comply with general legal and regulatory requirements. Any intended acquisition of a public company's shares that results in the buyer owning 30.0% or more, but less than a percentage that would result in the buyer acquiring control of a company's voting shares, requires the buyer to make a mandatory tender offer for the greater of (i) the percentage of the share capital intended to be acquired or (ii) 10.0% of the company's outstanding capital stock. Finally, any acquisition of a public company's shares that is intended to obtain voting control requires the potential buyer to make a mandatory tender offer for 100.0% of the company's outstanding capital stock (however, under certain circumstances, the CNBV may permit an offer for less than 100.0%). Any tender offer must be made at the same price to all shareholders and classes of shares. The board of directors, with the advice of the audit committee, must issue its opinion of any tender offer resulting in a change of control, which opinion must take minority shareholder rights into account and which may be accompanied by an independent fairness opinion.

Under the LMV, all tender offers must be open for at least 20 business days and purchases thereunder are required to be made pro rata to all tendering shareholders. The LMV also permits the payment of certain amounts to controlling shareholders over and above the offering price if these amounts are fully disclosed, approved by the board of directors and paid in connection with non-compete or similar obligations of such controlling shareholders. The LMV also provides exceptions to the mandatory tender offer requirements and specifically sets forth remedies for non-compliance with tender offer rules (*e.g.*, suspension of voting rights and possible annulment of purchases, among others) and other rights available to former shareholders of the issuer.

The LMV also requires that convertible securities, warrants and derivatives that can be settled in kind representing underlying securities be taken into account in the calculation of the individual or group of individuals that, directly or indirectly, intends to acquire shares of a company.

Anti-Takeover Protections

The LMV provides that public companies may include anti-takeover provisions in their bylaws if such provisions: (i) are approved by a majority of the shareholders, without shareholders representing 5.0% or more of the capital stock present at the meeting voting against such provision; (ii) do not exclude any shareholders or group of shareholders; (iii) do not restrict, in an absolute manner, a change of control; and (iv) do not contravene legal provisions related to tender offers or have the effect of disregarding the economic rights related to the shares held by the acquiring party.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected financial information for the periods presented derived from our Audited Financial Statements and our Interim Financial Statements. These tables should be read together with "Presentation of Financial and Other Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements included elsewhere in this offering memorandum. Our Audited Financial Statements and our Interim Financial Statements have been prepared in accordance with IFRS.

Our Financial Statements and other financial information included in this offering memorandum, unless otherwise specified, are stated in Mexican pesos. The U.S. dollar amounts provided below are translations from the Mexican peso amounts, solely for the convenience of the reader. See "Presentation of Financial and Other Information—Currency Information" for an explanation of the exchange rates used to translate Mexican peso amounts into U.S. dollars. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated or at any other rate.

	For the Three Months Ended March 31,			For the Year Ended December 31,		
	2013	2013	2012	2012	2011	2010
	(thousands of US$)	(thousands of Ps.)		(thousands of Ps.)		
Consolidated statements of profit and other comprehensive income						
Revenues from hotel operation	18,844.7	232,818.4	198,075.1	890,715.7	686,767.1	573,913.9
Revenues from hotel management	613.7	7,582.5	6,076.1	41,487.6	28,280.9	29,440.9
Total	19,458.4	240,400.9	204,151.2	932,203.3	715,048.0	603,354.8
Hotel operating costs and expenses	10,338.4	127,727.0	114,414.8	502,353.3	409,821.0	325,682.3
Selling and administrative expenses	3,106.1	38,374.3	28,848.8	147,540.8	113,155.0	103,070.4
Depreciation	2,989.5	36,933.9	33,093.0	144,498.5	107,750.8	89,248.2
Cost and expenses	16,434.0	203,035.1	176,356.6	794,392.6	630,726.8	518,000.9
Expenses associated with opening of new hotels	289.5	3,576.3	2,802.4	12,277.5	13,527.4	6,506.3
Other (income) expenses	(142.2)	(1,756.6)	(2,221.0)	2,594.1	2,380.1	9.8
Consolidated operating profit	2,877.2	35,546.2	27,213.2	122,939.0	68,413.6	78,837.8
Finance costs	1,879.2	23,216.5	16,385.4	(97,480.6)	(81,348.6)	(68,050.4)
Finance income	(230.5)	(2,847.3)	(3,351.5)	17,264.6	13,186.0	6,218.9
Exchange result, net	179.4	2,216.5	12,434.8	(10,137.5)	14,794.7	(4,936.1)
Effects of valuation of financial instruments	(38.1)	(470.6)	374.6	(1,435.3)	1,701.1	1,471.2
Profit before tax	1,087.1	13,431.1	1,369.9	31,150.2	16,746.9	13,541.4
Income tax expense	217.4	2,686.2	(246.8)	5,557.8	6,743.8	1,203.4
Consolidated net profit	869.7	10,744.9	1,616.4	25,592.3	10,003.1	12,337.8
Other comprehensive income (loss):						
Exchange differences on translating foreign operations	(859.6)	(10,619.7)	(2,883.0)	(3,765.6)	5,979.3	-
Net actuarial (gain) loss	-	-	(42.7)	(170.9)	113.6	222.2
Deferred tax effects of net actuarial (gain) loss from employee benefits	-	-	(4.3)	(17.2)	32.6	(66.7)
Total other comprehensive income	(859.6)	(10,619.7)	(2,930.0)	(3,953.7)	6,125.5	155.5
Total consolidated comprehensive income (loss)	10.1	125.2	(1,313.6)	21,638.7	16,128.5	12,493.4

	As of March 31,		As of December 31,		
	2013	2013	2012	2011	2010
	(thousands of US$)	(thousands of Ps.)	(thousands of Ps.)		
Consolidated statements of financial position					
Current assets:					
Cash, cash equivalents and restricted cash	36,729.8	453,782.6	555,008.6	571,182.9	896,108.2
Trade receivables, net	4,189.6	51,761.1	43,325.0	32,199.0	22,298.6
Recoverable taxes – mainly value-added tax	8,657.1	106,955.2	121,930.1	85,093.7	37,964.2
Prepaid expenses	3,278.9	40,509.8	36,689.8	37,915.7	26,116.8
Total current assets	52,855.5	653,008.6	756,953.6	726,391.3	982,487.8
Property, equipment and leasehold improvements	374,933.2	4,632,149.5	4,494,785.8	3,881,235.8	3,097,394.2
Guarantee deposits	234.6	2,897.8	2,897.8	2,396.7	1,734.8
Other assets	7,795.0	96,303.5	108,122.7	8,681.9	-
Derivative financial instruments	11.0	136.0	344.0	2,700.1	2,195.7
Total assets	435,829.2	5,384,495.4	5,363,104.0	4,621,405.8	4,103,799.9
Liabilities and equity					
Current liabilities:					
Bank loans and current portion of long-term debt	7,701.9	95,153.6	86,688.4	55,844.5	55,893.7
Trade accounts payable	3,898.5	48,164.5	47,750.6	38,410.8	25,770.1
Other taxes and accrued expenses	6,001.7	74,149.1	85,836.8	31,828.2	27,263.0
Derivative financial instruments	10.4	129.0	262.9	1,183.6	2,380.4
Income tax and business flat tax	680.3	8,404.4	10,387.4	8,349.7	7,159.3
Direct employee benefits	32.2	397.9	6,067.3	4,871.1	992.1
Total current liabilities	**18,325.0**	**226,398.4**	**236,993.4**	**140,487.9**	**119,458.6**
Long-term debt	130,094.6	1,607,267.1	1,625,551.1	1,049,320.5	684,333.3
Deferred revenue	1,496.3	18,485.8	17,851.2	13,234.2	9,057.0
Employee benefits	86.4	1,067.4	1,033.4	465.4	300.4
Deferred income tax	17,959.6	221,883.9	224,713.5	248,381.0	260,846.6
Total liabilities	**167,961.9**	**2,075,102.5**	**2,106,142.7**	**1,451,889.0**	**1,073,995.9**
Equity					
Equity attributable to owners of the Company:					
Issued capital	58,030.4	716,942.8	716,942.8	716,942.8	716,942.8
Additional paid-in capital	86,948.9	1,074,219.2	1,074,219.2	1,074,219.2	1,074,219.2
Retained earnings	51,315.9	633,987.8	651,702.8	644,867.5	623,370.1
Accumulated other comprehensive income	(501.1)	(6,191.2)	1,187.2	3,211.4	139.0
Total equity attributable to owners of the Company	**195,794.2**	**2,418,958.6**	**2,444,052.0**	**2,439,240.9**	**2,414,671.1**
Non-controlling interests	72,073.1	890,434.3	812,909.2	730,275.9	615,132.9
Total equity	267,867.3	3,309,392.9	3,256,961.3	3,169,516.8	3,029,804.0
Total liabilities and equity	**435,829.2**	**5,384,495.4**	**5,363,104.0**	**4,621,405.8**	**4,103,799.9**

	For the Three Months Ended March 31,			For the Year Ended December 31,		
	2013	2013	2012	2012	2011	2010
	(thousands of US$)	(thousands of Ps.)		(thousands of Ps.)		
Non-IFRS Financial Data						
Adjusted EBITDA	6,156.1	76,056.3	63,108.6	279,715.0	189,691.8	174,592.3

See "—Adjusted EBITDA Reconciliation" below for a reconciliation of our operating profit to Adjusted EBITDA.

	As of or for the Year Ended December 31,		
	2012	2011	2010
Operating Data			
Number of hotels at year end	71	62	50
Number of rooms at year end	8,092	6,973	5,562
Room growth (%)	16.0%	25.4%	11.4%
Average Occupancy Rate	56.8%	54.8%	56.7%
ADR (Ps.)	683	668	654
RevPAR (Ps.)	388	366	371

	As of or for the Year Ended December 31,		
Established Hotels Operating Data	2012	2011	2010
Number of Established Hotels at year end	45	35	26
Average Occupancy Rate	59.8%	59.4%	61.9%
ADR (Ps.)	691	682	676
RevPAR (Ps.)	413	405	418
	(in thousands of Ps. unless otherwise indicated)		
Revenues	766,608.9	557,371.7	444,131.0
Operating costs	454,294.8	326,531.6	254,975.4
Profit attributable to Established Hotels	312,314.1	230,840.1	189,155.5

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

You should read this discussion and analysis together with "Summary Financial Information," "Selected Consolidated Financial and Operating Information" and our Financial Statements and the accompanying notes, which are included elsewhere in this offering memorandum.

This section contains forward-looking statements that reflect our plans, estimates and beliefs and involve risks, uncertainties and assumptions. 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 memorandum, particularly in "Risk Factors" and "Forward-looking Statements." Investors should consider carefully the following discussion and the information set forth under "Risk Factors" before investing in our shares.

Overview

We believe we are the leading and fastest growing limited-service hotel chain in Mexico, based on number of hotels, number of rooms, geographic footprint, market share and revenues. We focus on providing quality, safe and comfortable accommodation at affordable prices across our network of limited-service hotels that primarily target domestic business travelers. We operate as an integrated hospitality business platform developing, selectively acquiring, managing and franchising hotels in the economy and budget segments, substantially all of which are in Mexico. We believe our focus on the value-conscious domestic business traveler is unique among lodging companies in Mexico, giving us a competitive advantage through specialization in a market that we believe is highly fragmented and underpenetrated by national and international hotel operators. Furthermore, we believe that by implementing international hospitality best practices and an efficient and flexible operating model, we are able to offer differentiated quality and value within our niche market.

Key Indicators of Operating Performance

We use a variety of operating and other information to evaluate the operating performance of our hotels and our business in general. These key indicators include financial information, as well as other financial measures that are non-IFRS measures, such as Adjusted EBITDA. In addition, we use other information that may not be financial in nature, including statistical information and comparative data. We use this information to measure the operating performance of our individual hotels, groups of hotels and/or our hotel business as a whole (*i.e.*, hotel chain-wide performance). We also use these statistics to evaluate the hotels in our portfolio to determine each hotel's contribution to the rental income from our portfolio and its potential to provide attractive long-term total returns. We intend to continue to use these key performance indicators to assess potential new investments, hotel acquisitions or divestitures and joint ventures, as well as non-controlling interest acquisitions. These key indicators include:

- **Hotel Revenue**. Our revenue is primarily derived from the rent of rooms. This revenue will depend principally on our ability to maintain or increase our occupancy rates, ADRs, RevPARs and the number of rooms we have available for rental. Rental revenue is also affected by many factors outside of our control, including the supply and demand for hotel rooms in our target markets, competition and macroeconomic conditions. See "Risk Factors—Risks Related to our Business—We are subject to various operating and business risks common to the lodging industry in general." Unfavorable changes in these factors could negatively impact hotel room demand and pricing and our capacity to continue with our expansion plans, which could each affect our rental revenue.

- **Hotel Costs and Expenses**. Many of the costs and expenses associated with hotel operations are relatively fixed. If we are unable to decrease these costs significantly or rapidly when demand for our hotels decreases, the resulting decline in our revenues can have an adverse effect on our net cash flow, margins and profits. This effect can be especially pronounced during periods of economic contraction or slow economic growth. Economic downturns generally affect the results of our owned, co-owned and leased hotel segments more significantly than the results of our management and franchising segments due to the fixed costs associated with operating an owned, co-owned or leased property. The effectiveness of any

cost-cutting efforts is limited by the fixed-cost nature of our business. As a result, we may not be able to offset further revenue reductions through cost-cutting.

- **Occupancy Rate**. Occupancy rate represents the total number of hotel rooms rented in a given period divided by the total number of rooms available. Occupancy rate measures the utilization of our hotels' available capacity. Management uses occupancy to gauge demand at a specific hotel or group of hotels in a given period. Occupancy rates also help us determine achievable ADR levels as demand for hotel rooms increases or decreases. Increases in occupancy at a hotel would lead to increases in room revenues and additional variable operating costs (including housekeeping services, utilities and room amenity costs).

- **ADR**. Average daily rate, or ADR, represents total hotel room revenues divided by total number of rooms rented in a given period. ADR measures average room price attained by a hotel, and ADR trends provide useful information concerning the pricing environment and the nature of the customer base of a hotel or group of hotels. ADR is a commonly used performance measure in the industry, and we use ADR to assess the pricing levels that we are able to generate by guest group, as changes in ADR typically have a greater impact on margins and profitability as there is no substantial effect on variable costs.

- **RevPAR**. Revenue per available room, or RevPAR, is the product of ADR and the occupancy rate. RevPAR is another commonly used performance measure in the industry used to identify trend information with respect to room revenues and to evaluate hotel performance on a group and segment basis. RevPAR changes that are driven predominantly by changes in occupancy have different implications for overall revenue levels and incremental profitability than do changes that are driven predominantly by changes in ADRs. This is generally due to the fact that increases in occupancy usually result in increased variable operating costs, whereas increases in ADRs alone usually do not necessarily result in increases in such costs.

- **Established Hotels**. We believe our hotels generally have completed their ramp-up cycle three years after opening, after which we consider such hotel to be an Established Hotel. Because such a large percentage of our hotels are new properties still in the ramp-up stage, evaluating the key performance indicators of our Established Hotels allows us to compare our operating performance with other companies in the hospitality industry that are not experiencing the same rapid growth as us.

- **Growth in Established Hotels**. Given that we are a rapidly expanding company, measuring growth in Established Hotels allows us to differentiate between growth generated by the opening of new hotels and growth from improved operations at existing Established Hotels. Growth in revenue from Established Hotels, for example, refers to the difference in revenue generated by our Established Hotels over a period of time compared to an identical prior period. Growth in revenue from Established Hotels indicates whether our revenue is increasing or decreasing over time with respect to such subset of hotels. If a hotel has not been operated for the entire 36-month period prior to a relevant period end date, its revenue is excluded from our calculation of revenue from Established Hotels.

- **Adjusted EBITDA**. Adjusted EBITDA is presented as supplemental information because we believe it is a useful indicator of our operating performance and is useful in comparing our operating performance with other companies in the hospitality industry and in comparing our performance across periods on a consolidated basis. Adjusted EBITDA does not include expenses associated with opening of new hotels, which we consider as non-recurring expenses with respect to each specific new hotel once in operation. By removing the expenses we incur upon the opening of each of the hotels, our results more accurately reflect the operating performance of our core hotel operation business on a consolidated basis. Adjusted EBITDA, however, should not be considered in isolation, as a substitute for total comprehensive income prepared in accordance with IFRS or as a measure of a company's profitability. In addition, our calculation of Adjusted EBITDA may not be comparable to other companies' similarly titled measures. See "—Adjusted EBITDA Reconciliation" below for a reconciliation of our operating profit to Adjusted EBITDA.

- **Segment and Combined Results**. We operate along two business segments: hotel operation and hotel management. Each of these operating segments includes activities from which we may earn revenues and incur expenses (including revenues and expenses relating to intercompany transactions). While under IFRS,

intercompany transactions are eliminated and our Financial Statements accordingly present our consolidated results following such eliminations, our management evaluates our operating results and financial performance and assigns resources on an individual segment basis as well as a combined segment basis without giving effect to intercompany eliminations. The principal intercompany transactions that are eliminated in our segment reporting in connection with the consolidation of our financial information under IFRS are management fees earned by our hotel management segment from our hotel operation segment. We believe this information is relevant because it shows results and improvements for each of our individual business activities without the effect of consolidation accounting. Analyzing performance per business segment allows us to adequately assess our core business results and improvements in operations. See Notes 26 and 16 of our Audited Financial Statements and Interim Financial Statements, respectively, for additional information.

Factors Influencing our Results

Macroeconomic Environment. Substantially all of our operations and revenues are in Mexico. As a result, our operating results and our financial performance depend upon the demand for our lodging offerings, which is closely linked to the general economy and sensitive to business and discretionary spending levels in Mexico. While the lodging industry in Mexico has benefited from the significant growth experienced by the Mexican economy over the past two decades, the global financial crisis and economic slowdown in 2008 and 2009 negatively affected business and consumer confidence and contributed to slowdowns in most industries, particularly the lodging industry. According to INEGI, Mexico's economy has resumed growth with real GDP increases of 5.3% in 2010 and 3.9% in both 2011 and 2012, which was in large degree driven by growth in the manufacturing, industrial and construction sectors. Government policy with respect to inflation or interest rate levels may also affect our costs and expenses, as we may not be able to pass on increased costs to our customers during the same period. Other macro-economic factors beyond our control in Mexico or in other markets as we selectively grow outside of Mexico may also affect our results of operations and/or the supply and demand for hotel rooms in our markets. For example, any prolonged recurrence of contagious diseases, social instability or significant natural disasters may have a negative impact on the demand for our lodging. See "Risk Factors—Risks Related to our Business—We are subject to various operating and business risks common to the lodging industry in general." Unfavorable changes in these factors could negatively impact hotel room demand and pricing and our capacity to continue with our expansion plans, which could each affect our rental revenue.

Rapid Growth. We are a rapidly expanding company. As of December 31, 2012, 36.6% of our hotels were opened within the prior three years. Generally, the operation of a hotel goes through various stages, including construction, opening, ramp-up, stabilization with relation to occupancy rates and ADR and, subsequently, maturity once stabilized.

The following table illustrates the total number of properties in the opening, ramp-up and Established Hotel stages as of each of the dates presented.

	As of December 31,		
	2012	**2011**	**2010**
Number of hotels opened during the period	9	12	5
Number of properties in ramp-up stage	26	27	24
Number of Established Hotels....	45	35	26
Total number of operating hotels	71	62	50

From ground-breaking to opening, which typically lasts between six and eleven months, our hotels generally incur non-recurring opening expenses ranging from approximately Ps.12,000 to Ps.15,500 per new hotel room installed. During the early months of the ramp-up stage, the occupancy rate is relatively low and revenues may be insufficient to cover a hotel's operating costs, which are relatively fixed in nature. Although we incur operating

losses at the initial stages of operation, our hotels begin to operate at a profit with between a 28.0% and 32.0% occupancy rate at our target ADR. The opening expenses incurred while properties are placed into operation and the lower profitability during the ramp-up stage may have a negative impact on our financial performance. As a result of our focus on expansion through new hotel openings, 26 of our hotels as of December 31, 2012 were in the ramp-up phase, and for the years 2008 through 2012 we have had an average of 24 hotels in different stages of ramp-up, which is reflected in the rapid increases in both our consolidated revenues and our costs year over year, affecting the comparability of our results. Although we plan to continue to expand our hotel portfolio, we expect the proportion of Established Hotels in our hotel network to increase over time, which we believe will have a positive effect on our results of operations.

Mix of Hotel Ownership Models. The mix of owned, co-owned, leased, managed and franchised hotels in our hotel portfolio affects our results of operations in a given period. Our owned and co-owned hotels have been and will continue to be the main contributor to our revenues as we extend our current business strategy. Within our hotel ownership model, while each hotel incurs certain upfront development costs and opening expenses, we generally expect more revenues and profit contribution once a hotel's operations mature. We do not have, nor do we seek to acquire, equity interests in hotels that we do not or will not operate or otherwise manage. We operate and derive profits from our leased hotels as if such hotels were owned by us. Under our lease contracts, we pay a fixed rent to the hotel owner and, in certain instances, the owner benefits from the hotel's performance via additional variable payments. Under the management and franchise models, the owner or franchisee bears substantially all the capital expenditures, opening and operational expenses. As such, our management model enables us to quickly expand our network without incurring significant capital expenditures or expenses.

The following table sets forth the number of hotels and rooms by ownership model in each of the periods presented.

	As of December 31,		
	2012	2011	2010
Number of hotels	71	62	50
Hotel growth (%)	14.5%	24.0%	11.1%
Owned and managed hotels	23	15	13
Co-owned and managed hotels	21	22	15
Leased and managed hotels	10	10	8
Managed-only hotels	13	11	9
Franchised hotels	4	4	5
Number of available rooms	8,092	6,973	5,562
Room growth (%)	16.1%	25.4%	11.4%
Owned hotels	2,787	1,867	1,628
Co-owned hotels	2,569	2,616	1,753
Leased hotels	1,020	1,020	810
Managed hotels	1,323	1,077	859
Franchised hotels	393	393	512

We intend to increase the number of managed-only hotels in our hotel portfolio and continue to strive for diversified revenue sources among hotel models.

Adjusted EBITDA Reconciliation

Adjusted EBITDA is a measure used in our financial analysis that is not recognized under IFRS but is calculated from amounts derived from our financial statements. We calculate Adjusted EBITDA by adding depreciation and specific expenses associated with the opening of new hotels, which we consider non-recurring with respect to the hotel once in operation, to our consolidated operating profit. We may calculate Adjusted EBITDA

differently than other hotel operators, and it should not be construed as an alternative to (i) comprehensive income as an indicator of our operating performance or (ii) cash flow from operations as a measure of our liquidity.

The following table presents a reconciliation of our operating consolidated profit as determined in accordance to IFRS to Adjusted EBITDA as applicable for each of the specified periods:

	For the Three Months Ended March 31,		For the Year Ended December 31,		
	2013	2012	2012	2011	2010
	(In thousands of Ps.)				
Consolidated operating profit.....	**35,546.2**	**27,213.2**	**122,939.0**	**68,413.6**	**78,837.8**
Depreciation...............................	36,933.9	33,093.0	144,498.5	107,750.8	89,248.2
Expenses associated with the opening of new hotels	3,576.2	2,802.4	12,277.6	13,527.4	6,506.3
Adjusted EBITDA	**76,056.3**	**63,108.6**	**279,715.0**	**189,691.8**	**174,592.3**

Results from Operating Segments

We regularly assess our operating results and financial performance and assign resources along our two operating segments: hotel operation and hotel management. Each of these operating segments includes activities from which we may earn revenues and incur expenses (including revenues and expenses relating to intercompany transactions).

- **Hotel Operation.** Revenues from hotel operation are generated primarily by room rentals and include revenues generated by those hotels we own, those we co-own with an equity interest of 50.0% or greater and revenues from our leased hotels. Because of our focus on the limited-service hospitality segment, approximately 94% of our hotel operation revenue is derived primarily from the rent of rooms with approximately 6% generated from food and beverage, guest services and other amenities. Our hotel operating costs consist of costs and expenses directly attributable to the operation of our hotels, including room expenses, payroll, promotional and sales expenses, utilities, maintenance expenses, property taxes and insurance. See Note 21 to our Financial Statements for a detailed description of our hotel operating costs and expenses.

- **Hotel Management.** We generate revenues primarily from management fees we charge our owned, co-owned and leased hotels, as well as hotels we manage and franchise for third parties. We also obtain revenues from our hotel development services to both our own hotels, which are intercompany transactions, as well as hotels owned by third-parties, which are not eliminated in consolidation. Selling and administrative expenses are attributable to our hotel management segment and include the corporate expenses related to managing hotels on a consolidated basis. The significant expenses within this category include salaries, administrative expenses, call center, marketing and advertising expenses, corporate office rent, legal fees and severance payments for our operations staff, sales and marketing offices, hotel development and supervision teams and administration, accounting, legal corporate finance and corporate human resources and technology departments, as well as the office of the senior management. See Note 22 to our Financial Statements for a detailed description of our selling and administrative expenses.

  We enter into long-term hotel management contracts with all of our owned, co-owned, leased and managed hotels. As a result, our hotel management segment receives management and other fees from the owned, co-owned and leased hotels whose operations fall within our hotel operation segment. Fees received from those owned, co-owned and leased hotels are paid to the hotel management segment on substantially the same basis as the management fees that segment receives from unrelated third parties. Under IFRS, pursuant to criteria established in IAS 27—*Consolidated and Individual Financial Statements*, the selling and administrative expenses attributable to our hotel management segment as well as the revenues generated by the fees that the owned, co-owned and leased hotels within our hotel operation segment pay to

our hotel management segment are eliminated in consolidation. Such eliminated fees represent approximately 85% of the total revenues in the hotel management segment.

The tables below present the financial information of each segment as it is presented to our internal management for assessment of performance and resource allocation. The results of each segment are presented on a gross basis, prior to the elimination of management fees paid by our hotel operation segment to the hotel management segment, with a separate column presenting the relevant eliminations to arrive at consolidated amounts that are reported in the consolidated statement of profit and other comprehensive income included in our Financial Statements.

For the Three Months Ended March 31, 2013

Condensed Consolidated Interim Statements of Profit and Other Comprehensive Income (Loss) data:	**Hotel operation**	**Hotel management**	**Total**	**Eliminations**	**Total Consolidated**
			(thousands of Ps.)		
Total revenues	234,305.3	54,089.6	288,394.9	(47,993.9)	240,401.0
Costs and expenses (excluding depreciation)	(166,307.5)	(47,787.6)	(214,095.1)	49,993.9	(166,101.3)
Profit before other non-recurring operating expenses and depreciation	67,997.8	6,302.0	74,299.7	-	74,299.7
Other expenses and expenses associated with opening of new hotels	(1,819.7)	-	(1,819.7)	-	(1,819.7)
Profit before depreciation:	66,178.1	6,302.0	72,480.1	-	72,480.1
Depreciation	(36,933.9)	-	(36,933.9)	-	(36,933.9)
Operating profit	29,244.2	6,302.0	35,546.2	-	35,546.2

For the Three Months Ended March 31, 2012

Condensed Consolidated Interim Statements of Profit and Other Comprehensive Income (Loss) data:	**Hotel operation**	**Hotel management**	**Total**	**Eliminations**	**Total Consolidated**
			(thousands of Ps.)		
Total revenues	200,025.0	49,077.3	249,102.3	(44,951.1)	204,151.2
Costs and expenses (excluding depreciation)	(147,016.8)	(41,197.9)	(188,215.0)	44,951.1	(143,263.6)
Profit before other non-recurring operating expenses and depreciation	53,008.2	7,879.4	60,887.6	-	60,887.6
Other expenses and expenses associated with opening of new hotels	(581.4)	-	(581.4)	-	(581.4)
Profit before depreciation:	52,426.8	7,879.4	60,306.2	-	60,306.2
Depreciation	(33,093.0)	-	(33,093.0)	-	(33,093.0)
Operating profit	19,333.8	7,879.4	27,213.2	-	27,213.2

For the Year Ended December 31, 2012

Statement of profit and other comprehensive income data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
			(thousands of Ps.)		
Total revenues	899,353.8	218,116.1	1,117,469.9	(185,266.6)	932,203.3
Costs and expenses (excluding depreciation)	(687,619.9)	(147,540.8)	(835,160.8)	185,266.6	(649,894.2)
Profit before other non-recurring operating expenses and depreciation	211,733.9	70,575.2	282,309.1	-	282,309.1
Other expenses and expenses associated with opening of new hotels	(14,871.7)	-	(14,871.7)	-	(14,871.7)
Profit before depreciation:	196,862.2	70,575.2	267,437.4	-	267,437.4
Depreciation	(144,498.5)	-	(144,498.5)	-	(144,498.5)
Operating profit	52,363.8	70,575.2	122,939.0	-	122,939.0

For the Year Ended December 31, 2011

Statement of profit and other comprehensive income data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
			(thousands of Ps.)		
Total revenues	692,772.7	170,501.3	863,274.0	(148,226.0)	715,048.0
Costs and expenses (excluding depreciation)	(558,047.0)	(113,155.0)	(671,202.0)	148,226.0	(522,976.1)
Profit before other non-recurring operating expenses and depreciation:	134,725.7	57,346.3	192,071.9	-	192,072.0
Other expenses and expenses associated with opening of new hotels	(15,907.5)	-	(15,907.5)	-	(15,907.5)
Profit before depreciation:	118,818.2	57,346.3	176,164.5	-	176,164.5
Depreciation	(107,750.8)	-	(107,750.8)	-	(107,750.8)
Operating profit	11,067.4	57,346.3	68,413.6	-	68,413.6

For the Year Ended December 31, 2010

Statement of profit and other comprehensive income data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
			(thousands of Ps.)		
Total revenues	579,395.6	138,227.4	717,623.0	(114,268.2)	603,354.8
Costs and expenses (excluding depreciation)	(439,950.5)	(103,070.4)	543,020.9	114,268.2	(428,752.7)
Profit before other non-recurring operating expenses and depreciation:	139,445.1	35,157.0	174,602.1	-	174,602.1
Other expenses and expenses associated with opening of new hotels	(6,516.1)	-	(6,516.1)	-	(6,516.1)
Profit before depreciation:	132,929.1	35,157.0	168,086.0	-	168,086.0
Depreciation	(89,248.2)	-	(89,248.2)	-	(89,248.2)
Operating profit	43,680.8	35,157.0	78,837.8	-	78,837.8

Historical Results of Operation

The information below is presented on a consolidated basis and by operating segment. Under IFRS, intercompany transactions, such as the management fees charged to the owned, co-owned and leased properties that are accounted for as revenues in our hotel management segment are eliminated as both revenues of our hotel management segment and expenses of our hotel operation segment, while the costs and expenses of our hotel management segment are not eliminated. Financial information for individual business segment amounts is reflected prior to these intercompany eliminations. Combined and consolidated financial information is reflected after intercompany eliminations.

Comparison of the three months ended March 31, 2013 to the three months ended March 31, 2012

Revenues and Costs and Expenses. Our total consolidated revenues increased by 17.8% from Ps.204.2 million for the three months ended March 31, 2012 to Ps.240.4 million for the three months ended March 31, 2013. This growth in revenue is primarily due to a 14.2% increase in installed room capacity, which is a result of new hotel openings and a 10.7% increase in rooms-nights-sold across the hotel chain. Our ADR and RevPAR for the period ended March 31, 2013 increased by 7.2% and 3.9% respectively over our ADR and RevPAR for the same period in 2012. Consolidated hotel operating costs and expenses were Ps.127.7 million for the three months ended March 31, 2013, representing an 11.6% increase compared to Ps.114.4 million for the three months ended March 31, 2012. This increase was primarily a result of the larger number of hotels in operation during the period and the relative growth in room expenses and payroll expenses related to hotel operations.

Our combined business segment total revenues increased by 15.8% from Ps.249.1 million for the three months ended March 31, 2012 to Ps.288.4 million for the three months ended March 31, 2013.

- *Hotel operation.* Hotel operation business segment revenues for the three months ended March 31, 2013 increased by 17.1% to Ps.234.3 million from Ps.200.0 million for the three months ended March 31, 2012. This increase was primarily driven by a 10.7% growth in the number of occupied rooms as a result of the opening of eight hotels since March 31, 2012 and a 7.2% increase in ADR, which was Ps.728 for the three months ended March 31, 2013. Chain-wide RevPAR rose to Ps.375 for the three months ended March 31, 2013, a 3.9% increase from the same period in the previous year. Revenue from Established Hotels increased 2.1% for the three month period ended March 31, 2013 as a result of an increase in ADR and RevPAR of 5.3% and 2.4%, respectively.

Hotel operation business segment costs and expenses were Ps.166.3 million for the three months ended March 31, 2013, representing a 13.1% increase compared to Ps.147.0 million for the three months ended March 31, 2012. This increase was primarily a result of a higher number of occupied rooms across the chain during the latter period. Other non-recurring expenses and expenses associated with opening of new hotels increased by 213.0% to Ps.1.8 million from Ps.0.6 million for the three months ended March 31, 2012. As a result of the foregoing, operating profit from our hotel operation business segment increased by 51.3% to Ps.29.2 million for the three months ended March 31, 2013 from Ps.19.3 million for the three months ended March 31, 2012.

- *Hotel management.* Hotel management business segment revenues increased 10.2% to Ps.54.1 million for the three months ended March 31, 2013 from Ps.49.1 million for the three months ended March 31, 2012. Higher hotel management revenues were primarily driven by new hotel openings, which increased rooms in operation and resulted in an increase in occupied rooms during 2012. Hotel management costs and expenses were Ps.47.8 million for the three months ended March 31, 2013, representing a 16.0% increase compared to Ps.41.2 million for the three months ended March 31, 2012. This increase was primarily a result of expanded hotel management-related expenses due to the increase in the number of properties under management since March 31, 2012 and expenses in preparation for the growth in operations expected in Mexico and internationally.

Selling and administrative expenses. Selling and administrative expenses amounted to Ps.38.4 million for the three months ended March 31, 2013, a 33.0% increase as compared to Ps.28.8 for the three months ended March 31, 2012. The increase was primarily a result of the growth in our hotel operation business that required additional expenses both in administration and sales. As a percentage of total revenue, corporate expenses represented 16.0% of total revenues for the three months ended March 31, 2013 and 14.1% for the three months ended March 31, 2012.

Depreciation. Due to our continued investment and expansion in new hotels, we had depreciation of Ps.36.9 million for the three months ended March 31, 2013, an increase of 11.6% from Ps.33.1 in the comparable period of the three months ended March 31, 2012.

Expenses associated with the opening of new hotels. Non-recurring expenses related to the opening of new hotels totaled Ps.3.6 million for the three months ended March 31, 2013, a 27.6% increase from the Ps.2.8 million incurred for the three months ended March 31, 2012. This higher expense was mainly attributable to the higher number of hotels to be opened during the first half of the year 2013.

Operating profit. Our operating profit consolidates the earnings of our hotel operation and hotel management segments and deducts our selling and administrative expenses, depreciation and non-recurring expenses associated with the opening of new hotels. Accordingly, as a result of the foregoing, consolidated operating profit was Ps.35.6 million for the three months ended March 31, 2013, a 30.6% increase as compared to Ps.27.2 million for the three months ended March 31, 2012.

Net financing costs. Our net financing costs were Ps.22.1 million for the three months ended March 31, 2013, a 14.4% decrease as compared to Ps.25.8 million for the three months ended March 31, 2012. Net interest expense increased 56.3% to Ps.20.4 million for the three months ended March 31, 2013, from Ps.13.0 million in the comparable period of 2012, due to the higher financial debt related to the new hotels in operation and the refinancing of debt related to certain properties once stabilized from loan-to-cost to loan-to-value. Exchange result, net was Ps.2.2 million for the three months ended March 31, 2013, compared to Ps.12.4 million for the comparable period of the three months ended March 31, 2012. This decrease in exchange result, net was primarily due to less exposure to the U.S. dollar due to investments made after March 31, 2012 and an appreciation of the Mexican peso, whose exchange rate relative to the U.S. dollar was Ps.12.35 as of March 31, 2013, compared to Ps.12.85 as of March 31, 2012.

Taxes. Tax expense was Ps.2.7 million for the three months ended March 31, 2013, compared to a tax benefit of Ps.0.2 million for the three months ended March 31, 2012, due to a lower deferred tax benefit for the three months ended March 31, 2013 based on our estimated effective tax rate for 2013.

Comprehensive income. As a result of the factors described above, our total comprehensive income for the three months ended March 31, 2013 was Ps.10.7 million, which was a 564.7% increase as compared to the Ps.1.6 million for the three months ended March 31, 2012.

Comparison of Year Ended December 31, 2012 to the Year Ended December 31, 2011

Revenues and Costs and Expenses. Our total consolidated revenues increased by 30.4% from Ps.715.0 million in 2011 to Ps.932.2 million in 2012. Consolidated hotel operating costs and expenses were Ps.502.4 million during the year ended December 31, 2012, representing a 22.6% increase compared to Ps.409.8 million during the year ended December 31, 2011. This increase was primarily a result of the larger number of hotels in operation, including the opening of our first hotel in Costa Rica. The costs that experienced the most significant increases included: (i) room expenses, which grew to Ps.131.4 million for the year ended December 31, 2012, an increase of 18.7% from Ps.110.7 million for the year ended December 31, 2011; (ii) payroll expenses related to hotel operations, which reached Ps.86.3 million for the year ended December 31, 2012, an increase of 59.4% from Ps.54.2 million for the year ended December 31, 2011; and (iii) administrative and general expenses, which were Ps.82.9 million for the year ended December 31, 2012, an increase of 17.4% from Ps.70.6 million for the year ended December 31, 2011.

Our combined business segment total revenues increased by 29.4% from Ps.863.3 million in 2011 to Ps.1,117.5 million in 2012.

- *Hotel operation.* Hotel operation business segment revenues for the year ended December 31, 2012 increased by 29.8% to Ps.899.4 million from Ps.692.8 million for the year ended December 31, 2011. This increase was primarily driven by a 25.3% growth in the number of occupied rooms as a result of nine hotel openings during the year, a 1.9 percentage point increase in occupancy levels across the hotel chain, and a 2.3% increase in ADR, which was Ps.683 for the year. Chain-wide RevPAR rose to Ps.388 in 2012, a 5.9% increase from the previous year. Revenue from Established Hotels increased 37.5% during 2012 as a result of the increase in our Established Hotels by ten new hotels, a 0.6% increase in occupancy levels, and a 1.4% increase in ADR. As a result, RevPAR for our Established Hotels increased 2.1% to reach Ps.413 in 2012.

  Hotel operation business segment costs and expenses were Ps.687.6 million during the year ended December 31, 2012, representing a 23.2% increase compared to Ps.558.0 million during the year ended December 31, 2011. This increase was primarily a result of a higher volume of occupied rooms across the chain during the year. Other non-recurring expenses and expenses associated with opening of new hotels decreased by 6.5% to Ps.14.9 million from Ps.15.9 million for the year ended December 31, 2011 due to a lower number of hotel openings in 2012. As a result of the foregoing, operating profit from our hotel operation business segment increased by 373.1% to Ps.52.3 million during the year ended December 31, 2012, from Ps.11.1 million in 2011.

- *Hotel management.* Hotel management business segment revenues increased 27.9% to Ps.218.1 million for the year ended December 31, 2012 from Ps.170.5 million for the year ended December 31, 2011. Higher hotel management revenues were primarily driven by new hotel openings, which increased rooms in operation and resulted in an increase in occupied rooms during 2012. Hotel management costs and expenses as a business segment were Ps.147.5 million during the year ended December 31, 2012, representing a 30.4% increase compared to Ps.113.2 million during the year ended December 31, 2011. This increase was primarily a result of expanded hotel management related expenses due to the increase in the number of properties under management during the year and expenses in preparation for the growth in operations expected in Mexico and internationally.

Selling and administrative expenses. Selling and administrative expenses amounted to Ps.147.5 million for the year ended December 31, 2012, a 30.4% increase as compared to Ps.113.2 million for the year ended December 31, 2011. The increase was primarily a result of the growth in our hotel operation business that required additional expenses both in administration and sales. Even though the number of operating hotels increased, as a percentage of total revenue, corporate expenses represented 15.8% of total revenues in each of, 2012 and 2011.

Depreciation. Due to our continued investment and expansion in new hotels, we had depreciation of Ps.144.5 million for the year ended December 31, 2012, an increase of 34.1% from Ps.107.8 million in the comparable period of 2011.

Expenses associated with the opening of new hotels. Non-recurring expenses related to the opening of new hotels totaled Ps.12.3 million for the year ended December 31, 2012, a 9.2% decrease from Ps.13.5 million for the year ended December 31, 2011. This lower expense was mainly attributable to the lower number of rooms opened in 2012 of 1,119 when compared to 1,411 in 2011.

Operating profit. Our consolidated operating profit consolidates the earnings of our hotel operation and hotel management segments and deducts our selling and administrative expenses, depreciation and non-recurring expenses associated with the opening of new hotels. Accordingly, as a result of the foregoing, consolidated operating profit was Ps.122.9 million for the year ended December 31, 2012, a 79.7% increase as compared to Ps.68.4 million for the year ended December 31, 2011.

Net financing costs. Our net financing costs were Ps.91.8 million for the year ended December 31, 2012, a 77.7% increase as compared to Ps.51.7 million for the year ended December 31, 2011. Net interest expense increased 17.7% to Ps.80.2 million for the year ended December 31, 2012, from Ps.68.2 million in the comparable period of 2011, due to the higher financial debt related to the new hotels in operation and the refinancing of debt related to certain properties once stabilized from loan-to-cost to loan-to-value in order to benefit from the capital appreciation of those stabilized properties. Exchange result, net was a loss of Ps.10.1 million during year ended December 31, 2012, compared to a gain of Ps.14.8 million in the comparable period of 2011. This loss in 2012 was primarily due to our long position, on average in 2012, in U.S. dollars.

Taxes. Tax expense was Ps.5.6 million for the year ended December 31, 2012, compared to Ps.6.7 million for the same period of 2011 due to increased capital expenditures during 2012 that resulted in larger deductions to taxable income when calculating income taxes under the business flat tax (IETU) regime and a negative tax basis under the income tax (ISR) regime.

Consolidated net income and comprehensive income. As a result of the factors described above, our consolidated net income for the year ended December 31, 2012 was Ps.25.6 million, which was a 155.8% increase as compared to Ps.10 million for the year ended December 31, 2011. Our comprehensive income for the year ended December 31, 2012 was Ps.21.6 million, which was a 34.2% increase as compared to Ps.16.1 million for the previous year.

Comparison of Year Ended December 31, 2011 to the Year Ended December 31, 2010

Revenues and Costs and Expenses. Our total consolidated revenues increased by 18.5% from Ps.603.4 million in 2010 to Ps.715.0 million in 2011. Consolidated hotel operating costs and expenses were Ps.523 million during the year ended December 31, 2011, representing a 25.8% increase compared to Ps.428.8 million during the year ended December 31, 2010. This increase was primarily a result of operating an additional 12 new hotels during 2011. The costs that experienced the most significant increases included: (i) room expenses, which grew to Ps.110.7 million for the year ended December 31, 2011, an increase of 41.0% from Ps.78.5 million for the year ended December 31, 2010; (ii) payroll expenses related to hotel operations reached Ps.54.2 million for the year ended December 31, 2011, an increase of 19.1% from Ps.45.5 million for the year ended December 31, 2010; and (iii) administrative and general expenses, which were Ps.70.6 million for the year ended December 31, 2011, increased 14.7% from Ps.61.6 million for the year ended December 31, 2010.

Our combined business segment total revenues increased by 20.3% from Ps.717.6 million in 2010 to Ps.863.3 million in 2011.

- *Hotel operation.* Hotel operation business segment revenues for the year ended December 31, 2011 increased by 19.6% to Ps.692.8 million from Ps 579.4 million for the year ended December 31, 2010. This increase was primarily driven by a 12.1% growth in the number of occupied rooms as a result of 12 hotel openings during the year, a 2.0% increase in ADR, which was Ps.668 for the year, which was partially

offset by a 3.3% decrease in occupancy levels across the hotel chain as a result of the high number of openings and reflected in a 1.3% decrease in RevPAR when compared to 2010. Revenue from Established Hotels increased 25.5% during 2011 as a result of the addition of nine new hotels as Established Hotels and a 0.9% increase in ADR. RevPAR for the Established Hotels decreased 3.2% to Ps.405 in 2011 due to a 4.0% decrease in occupancy levels, which is in part attributable to the impact of the financial crisis and the still-moderate recovery of the hospitality industry in Mexico.

Hotel operation business segment costs and expenses were Ps.558.0 million during the year ended December 31, 2011, representing a 26.8% increase when compared to Ps.440.0 million during the year ended December 31, 2010. This increase was primarily a result of a higher volume of occupied rooms across the chain during the year. Other non-recurring expenses and expenses associated with the opening of new hotels increased by 144.1% to Ps.15.9 million from Ps.6.5 million for the year ended December 31, 2010 due to a higher number of openings in 2011 with 1,411 rooms opened during the year compared to 571 rooms opened during 2010. As a result of the increase in operating and other expenses in a manner disproportionate to the increase in revenues, operating profit from our hotel operation business segment decreased by 74.7% to Ps.11.1 million during the year ended December 31, 2011, from Ps.43.7 million in 2010.

- *Hotel management.* Hotel management business segment revenues increased 23.3% to Ps.170.5 million for the year ended December 31, 2011 from Ps.138.2 million for the year ended December 31, 2010. Higher hotel management revenues were primarily driven by new hotel openings, which increased rooms in operation and resulted in an increase in occupied rooms during 2011. Hotel management costs and expenses as a business segment were Ps.113.2 million during the year ended December 31, 2011, representing a 9.8% increase when compared to Ps.103.1 million during the year ended December 31, 2010. This increase was primarily a result of expanded hotel management related expenses due to the increase in the number of properties under management during the year and the expenses in preparation for the growth in operations expected in Mexico.

Selling and administrative expenses. Selling and administrative expenses amounted to Ps.113.2 million for the year ended December 31, 2011, a 9.8% increase as compared to Ps.103.1 million for the year ended December 31, 2010. The increase was primarily a result of the growth in our hotel operation business that required additional expenses both in administration and sales. Even though the amount of selling and administrative expenses increased, as a percentage of total revenue, such expenses represented 15.8% of total revenues for the year ended December 31, 2011 and 17.1% of total revenues for the year ended December 31, 2010.

Depreciation. Due to our continued investment and expansion in new hotels, we had depreciation of Ps.107.8 million for the year ended December 31, 2011, an increase of 20.7% from Ps.89.2 million in the comparable period of 2010.

Expenses associated with the opening of new hotels. Non-recurring expenses related to the opening of new hotels totaled Ps.13.5 million for the year ended December 31, 2011, a 107.9% increase from the Ps.6.5 million incurred for the year ended December 31, 2010. This increase was mainly attributable to the 12 hotel openings, which resulted in the opening of 1,411 rooms in 2011 compared to the opening of 571 rooms in 2010.

Operating profit. Our consolidated operating profit consolidates the earnings of our hotel operation and hotel management segments and deducts our selling and administrative expenses, depreciation and non-recurring expenses associated with the opening of new hotels. Accordingly, as a result of the increase in certain costs and expenses as discussed above, as well as the increase in expenses associated with the opening of new hotels, in amounts disproportionate to the increase in revenues in 2011, and as a result of the decrease in occupancy rate due to the macroeconomic environment, consolidated operating profit was Ps.68.4 million for the year ended December 31, 2011, a 13.2% decrease when compared to Ps.78.8 million for the year ended December 31, 2010.

Net financing costs. Our net financing costs were Ps.51.7 million for the year ended December 31, 2011, a 20.9% decrease as compared to Ps.65.3 million for the year ended December 31, 2010. Net interest expense increased 10.2% to Ps.68.2 million for the year ended December 31, 2011, from Ps.61.8 million in the comparable period of 2010, due to higher financing costs related to new debt for the projects developed in 2011. Exchange

result, net was a gain of Ps.14.8 million during year ended December 31, 2011, compared to a loss of Ps 4.9 million in the comparable period of 2010. This was primarily due to our long position on average in U.S. dollars in 2011.

Taxes. Tax expense was Ps.6.7 million for the year ended December 31, 2011, compared to Ps.1.2 million for the same period of 2010, reflecting both lower deductions under the income tax (ISR) and business flat tax (IETU) regimens despite increase in expenses and capital investments in 2011.

Consolidated net income and comprehensive income. As a result of the factors described above, our consolidated net income for the year ended December 31, 2011 was Ps.10 million, which was a 18.9% decrease as compared to Ps.12.3 million for the year ended December 31, 2010. Our total comprehensive income for the year ended December 31, 2011 was Ps.16.1 million, which was a 29.1% increase as compared to Ps.12.5 million for the year ended December 31, 2010.

Liquidity and Capital Resources

General

We are an integrated hospitality business platform that holds substantial ownership interest in hotel properties and related real estate assets primarily in Mexico. Our business growth strategy requires investing resources in new hotel developments which require capital expenditures in land for future property development, property construction, purchase of hotel operating equipment and expenses associated with the opening of new hotels. In addition, we incur capital expenditures in order to keep our owned, co-owned and leased hotels modern, attractive and competitive. We have a disciplined and systematic management of expenses associated to hotel maintenance and replacement of equipment. Finally, our cash requirements also consist of payment on debt. All of these investments create a continuing need for cash.

Our primary sources of liquidity historically have been the cash flow generated from our operating activities, the equity contributions from our shareholders, equity contributions from our partners in co-owned hotels who hold non-controlling equity interests in those co-owned investments and debt financing from banks. Our new hotel developments are normally financed at a 45.0% loan-to-cost ratio and we normally re-finance our Established Hotels at a 50.0% loan-to-value ratio.

The following table summarizes our cash flows for the years ended December 31, 2012, 2011 and 2010, and the three-month periods ended March 31, 2013 and March 31, 2012.

	For the Three Months ended March 31,		**For the Year Ended December 31,**		
	2013	**2012**	**2012**	**2011**	**2010**
	(thousands of Ps.)		**(thousands of Ps.)**		
Net cash flows provided by operating activities	56,898.1	60,472.1	269,297.9	133,568.5	133,140.7
Net cash flows used in investing activities	(175,453.7)	(212,247.7)	(858,322.7)	(862,040.2)	(340,844.9)
Net cash flows provided by financing activities	28,382.2	163,314.3	576,566.8	397,567.0	870,898.9
Net increase (decrease) in cash, cash equivalents and restricted cash	(90,173.4)	(11,538.7)	(12,457.9)	(330,904.7)	663,194.7

Variations in net cash flows provided by operating activities for the years ended 2012 and 2011 principally reflect the increase in consolidated operating income stemming from the number of room nights sold as a result of the larger volume of available rooms for rent, as well as a consistent increase in RevPAR in Established Hotels. Net cash flows provided by operating activities for the years ended 2011 and 2010 were relatively flat primarily because the additional room inventory placed in operation during the period experienced moderate initial occupancy and ADR ramp-up levels. This was principally due to the liquidation of the Mexicana airline in 2010, and the slow recovery of the tourism industry after the financial crisis and H1N1 virus in 2009, which resulted in a more competitive environment in the hospitality sector.

Variations in net cash flow used in investing activities for the years ended 2012, 2011 and 2010 primarily reflect our continued capital investments in the construction and equipment of new hotel developments, the acquisition of land sites for future hotel developments primarily in Mexico but also in Colombia and Chile, the acquisition of certain subsidiaries, mainly in 2011, and capital improvements in Established Hotels in each of the specific years.

Variations in net cash flows provided by financing activities for the years ended 2012, 2011 and 2010 reflect the equity contributions from our partners in co-owned hotels, debt financing put in place for the completion of new hotel developments and the financing of Established Hotels for each of the specific years, which was partially offset by acquisitions of certain non-controlling interests in co-owned hotels and repayments of borrowing. In 2010, the variation also reflects certain equity contribution by our shareholders.

Based on current operating results, we believe that cash flow from operations and other sources of liquidity, including the proceeds from our global offering, committed capital contributions from our partners in co-owned hotels and borrowings under our credit facilities, will be adequate to meet anticipated requirements for working capital, capital expenditures, interest payments and scheduled principal payments for the foreseeable future.

Capital Expenditures

Expenditures that result in an increase in the value of the investment properties or in future cash flows are treated as capital expenditures. During 2013, we expect to make aggregate capital investments of approximately Ps.850.0 million for the construction of and equipment related to new hotel developments, acquisition of land sites for future hotel developments primarily in Mexico and, to a lesser extent, for maintenance expenditures and replacement of equipment used by properties in operation.

During 2012, we made aggregate capital expenditures of Ps.875.6 million primarily related to the following:

- the construction costs and equipment related to placing in operation eight new hotels in Mexico and one new hotel in Costa Rica, as well as continued construction for new hotel openings planned in 2013, including our mixed-use project in Santa Fe, Mexico City. See "Summary—Recent Developments."

- the contracting for or acquisition of land sites for future hotel developments across various cities in Mexico, as well as six sites in Chile and in Medellín and Barranquilla, Colombia; and

- to a lesser extent, maintenance expenditures and replacement of equipment in properties in operation.

During 2011, we made aggregate capital expenditures of Ps.875.2 million, primarily related to the following:

- the construction costs and equipment related to placing in operation 12 new hotels in Mexico and initiation of construction on our first property outside of Mexico, a *City express* hotel in San Jose, Costa Rica;

- the engineering work associated with the our mixed-use project in Santa Fe, Mexico City;

- the acquisition of land sites for future hotel developments acquisition in Mexico and in Bogotá and Cali, Colombia; and

- to a lesser extent, maintenance expenditures and replacement of equipment in properties in operation.

During 2010, we made aggregate capital expenditures of Ps.381.9 million primarily related to the following:

- the construction costs and equipment related to placing five new hotels in operation in Mexico;

- development costs related to resuming accelerated growth in order to double our hotel openings in 2011; and

- to a lesser extent, maintenance expenditures and replacement of equipment in properties in operation.

Indebtedness

We have several long-term bank loans, which are denominated in Mexican pesos, U.S. dollars and Chilean pesos, obtained from various Mexican and international financial institutions. As of March 31, 2013, the total outstanding principal and interest in respect of these bank loans totaled Ps.1,702.4 million. These loans were obtained directly by individual subsidiaries formed to own our interest in a particular owned or co-owned hotel. The financial obligations of each subsidiary are secured, depending on the lender, by: (i) a civil and a commercial mortgage; (ii) a civil mortgage and a pledge without transfer of possession; or (iii) a guaranty trust and a pledge without transfer of possession, in each case on all real property of the relevant subsidiary. The value of the assets that guarantee the loans was Ps.3,379.0 million as of December 31, 2012. Generally, one of our subsidiary holding companies, Inmobiliaria Hotelera City Express, S.A. de C.V., also acts as joint obligor under the loans issued to our subsidiaries.

Pursuant to the terms of the loans entered into by our subsidiaries, such subsidiaries must comply with various financial and other covenants, the terms of which may limit the ability of our subsidiaries to: (i) enter into transactions with affiliates; (ii) incur additional financial obligations; (iii) create liens on assets; (iv) enter into mergers or divestitures without the prior approval of the relevant creditor; or (v) become guarantors of or jointly liable for any financial indebtedness, among other requirements and limitations. These loans may include financial covenants such as leverage ratios (calculated by dividing total liabilities by total equity), interest coverage ratios (calculated by dividing gross operating profit plus depreciation by net interest) and debt coverage ratios (calculated by dividing gross operating profit plus depreciation by the current portion of long-term total debt plus interest paid). Certain of our subsidiaries are also limited in their ability to pay dividends to us. The relevant covenants either (i) prohibit dividend payments by our subsidiaries, (ii) allow dividend payments so long as the relevant subsidiary and joint obligor are in compliance with their respective financial or other covenants, or (iii) require prior consent of the relevant creditor. As of the date of this offering memorandum, we were in compliance with (or received waivers in respect of) all obligations under our loan agreements.

The following table sets forth information regarding our consolidated debt by lender as of March 31, 2013. The applicable interest rate and maturity date in the following table varies according to the individual loan or line of credit.

	Outstanding principal amount		Interest rate(s)	Maturity date(s)
	(US$)	(Ps., unless otherwise specified)		
HSBC	61,739,886	762,771,590	TIIE +1.90%-2.60%	2014, 2015, 2019
BBVA Bancomer	2,971,647	36,713,507	TIIE +1.92%-3.25%	2017, 2020
Banorte	1,802,575	22,270,098	TIIE +1.96%-2.85%	2014, 2018
BANCOMEXT	27,326,496	337,607,928	TIIE +2.25%-4.0%	2016, 2018, 2020, 2021, 2022
Scotiabank	4,090,759	50,539,690	TIIE +3.30%-3.50%	2015, 2016
Banco Santander	3,008,224	37,165,400	TIIE +2.75%-4.00%	2017, 2018
Metlife	6,664,668	82,339,305	8.88%	2019
International Finance Corporation	14,813,996	183,020,992	TIIE +2.67%	2022
International Finance Corporation and Deutsche Investitions- und Entwicklungsgesellschaft GmbH[1]	4,398,192	54,337,906	LIBOR +4.70%	2023
CorpBanca[2]	6,940,806	85,750,882	5.20%, 8.05%	2014
Actinver	3,220,524	39,788,286	TIIE +2.5%	2015
Total outstanding principal	**136,977,772**	**1,692,305,585**	-	-

(1) Denominated in U.S. dollars. The equivalent amount in pesos is calculated based on the exchange rate as of March 27, 2013 of Ps.12.35 per US$1.00.

(2) Denominated in Chilean pesos or Chilean UF. The equivalent amount in pesos is calculated based on the exchange rate as of March 27, 2013 of 38.32 Chilean pesos per Ps.1.00.

As of March 31, 2013, the total outstanding interest amount in respect of the above total outstanding principal amount was Ps.10.1 million.

We also had Ps.171.1 million and US$25.4 million as of December 31, 2012, undisbursed under committed lines of credit related to the development of hotel projects in Mexico and Colombia.

This section summarizes the principal terms of certain credit agreements entered into by us. It is only a summary and is not intended to describe all the terms of such credit agreements that may be material.

Contractual Obligations and Business Commitments

The following table sets forth our material contractual obligations and commercial commitments as of December 31, 2012.

	As of December 31,			
	1 to 365 days	1 to 5 years	More than 5 years	Total
	(thousands of Ps.)			
Non-interest bearing debt	47,750.6	-	-	47,750.6
Variable and fixed interest rate debt, including interest projected at a weighted average interest rate of 7.42%.	200,101.4	967,219.0	1,122,888.2	2,290,208.6
Derivative financial instruments	262.9	0	0	262.9
	248,114.9	967,219.0	1,122,888.2	2,338,222.1

In addition to the obligations indicated in the above table, as of December 31, 2012, we had commitments related to our normal hotel development activities in the amount of Ps.44 million and US$6.7 million, for construction contracts and land acquisitions, respectively.

Risk Management

In the ordinary course of our business, we are exposed to various market risks that are beyond our control, including fluctuations in interest rates and foreign exchange rates, and which may have an adverse effect on the value of our financial assets and liabilities, future cash flow and profit. As a result of these market risks, we could suffer a loss due to adverse changes in interest rates or foreign exchange rates.

Our risk management policy seeks to assess loss potential and the related consolidated impact and to mitigate our exposure to fluctuations in interest rates and foreign exchange rates. We seek to minimize such risks by using derivative financial instruments. Our planning and finance team, along with our corporate treasury, coordinates the risk management strategy of our subsidiaries as well, by securing access to international and domestic credit markets and by monitoring and managing internal financial risks based on internal risk reports, which analyze exposure based on degree and magnitude of risk. Our use of financial derivatives is governed by the recommendations and policies issued by the Planning and Finance Committee, which provides guidelines on managing currency risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investment of excess liquidity. Our management regularly reports to the Planning and Finance Committee on compliance with such guidelines and exposure limits. As we expand into markets outside of Mexico, we have updated, and expect to continue to update, our risk management strategy to reflect our altered exposure, particularly to exchange rates.

We measure our market risk exposures on a net basis, as we generally seek direct hedging of our financial exposure through netting our financial assets and liabilities prior to entering into a hedging strategy using derivative instruments. In accordance with our policies, we do not enter into or trade financial instruments or derivatives for speculative purposes. For more information on the use of derivative financial instruments, see Notes 9 and 18 to our Audited Financial Statements.

Exchange Rates

We experience exchange rate risk in respect of cash, accounts receivables and bank debt denominated in currencies other than the functional currency of the relevant borrower subsidiary (principally U.S. dollars). These

amounts are affected by periodic fluctuations relative to the Mexican peso, and, as a result, such fluctuations affect our results of operation, financial position and cash flows.

Approximately 99.9% of our revenues and 98.9% of our expenses for 2012 were in Mexican pesos. As of December 31, 2012, we had US$4.7 million (approximately Ps.61.0 million) of financial liabilities denominated in U.S. dollars, and approximately Ps.69.0 million denominated in Chilean pesos related to a land financing facility. We are also subject to foreign exchange risk due to our foreign subsidiaries, including our operating subsidiaries in Costa Rica, Colombia and Chile. For additional information on our exposure to risk related to exchange rate fluctuations and a sensitivity analysis, see Note 18 to our Audited Financial Statements.

We naturally hedge exchange rate risk by maintaining cash balances in U.S dollars to offset the liabilities incurred in U.S. dollars. Each time we enter a market outside of Mexico, our exposure to exchange rate risk changes, and we adjust the manner in which we value and manage such risks. We intend for our policy with respect to exchange rate risk to respond to the market risk, address the possibility of utilizing derivatives in order to mitigate such risk and create certainty with respect to cash flows generated from our international operations.

The following table summarizes our financial assets and liabilities denominated in U.S. dollars as of year-end for each of the periods presented.

	As of December 31,		
	2012	**2011**	**2010**
		(thousands of US$)	
Financial assets	3,624.2	14,671.2	47,370.1
Financial liabilities	(4,686.6)	(5,790.1)	(6,173.1)
Net exposure	(1,062.4)	8,881.1	(41,197.0)

Interest Rates

Many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control contribute to interest rate risk.

Our exposure to interest rate risk arises primarily from variable rate interest-bearing financial liabilities incurred by our subsidiaries. As of December 31, 2012, we had a total Ps.1,551.7 million in financial liabilities with variable interest rates. In order to manage our interest rate exposure, certain of our subsidiaries have entered into swap and cap transactions.

As of December 31, 2012, we had entered into interest rate hedges structured as cap transactions with HSBC, Credit Suisse, BBVA Bancomer and Banco Santander with interest rates at 28-day or 91-day TIIE plus an applicable margin ranging from 6% to 9% and an aggregate fair value of Ps.344,011. As of December 31, 2012 we had entered into various swap transactions with IXE, each terminating in 2013 with interest rates at either six-month LIBOR or 28-day TIIE, plus an applicable margin of between 5.26% and 9.91% and an aggregate fair value of Ps.262,888. For additional information and a sensitivity analysis, see Note 9 to our Audited Financial Statements.

All derivative financial instruments have been classified as held for trading and hedge accounting has not been applied. We do not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

We measure the fair value of our derivative financial instruments by discounting future cash flows based on the applicable curve or pricing model at the period-end and the credit risk of the respective underlying agreement. Our interest rate swaps are measured at the discounted present value of estimated future cash flows based on yield curves from the quoted interest rates. Our interest rate caps are valued using the valuation method used for the calculation of options, the Black-Scholes formula, which uses a differential equation that includes such variables as the spot price of the underlying agreement, maturity, price volatility, the national interest rate and the foreign interest rate. Both are Level 3 valuations. Except as otherwise indicated in our Financial Statements, we believe that the amounts

of our assets and liabilities recognized at their amortized costs reflect their fair value. For more information on the use of financial instruments and risk management, see Note 9 to our Audited Financial Statements and Note 18 to our Interim Financial Statements.

Critical Accounting Policies

In applying our accounting policies, which are described in Note 4 of our Audited Financial Statements, our management makes judgments, estimates and assumptions about certain amounts of assets and liabilities included in the financial statements and their related disclosures. The estimates and associated assumptions are based on historical experience and other factors deemed relevant. Actual results could differ from those estimates.

Critical judgments in applying accounting policies

Consolidation of subsidiaries. Certain investments in entities in which we have at least a 50.0% shareholding are consolidated in these financial statements, as we have concluded that we exercise control over the relevant activities. In our management's judgment, we control the subsidiaries' relevant activities through agreements with the shareholders and operating contracts executed. These contracts contain potential voting rights whereby we may acquire shares owned by third parties, which could be exercised under certain circumstances.

Accounting estimates

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period of the revision and future periods if the revision affects both current period and subsequent periods.

Revenue recognition for customer loyalty programs. In applying its judgment, our management considers the detailed criteria for the recognition of revenue set out in IFRIC 13 *Customer Loyalty Programs* and, in particular, whether we have rendered the related service. Its impact is in the line of deferred revenue, in our consolidated statement of financial position.

Valuation of employee benefits. The liability for employee benefits includes estimates of wage increases and employee turnover, mortality rates, future inflation rates and discount rates that are determined by the external actuary utilized by us, in accordance with financial projections and historical behaviors. Impacts of changes in these variables will affect the employee benefit liability and the related period costs.

Valuation of income taxes. In the determination of deferred tax, we estimate the certainty of generating taxable income in future periods in order to be able to benefit from our deferred tax assets, using projections of future taxable income to assist in this analysis. Impacts of changes in those projections could affect the realizability of the deferred tax assets in our consolidated statement of financial position and any related deferred tax benefit or expense for the period.

Additionally, in Mexico, we are subject to a dual tax system of Income Tax ("ISR", for its acronym in Spanish) and Business Flat Tax ("IETU", for its acronym in Spanish), whereby we are required to pay the greater of the two taxes in any given year. Accordingly, we project future taxable profits to determine whether we will pay ISR or IETU, in order to determine under which regime to recognize our deferred tax assets and liabilities. We have estimated that we will principally be subject to ISR in subsidiaries that hold property, equipment and leasehold improvements, and IETU in those entities that principally provide services. Accordingly, we have recognized our deferred taxes based on both rates. Impacts of changes in those projections could affect the recognition of deferred taxes in our consolidated statement of financial position and the related expense for the period.

Estimated useful lives and residual values of fixed assets. Through our internal experts' opinion within our development area, we evaluate, at the end of each reporting period, the useful life and the residual values of fixed assets, considering their operational experience and the characteristics of the assets. Impacts to changes in those estimates could affect the value of property, equipment and leasehold improvements and the related depreciation expense for the period.

New Accounting Principles

For the year ended December 31, 2012, we adopted IFRS, including all IASB standards and interpretations in effect at December 31, 2012. Our date of transition is January 1, 2010. See Note 29 to the Audited Financial Statements for a description of the effects of adoption.

The following is a discussion of new IFRS policies that have been issued but are not yet effective, for which reason they have not yet been adopted by us as of March 31, 2013:

- IFRS 9, *Financial Instruments,* which will become effective for annual periods beginning on or after January 1, 2015.

- Amendments to IFRS 9 and IFRS 7, *Mandatory Effective Date of IFRS 9 and Transition Disclosures,* which will become effective for annual periods beginning on or after January 1, 2015.

- Amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilities,* which will become effective for annual periods beginning on or after January 1, 2014.

INDUSTRY OVERVIEW

We believe that the strength of the Mexican economy, the country's favorable demographics and the ongoing recovery and growth in domestic travel have created a strong backdrop for the Mexican lodging industry. Furthermore, we believe that the highly fragmented lodging sector in Mexico and the low concentration of hotel rooms per capita, helps create an attractive opportunity for us to continue our expansion as one of the most recognizable hotel brands in Mexico.

The Mexican Economy

Travel in general and business travel in particular is highly correlated to economic activity and growth. As a result, we believe Mexico's lodging industry should benefit from the ongoing economic expansion and the solid fundamentals underpinning the Mexican economy.

Mexico has generally enjoyed stable and positive macroeconomic performance since the implementation of a wide range of reforms to liberalize the Mexican economy and open it to foreign trade and investment in the late 1980s. Since the 1995 currency and banking crisis, Mexico's GDP has grown at a compound annual growth rate of approximately 3% per year in real terms, supported by the fiscal and monetary policies implemented by the Mexican government. Mexico currently has strong macroeconomic indicators including a low government debt to GDP ratio, a stable current account balance, low inflation and unemployment levels and stable interest rates that have provided confidence to investors and attracted foreign direct investment.

The following table sets forth real GDP growth, inflation and average unemployment rate for Mexico and select other countries and regions for the period 2010 to 2013.

	Real GDP Growth				**Inflation**				**Average Unemployment Rate**			
	2010	2011	2012*	2013*	2010	2011	2012*	2013*	2010	2011	2012*	2013*
Mexico	5.3	3.9	3.9	3.5	4.4	3.8	4.0	3.3	5.4	5.2	4.8	4.8
United States	2.4	1.8	2.2	2.1	1.7	3.1	1.6	1.8	9.6	9.0	8.2	8.1
Brazil	7.5	2.7	1.5	4.0	5.9	6.5	5.0	5.1	6.7	6.0	6.0	6.5
Chile	6.1	5.9	5.0	4.4	3.0	4.4	2.5	3.0	8.2	7.1	6.6	6.9
Colombia	4.0	5.9	4.3	4.4	3.2	3.7	2.7	3.0	11.8	10.8	11.0	10.5
Latin America	5.8	3.9	2.7	3.4	6.0	6.5	6.0	6.5	8.3	7.8	7.4	7.5
OECD	2.8	1.7	1.3	1.1	1.6	2.6	2.0	1.5	8.6	8.3	8.4	8.5

* Estimates

Source: International Monetary Fund, Global Insight, INEGI

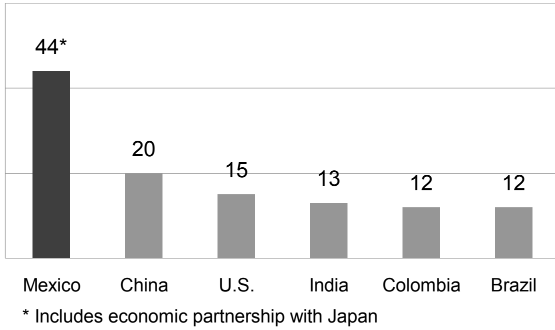
After suffering a GDP contraction of 6.0% in real terms in 2009, a product of the global financial crisis, Mexico's economy has resumed growth with real GDP increases of 5.3% in 2010 and 3.9% in both 2011 and 2012. In each of these last two years Mexico's real GDP grew faster than that of the United States, Brazil, Latin America as a whole and most OECD countries. The February 2013 edition of the monthly survey of private sector economic specialists conducted by Banco de México reveals average expected real GDP growth rates for the Mexican economy of 3.5% in 2013, 4.0% in 2014 and 4.2% in 2015.

Mexico's economic expansion has been driven to a large degree by growth in manufacturing, industry, construction and agriculture. The Mexican manufacturing sector, in particular, has become highly competitive globally as a result of Mexico's low and stable labor and freight costs, its large skilled labor force, the diminishing wage gap with China, its geographic proximity to important consumer markets and its low trade barriers as evidenced by the number of countries with which Mexico has free trade agreements. As of the end of 2012, Mexico's industrial production index had increased by 16.0% from its low at the peak of the financial crisis in May 2009, outgrowing the industrial production index of the United States in that period. These trends have been reflected in the increase in investment from domestic and multinational companies, and we expect that confidence in the industrial sector and expectations of further growth will continue to propel Mexico's importance as a key manufacturing center in North America.

The following charts depict Mexico's macroeconomic performance along several key economic indicators, for the years indicated.

Free Trade Agreements (as of August 31, 2012)

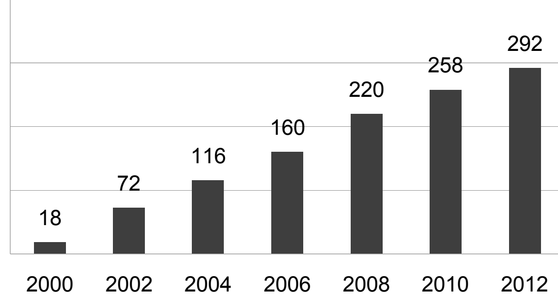
(By number of countries covered by free trade agreements)



Source Ministry of Economy of Mexico

Cumulative Foreign Direct Investment into Mexico

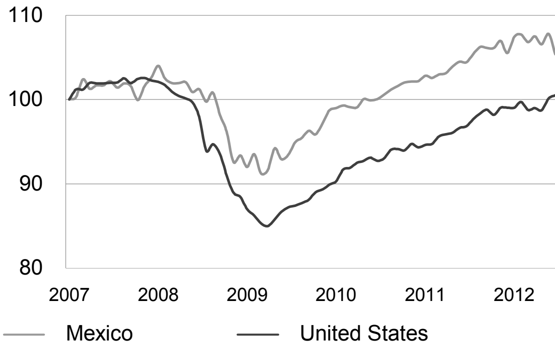
(In billions of U.S. dollars)



Source Ministry of Economy of Mexico

Quarterly Industrial Production Index

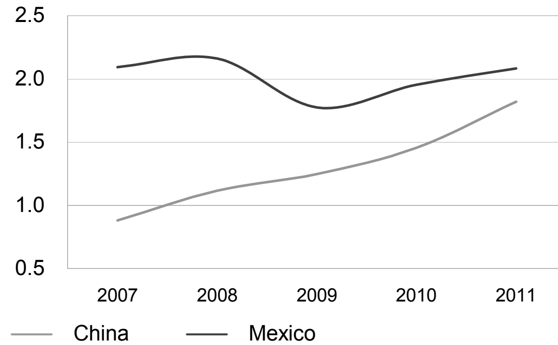
(Indexed, January 2007 = 100)



Source INEGI

Manufacturing Sector Wages

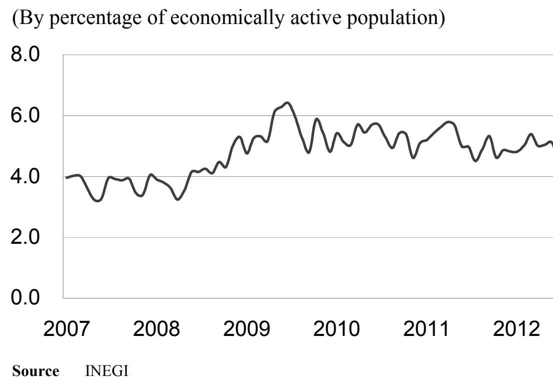
(In U.S. dollars per hour)



Source INEGI, National Bureau of Statistics of China

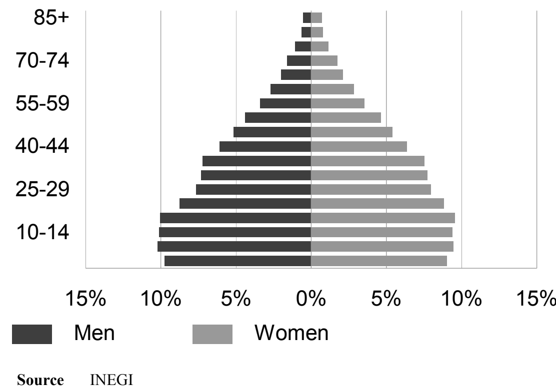
Labor market developments are key drivers for the lodging industry, and are especially relevant to us because of our focus on the value conscious domestic business traveler. Approximately 1.5 million net new permanent jobs have been created in Mexico since the unemployment rate peaked at 6.4% in September 2009, based on the number of permanent workers affiliated to Mexico's Social Security Institute ("IMSS"), as reported by IMSS. In the last three years, the unemployment rate has been approaching pre-crisis levels, reaching 4.5% in December 2012, according to INEGI. Demographic trends in Mexico are also favorable and are expected to be an important driver of long-term economic growth. Mexico's population is relatively young, with over 50% of the population under the age of 29 and approximately 75% under the age of 44, creating a large opportunity to increase the country's labor force. According to the OECD, Mexico's fertility rate, defined as the number of children born to women aged 15 to 49, decreased from 5.0 in 1980 to 2.1 in 2010, compared to 1.9 in the United States and 1.7 for the average of OECD countries in 2010. A lower fertility rate is expected to decrease Mexico's dependency rate, defined as the percentage of the population under the age of 15 and over the age of 65, from 39% in 2000 to 31% in 2020, which is expected to increase disposable income and favor consumption trends.

The following chart depicts the unemployment rate in Mexico, for the years indicated.



Source INEGI

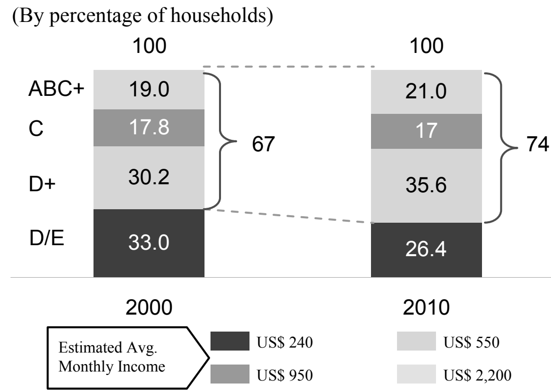
The following chart depicts the distribution of the Mexican population by age, as of 2010.



Source INEGI

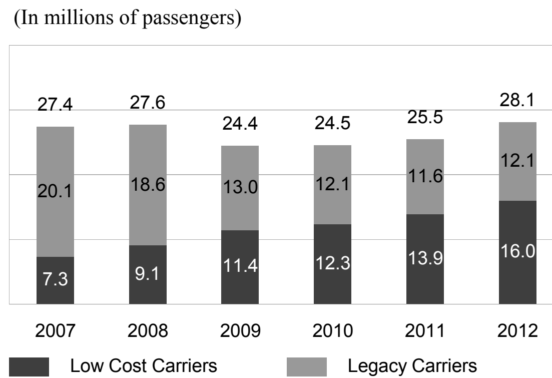
As a lodging company focused on the limited-service economy and budget segments with a strong presence along the main industrial and commercial hubs, including the NAFTA manufacturing, industrial, commercial and exporting corridors, the agricultural corridor, the U.S. border and the petrochemical and exporting corridor in the Gulf of Mexico region, we believe we are particularly well positioned to benefit from an increase in economic activity in Mexico. We expect that the ongoing growth of Mexico's middle class population, decreasing unemployment rates and the increase in business travel accompanying economic activity will translate into greater demand for hotel rooms in our target segments.

The following chart depicts the distribution of the Mexican population by income, as of 2000 and 2010.



Source INEGI, Mexican Association of Marketing Research and Public Opinion Agencies (*Asociación Mexicana de Agencias de Investigación de Mercado y Opinión Pública*)

The following chart depicts domestic airline passengers in Mexico, for the years indicated.



Source Ministry of Communications and Transport of Mexico

Mexico's government has ambitious plans for public investments in infrastructure that, coupled with private sector investments, we believe will further increase communication and accessibility through the improvement and construction of highways, railways and airports. We believe the improved infrastructure will benefit the business sector and continue to foster the expansion of urban business centers. We also believe that this expansion will continue to support increased business travel, resulting in greater demand for hotels with international quality standards, a broad geographic footprint and strong brand recognition in Mexico. We believe that our geographic footprint is well aligned with the main hubs of economic activity in Mexico, as almost 71% of our rooms in Mexico as of December 31, 2012 were located in the 15 most economically active states that together account for approximately 78% of Mexico's GDP, as depicted in the following table.

State	% of Mexican GDP	% of Mexican Population	% of Hoteles City Rooms	No. of Hoteles City Hotels
Mexico City	17.8%	7.9%	6.1%	5
Mexico State	9.8%	13.5%	5.5%	4
Nuevo León	8.0%	4.1%	2.9%	2
Jalisco	6.7%	6.5%	4.1%	3
Veracruz	4.6%	6.8%	8.6%	6
Guanajuato	4.1%	4.9%	5.5%	4
Puebla	3.6%	5.1%	4.3%	3
Coahuila	3.3%	2.4%	4.2%	3
Tamaulipas	3.2%	2.9%	4.1%	3
Chihuahua	3.1%	3.0%	5.6%	4
Campeche	3.0%	0.7%	3.0%	2
Baja California Norte	3.0%	2.8%	7.6%	5
Tabasco	2.8%	2.0%	1.6%	1
Sonora	2.6%	2.4%	4.3%	3
Michoacán	2.4%	3.9%	2.2%	2
Sinaloa	2.0%	2.5%	4.5%	3
Querétaro	1.9%	1.6%	3.7%	3
Chiapas	1.9%	4.3%	2.8%	2
San Luis Potosi	1.9%	2.3%	4.3%	3
Quintana Roo	1.5%	1.2%	4.6%	3
Hidalgo	1.5%	2.4%	1.3%	1
Yucatán	1.5%	1.7%	1.6%	1
Durango	1.2%	1.5%	1.5%	1
Aguascalientes	1.2%	1.1%	1.5%	1
Zacatecas	0.8%	1.3%	1.3%	1
Colima	0.6%	0.6%	1.4%	1
Mexico Total	**94.0%**	**89.4%**	**98.3%**	**70**
Top 15 States Total	**78.0%**	**69.1%**	**69.7%**	**50**
Costa Rica			1.7%	1
Total			100.0%	**71**

Source: INEGI, Company Filings

The Mexican Lodging Industry

Driven by a dynamic business environment in Mexico, which is evidenced by rising per capita income, growth in domestic consumption, and an expanding middle class, we believe the outlook for the Mexican lodging industry is strong and will support our continued growth. We also believe our prospects will be enhanced by a favorable supply environment and the poor quality of our competitors' offerings. Due to a general scarcity of efficiently priced capital for new hotel developments in our segments, we expect new hotel construction to remain relatively low over the near-term. As a result, we believe lodging fundamentals will remain supportive in Mexico and that we, as one of the most recognizable lodging brands, are well-positioned in light of the highly fragmented nature of the Mexican lodging industry and of our segments in particular.

Hotels can be classified by their physical properties and service offerings into full-service, select-service and limited-service hotels.

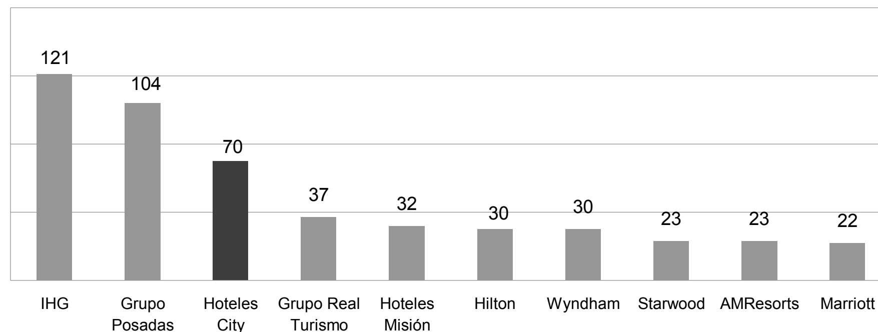
- Full-service hotels are characterized by relatively large and well-appointed rooms, a robust food and beverage offering, meeting space capable of accommodating corporate and social events, and varied additional services, such as spas, 24-hour room service, valet parking, bell-captain service and concierge service. ADRs for full-service hotels in Mexico range from Ps.1,500 and above.

- Select-service hotels offer rooms and certain additional services necessary for travelers in upper-level management, particularly with respect to room size, quality of facilities and furnishings and food and beverage services. Hotels in this category often include a restaurant with more limited selection and service hours than those typical of full-service hotels. Rooms tend to be smaller than those of full-service hotels with more modest furnishings. ADRs for select-service hotels in Mexico range from Ps.980 to Ps.1,800.

- Limited-service hotels tend to have smaller rooms equipped with furnishings and amenities that are strictly necessary for the business traveler, although they may offer certain additional services including a fitness room, a pool, a smaller selection of food and beverage products for preparation by the guest and smaller meeting spaces. ADRs for limited-service hotels in Mexico range from Ps.550 to Ps.1,700.

As of December 31, 2012, we were the third largest hotel chain in Mexico in terms of total number of hotels and rooms system-wide, behind only InterContinental Hotels Group (IHG) and Grupo Posadas. We are also the largest chain focused exclusively on the limited-service segment. With the exception of IHG, international hotel operators are well behind local, independent hotels in terms of presence in Mexico. International hotel operators typically follow investment strategies in which hotels are primarily developed and owned by third parties, and the chain focuses solely on the franchising of the hotels. This strategy has proven to be slow to advance and difficult to execute in Mexico, since it relies on third parties for the development of the properties.

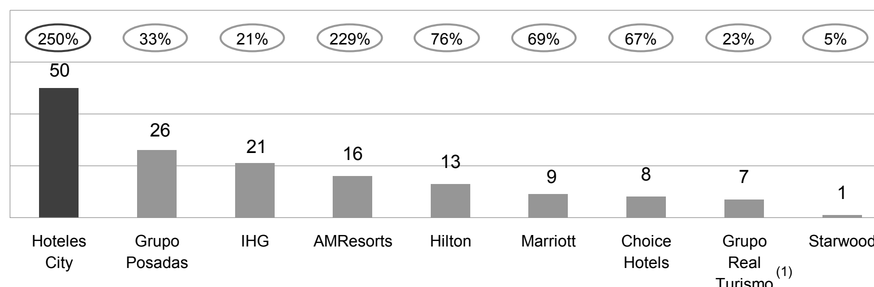
The following chart depicts the top ten hotel chains in Mexico by number of hotels in Mexico, as of December 31, 2012.



Source Public Filings, Company Websites, Press Releases, Press Articles

We believe that our growth strategy, which is carried out through our integrated business platform, has allowed us to significantly outpace the Mexican lodging industry in terms of number of hotels opened each year since our founding in 2002 and our first hotel opening in 2003. From the end of 2006 to the end of 2012, we opened 51 new hotels (50 in Mexico), increasing our number of hotels and rooms at compound annual rates of approximately 24% and 25%, respectively. We believe we were the fastest growing hotel chain in Mexico during this period.

The following chart depicts the growth of selected hotel chains in Mexico, by number and percentage increase of hotels in Mexico from year-end 2006 to year-end 2012.



(1) Excludes Quinta Real hotels acquired in 2011

Source Public Filings, Company Websites, Press Releases, Press Articles

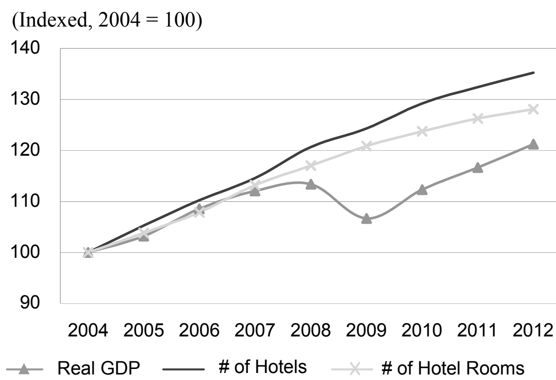
According to the latest available official data from Mexico's Ministry of Tourism, there were a total 17,662 hotels and 660,546 hotel rooms in Mexico as of the end of 2012. The number of hotels and rooms in Mexico increased at compound annual rates of 3.8% and 3.1%, respectively, from 2004 to 2012, outpacing Mexico's GDP, which grew at a compound annual rate of 2.4% in real terms during that same period. Mexico had approximately 5.7 hotel rooms per thousand inhabitants in 2011, compared to 15.6 in the United States, according to information from the Ministry of Tourism and the American Hotel and Lodging Association.

After growing steadily at a compound annual rate of 3.8% in real terms during the five-year period ended in 2008, GDP for the lodging sector in Mexico decreased by 9.1% in 2009 due to the combined effect of the global economic downturn and the H1N1 influenza outbreak that significantly impacted tourism and travel in general. However, Mexico's lodging sector has recovered since 2009 and has outperformed the overall Mexican economy with real GDP growth rates of 8.1% in 2010, 3.3% in 2011 and 7.4% in 2012.

The following charts depict Mexican lodging supply and GDP growth and Mexican total and lodging sector GDP growth, for the years indicated.

Mexico Lodging Supply and GDP Growth

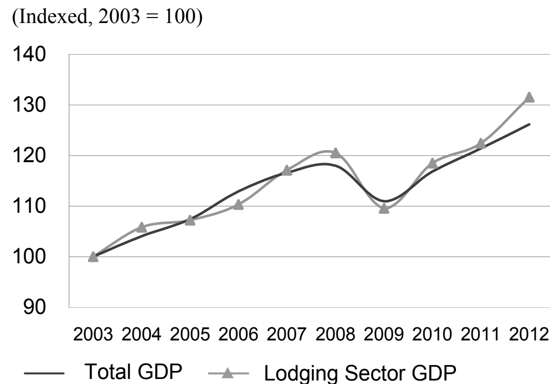
(Indexed, 2004 = 100)



Source INEGI, Sectur

Total and Lodging Sector Real GDP Growth in Mexico

(Indexed, 2003 = 100)



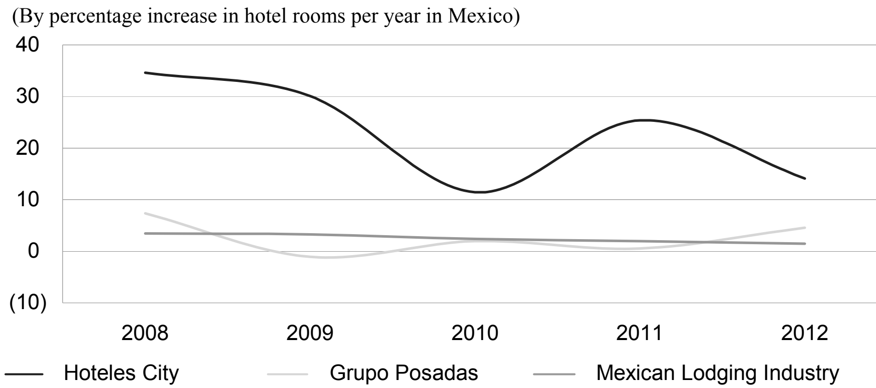
Source INEGI

In order to continue gaining leadership in the industry and to take advantage of the business opportunity in the segment, throughout the recent economic downturn, we continued to invest in the growth of our hotel network, and we have maintained hotel unit and hotel room growth rates that are above those of the industry and our peers. On average, we opened 7.0 hotels per year from 2003 to 2012, or an average of one new hotel every seven weeks.

The following charts depict our room growth relative to the Mexican lodging industry and our peers, for the years indicated.

Hoteles City Room Growth in Mexico Relative to the Mexican Lodging Industry and Peers

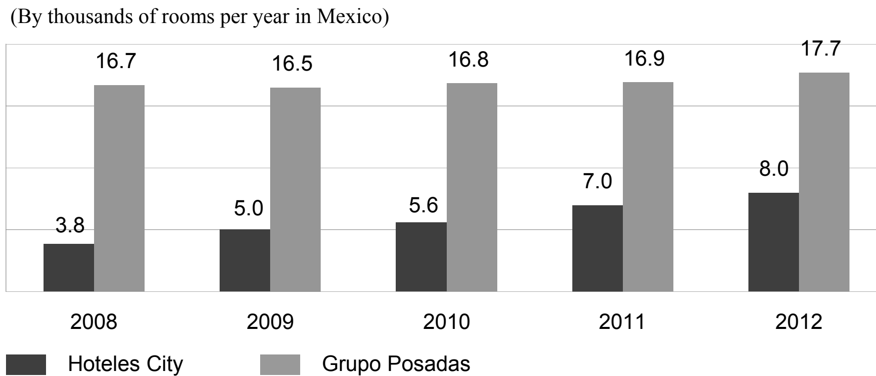
(By percentage increase in hotel rooms per year in Mexico)



Source Sectur, Company Filings

Rooms in Operation in Mexico

(By thousands of rooms per year in Mexico)



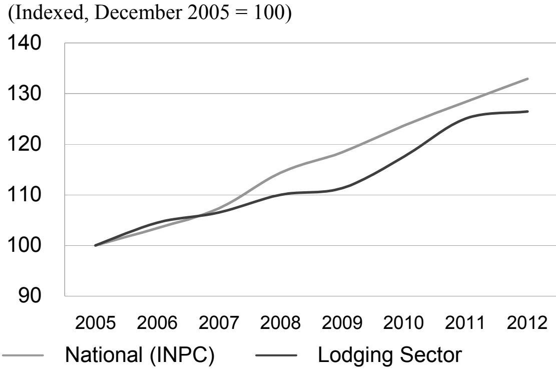
Source Public Filings, Company Data

Pricing in the lodging industry, however, has lagged behind overall prices in the Mexican economy. According to INEGI, the lodging industry price index has increased by approximately 17% since the end of 2008, compared to an increase of 20% in the Mexican National Consumer Price Index ("INPC") for the same period. In addition, ADRs in Mexico remain below those of the United States and other Latin American countries, indicating that there is still ample potential for future increases in ADRs. Similarly, average occupancy rates in Mexico remain below pre-crisis levels in Mexico and current average occupancy rates in the United States and other Latin American countries. The potential to increase ADRs and occupancy rates represents a significant revenue growth opportunity for the Mexican lodging industry.

The following charts depict several key economic and operating indicators for the lodging industry in Mexico and internationally, for the year(s) indicated.

National and Lodging Industry Consumer Price Indexes

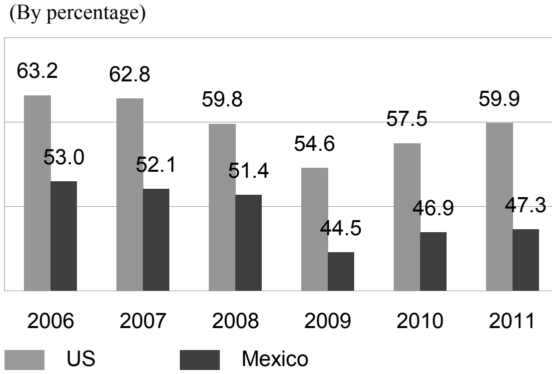
(Indexed, December 2005 = 100)



Source INEGI

Hotel Occupancy Rates in Mexico and the U.S.

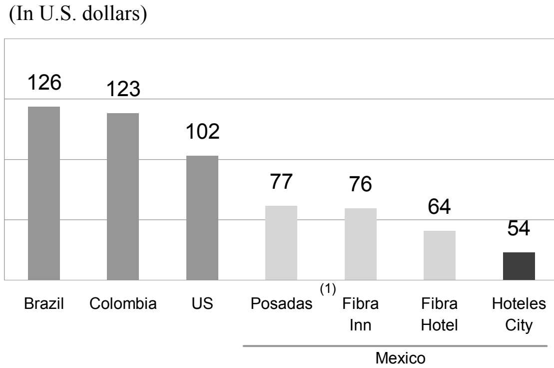
(By percentage)



Source Sectur, "Hospitality Directions US: Hospitality and Leisure" (PwC)

ADRs Across Countries (2011)

(In U.S. dollars)

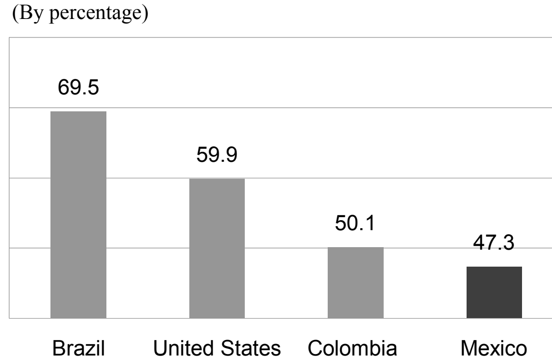


[(1)] Includes hotels in Mexico only for Posadas

Source Hotel Association of Colombia (*Asociación Hotelera de Colombia*), "Hospitality Directions US: Hospitality and Leisure" (PwC), "Lodging Industry in Numbers: Brazil 2012" (Jones Lang LaSalle Hotels), Public Filings, Company Data

Average Occupancy Rates Across Countries (2011)

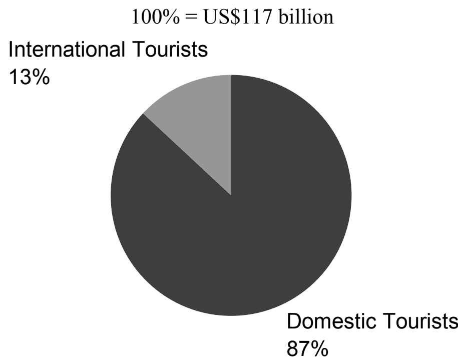
(By percentage)



Source Sectur, Hotel Association of Colombia (*Asociación Hotelera de Colombia*), "Hospitality Directions US: Hospitality and Leisure" (PwC), "Lodging Industry in Numbers: Brazil 2012" (Jones Lang LaSalle Hotels)

The following charts depict tourism and lodging spending in Mexico based on nationality, for the year(s) indicated.

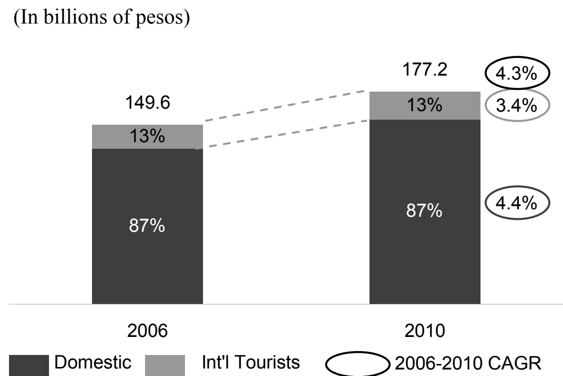
Tourism Spending in Mexico (2010)



Source Sectur

Lodging Spending in Mexico

(In billions of pesos)

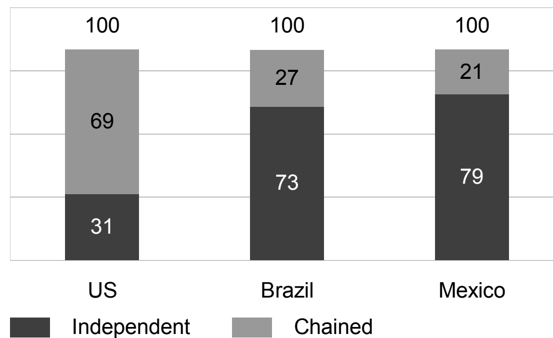


Source Sectur

The Mexican lodging industry is characterized by being highly fragmented and consisting of predominately independent operators with no brand affiliation. Chain-brand hotels comprise approximately 21% of the total hotels in Mexico, compared to 69% in the United States and 27% in Brazil, as depicted in the following chart.

Overview of Independent and Chained Hotels (2011)

(By percentage)(1)



Source Deutsche Bank Equity Research, "Lodging Industry in Numbers: Brazil 2012" (Jones Lang LaSalle Hotels), Euromonitor

(1) By percentage of rooms for United States and Brazil and by percentage of hotels for Mexico

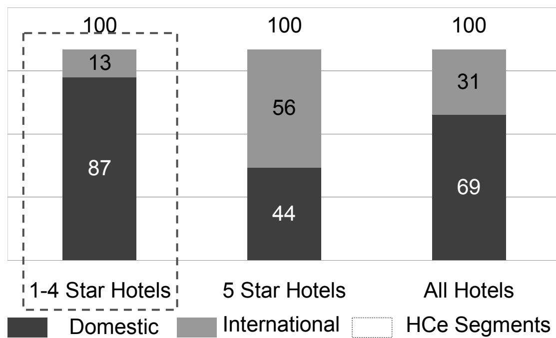
This trend is particularly pronounced in the limited-service economy and budget segments in which we compete. In these segments, local operators with no brand affiliation dominate the landscape and offer varying degrees of room quality, service and hospitality. Independent hotels typically do not comply with international fire and safety standards and have limited marketing and distribution capabilities. We believe that this market dynamic presents us with an attractive opportunity to grow as the largest limited-service hotel operator by substituting obsolete room inventory with more modern hotel product built to an international hospitality standard. We believe this strategy will be more effective than a strategy consisting predominately of acquisitions of pre-existing limited-service hotels, because there is limited availability of attractive hotel properties and the costs of remodeling and renovation are often high and difficult to predict. Our commitment to offering consistency in quality and service across all of our brands and locations, as well as our marketing capabilities and centralized reservation system, position us well for continued growth within our target segments.

By focusing on the limited service segment and targeting value-conscious domestic travelers, we believe we address the majority of hotel demand in Mexico. One- to four-star rated hotels represent close to 89% of all rated hotels in Mexico, according to the Ministry of Tourism. We believe that one- to four-star hotels serve principally the select and limited-service segments that we target. Domestic tourists accounted for approximately 87% of room nights sold in one- to four-star hotels in 2011, compared to around 44% in five-star hotels. In addition, domestic tourists account for approximately 87% of tourism spending in Mexico.

The following charts depict occupied room nights and hotel supply in Mexico based on star classification of hotels, for the year(s) indicated.

Room Nights Occupied, by Nationality of Guests (2011)

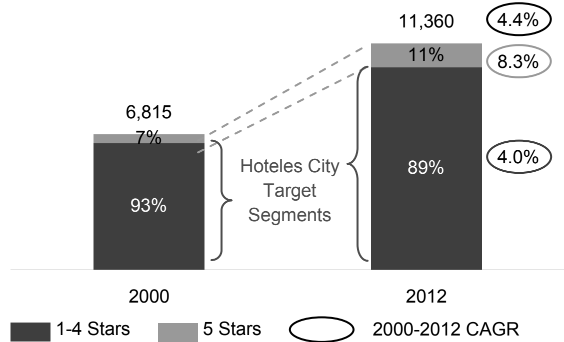
(By percentage of room nights occupied)



Source Sectur

Hotel Supply in Mexico by Star Classification

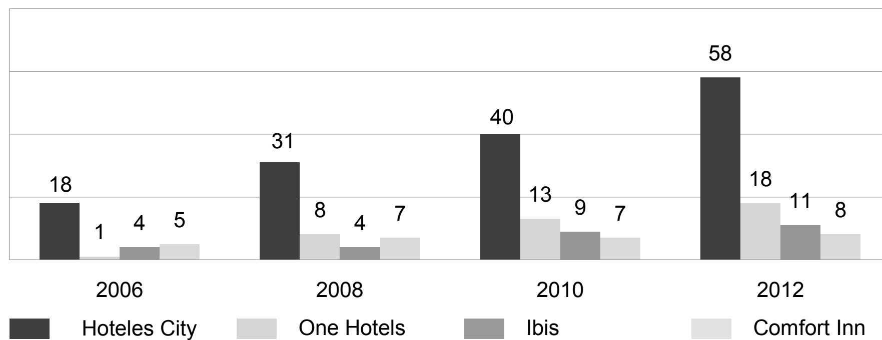
(By number of hotels, excluding hotels with no star classification)



Source Sectur

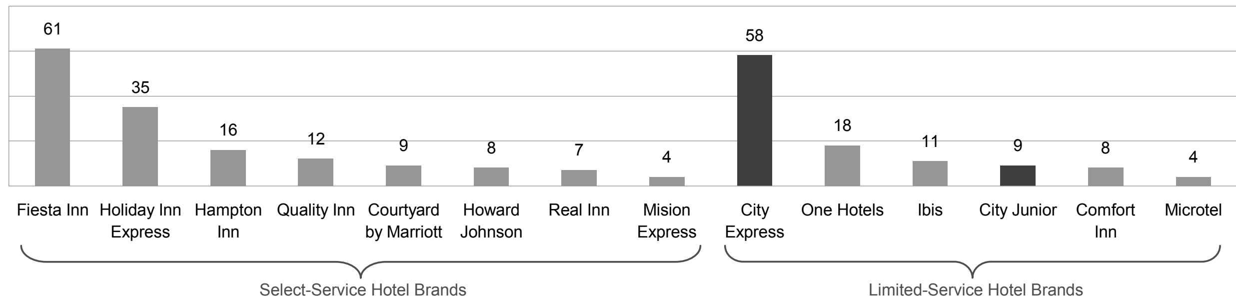
We compete primarily with limited-service hotel brands like One, Ibis, Comfort Inn and Microtel and, to a lesser extent, with select-service hotel chains including Fiesta Inn, Holiday Inn Express, Hampton Inn and Quality Inn. There are currently more than 300 chain-brand limited-service and select-service hotels operating in Mexico.

The following chart depicts the growth in chained limited-service hotels in Mexico by number of hotels by chain, for the years indicated.



Source Public Filings, Company Websites, Press Releases, Press Articles

The following chart sets forth the number of hotels operated by the largest select-service and limited-service hotel chains in Mexico by brand, as of December 31, 2012.



Source Public Filings, Company Websites, Press Releases, Press Articles

OUR BUSINESS

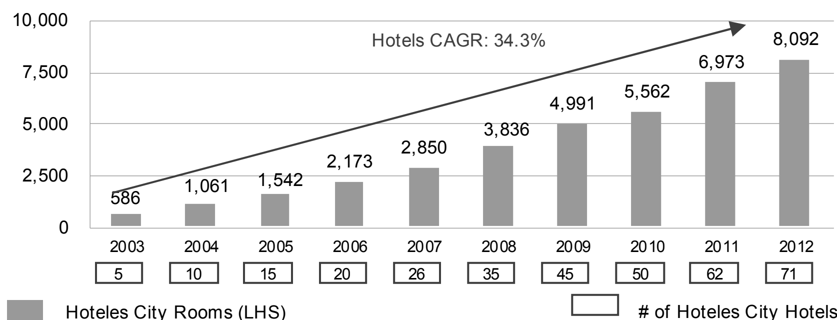
Our Company

We believe we are the leading and fastest growing limited-service hotel chain in Mexico, based on number of hotels, number of rooms, geographic footprint, market share and revenues. We focus on providing quality, safe and comfortable accommodation at affordable prices across our network of limited-service hotels that primarily target domestic business travelers. We operate as an integrated hospitality business platform developing, selectively acquiring, managing and franchising hotels in the economy and budget segments, substantially all of which are in Mexico. We believe our focus on the value-conscious domestic business traveler is unique among lodging companies in Mexico, giving us a competitive advantage through specialization in a market that we believe is highly fragmented and underpenetrated by national and international hotel operators. Furthermore, we believe that by implementing international hospitality best practices and an efficient and flexible operating model, we are able to offer differentiated quality and value within our niche market.

Since our first hotel opened in 2003, we have expanded, in terms of numbers of room, at a compounded annual growth rate of 34.3%, to 71 hotels with 8,092 rooms in operation as of December 31, 2012. In Mexico, we are the third largest hotel chain, the second largest hotel operator and the largest hotel operator within the economy and budget segments, based on number of rooms and hotels. We have placed into operation an average of one new hotel every 7.0 weeks since our first hotel opened, which we believe makes us one of the fastest growing hotel chains in Mexico.

During the year ended December 31, 2012, we derived 80.5% of our revenues from the operation of our owned, co-owned and leased hotels and 19.5% from the management of our owned, co-owned, leased and managed-only hotels, as well as from our franchise and hotel development activities.

The following graph illustrates our sustained growth in terms of hotels and room capacity since our first year of operation.



Source Company Data

As a result of our new-hotel development expertise and our growth trajectory, our hotel inventory has an average age of only 4.2 years, which we believe is among the newest room inventory in the Mexican lodging industry. We have built our hospitality business primarily through the construction of new hotels designed specifically to maintain industry-leading margins through low operating costs. This business model differentiates us within the hotel industry and allows our hotels to become profitable at average occupancy rates of approximately 30% at our target ADR.

The following table illustrates our hotels as of December 31, 2012 by year of opening.

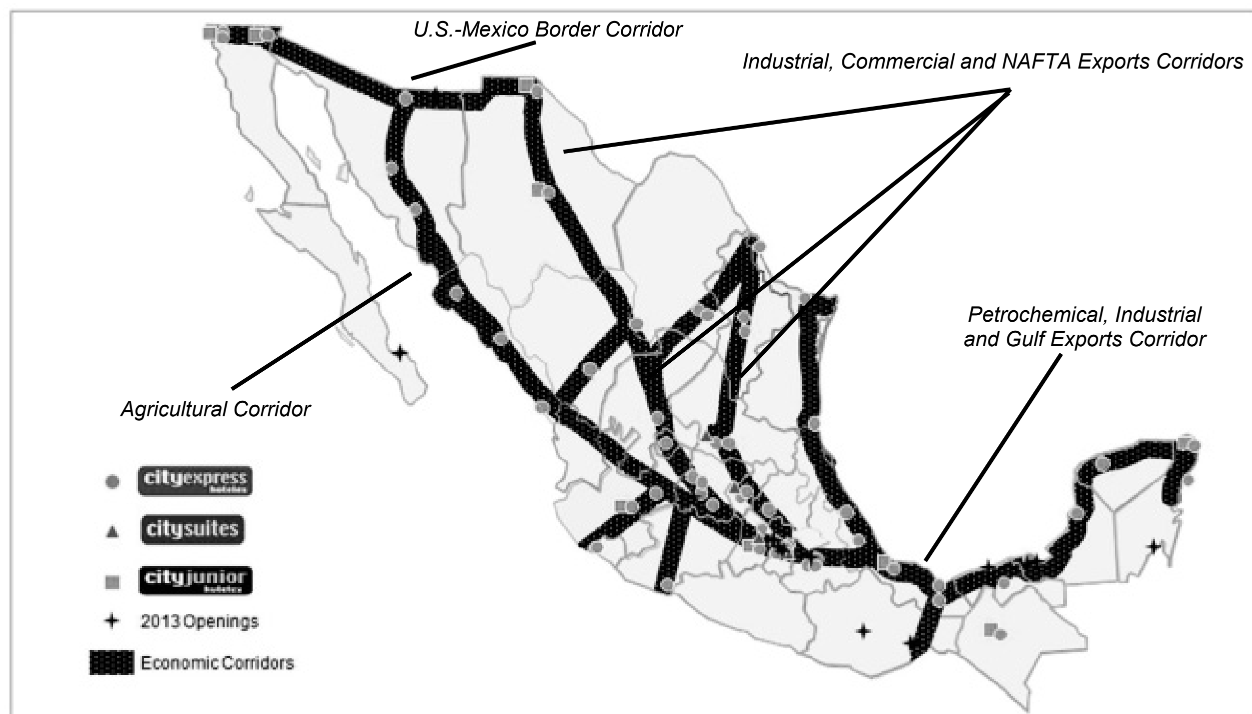
	Openings per Year		Cumulative
	Number of Hotels	**% of Total**	**Number of Hotels**
2003	5	7.0%	5
2004	5	7.0%	10
2005	5	7.0%	15
2006	5	7.0%	20
2007	6	8.5%	26
2008	9	12.7%	35
2009	10	14.1%	45
2010	5	7.0%	50
2011	12	16.9%	62
2012	9	12.7%	71
Total	71	100%	71

Approximately 36.6% of our hotels were opened in the three-year period prior to December 31, 2012 and thus, as of the end of 2012, had not completed their ramp-up cycle or achieved target occupancy rates and ADR. We expect to derive increased RevPAR, NOI and Adjusted EBITDA margins as these properties transition to Established Hotels and stabilize into mature properties once their target occupancy rates and ADR are reached.

Of our 71 hotels in operation, 70 are located in Mexico and one is located in Costa Rica. We are geographically diversified across Mexico with a presence in 26 of Mexico's 32 states as of December 31, 2012, and an expected presence in 28 states by the end of 2013, in addition to anticipated international expansion in Colombia and Chile. Our 8,092 rooms in operation as of December 31, 2012 are diversified across our three well-defined hotel brands that serve business travelers across the budget and economy segments. Our flagship brand, *City express*, caters to managers and other business travelers in the economy segment, offering ADRs ranging from Ps.680 to Ps.950. Our extended-stay brand, *City Suites*, offers fully equipped apartment-like rooms to business travelers at a slightly higher ADR (Ps.900 to Ps.1,700) than our *City express* brand, while still offering accommodations typical of the economy segment. *City junior*, our most affordable accommodation option, offers basic hotel services at highly competitive prices and targets non-management employees and other domestic travelers in the budget segment, offering ADRs ranging from Ps.550 to Ps.720. We offer a range of amenities that are essential for the business traveler, including wireless internet, complimentary breakfast, meeting rooms and business centers, along with fitness centers in our *City express* brand and *City Suites* brand hotels.

We believe our accommodations serve segments in which there is significant demand and strong prospects for growth. Our target customers—the value-conscious domestic travelers—comprise approximately 87% of all travelers in Mexico, based on information sourced from the Mexican Ministry of Tourism and INEGI. Our hotels are specifically designed to meet the needs of these travelers, which we believe have largely been underserved by existing national and international hotel brands, as well as independent non-branded hotels, in Mexico and elsewhere in Latin America. We also believe we serve segments in which there is significant growth potential for our company due to both (i) the opportunity for us to substitute existing, obsolete room inventory in our target segments and (ii) a stable and growing economy in Mexico and other targeted markets in Latin America, continued investments in infrastructure from both government and the private sector, a strong consumer base in Mexico, increased business activity from a more competitive manufacturing and export sector and consolidation of a highly fragmented hospitality industry, among other factors. Domestic travel is driven to a large degree by business travel, and we believe we are well-positioned to benefit from a potential increase in Mexican GDP, and consequently in domestic business travel, by virtue of our geographic footprint and strong brand recognition.

The map below illustrates our geographic footprint as of December 31, 2012, with properties strategically located in urban and suburban locations along the principal business, logistics, commercial and industrial routes in Mexico, as well as our anticipated openings for 2013 within Mexico.



We believe that locating our properties along the NAFTA manufacturing corridor, the NAFTA agricultural corridor, the U.S.-Mexico border, the petrochemical, exporting and industrial corridor of the Gulf of Mexico, the aerospace and automotive industrial hubs in central Mexico and the consumer-driven commercial sector of the most important cities in Mexico allows us to benefit from an increase in economic activity and consumer spending in Mexico.

We attribute our success to both our new-construction hotel development capabilities and our hotel operating, management and commercial platforms, which are each based on efficiency, convenience, and quality. Central to our business model is a disciplined, systematic and streamlined process for identifying potential markets and locations for new hotel openings and for managing the development of our hotels. By outsourcing our construction- and engineering-related work to high-quality contractors and service providers and awarding contracts through transparent bidding processes, we mitigate construction risk, create contractor competition and lower costs per room. We believe our in-house project management capabilities are critical to our business and have allowed us to achieve predictable and on-budget costs per room across Mexico and most recently in Costa Rica. This project management has allowed us to meet or exceed target rates of return on new investment opportunities. Each potential new hotel development undergoes a detailed analysis across macroeconomic drivers, industry and business sectors and market research that includes demographic and site-specific studies by our in-house market research team and subsequent approval by our investment committee to ensure that developments meet project-specific investment return criteria. We have conformed our room sizes, layouts and FF&E within each brand in order to facilitate efficient and scalable construction and operations of our properties. We also control our hotel management and commercial platform through our proprietary IT system at our headquarters in Mexico City, enabling us to centrally monitor our hotels in order to capitalize on opportunities, adjust pricing and optimize each hotel's performance while keeping our operating costs low.

We strive to make our operations as efficient as possible, from our hotel staffing to the manner in which we source breakfast items, resulting in a highly scalable operating structure that we believe has contributed to our strong

profitability as measured by a NOI margin of 37.7% as well as a 12.4% average ROIC, each for our owned and co-owned Established Hotels as of December 31, 2012. As our owned and co-owned Established Hotels mature and reach their target occupancy rates and ADRs, we expect their average ROIC to improve as a result of increased RevPAR and NOI margin in respect of such properties.

Based on our success over the last ten years, we intend to expand our presence throughout Mexico and into select markets within Latin America, such as Colombia and Chile, with our main focus being growth in the Mexican market. During the next 24 months, we intend to implement a growth strategy that includes development of up to 29 new-construction owned and co-owned hotels in Mexico as well as our first hotels in Colombia and Chile, opportunistic and strategic hotel acquisitions, including in Mexico City and other major cities in Mexico, and management of hotels belonging to third parties. We expect that this growth pipeline will add over 3,326 rooms to our inventory, representing an approximate 41.1% increase over our current number of rooms.

Since we began operations in 2003 through December 31, 2012, our available room nights and occupied room nights have increased at a compound annual growth rate of 50.5% and 62.0% to 2.7 million and 1.5 million, respectively. On average for the past three years, occupancy, ADR, and RevPAR for Established Hotels was 60.4%, Ps.683 and Ps.412, respectively. For the year ended 2012, we generated combined business segment revenues of Ps.1,117.5 million, a 29.4% increase from 2011, and consolidated revenues of Ps.932.2 million, a 30.4% increase from 2011. Our Adjusted EBITDA in 2012 was Ps.279.7 million, a 47.5% increase from 2011.

Our Competitive Strengths

Unique Position as an Integrated Hospitality Business Platform that Develops, Owns, Manages and Franchises Limited-Service Hotels

Our business model involves fully integrating hotel ownership, development, management, marketing and franchising, which gives us control and flexibility with respect to our growth profile and our management and franchise strategy. As a result of this flexibility, we have been able to grow our number of hotels and rooms by 610.0% and 662.7%, respectively, from December 31, 2004 to December 31, 2012, compared to the Mexican lodging industry hotel and room growth rates of 35.2% and 28.0%, respectively, reported by Mexico's Ministry of Tourism for the same period.

During the year ended December 31, 2012, we derived 80.5% of our revenues from our hotel operation business segment and 19.5% from the management and franchising of hotels. As both the owner and operator, we can effectively manage hotel profitability, hotel quality, room distribution and critical aspects of our marketing programs, reservations and training of employees. Full integration allows us to diversify our sources of revenue among the operation of owned, co-owned and leased hotels, income generated from development activities, fees earned through our management and franchise platform and fees from hotels owned by third-parties. As a fully integrated hospitality company, we have the flexibility to deploy our own resources on projects that maximize our ROIC, while pursuing other growth opportunities through co-investment with third-parties and management contracts. As of December 31, 2012, we owned 23 hotels (2,787 rooms), co-owned 21 hotels (2,569 rooms), leased 10 hotels (1,020 rooms), managed 13 hotels (1,323 rooms) and franchised 4 hotels (393 rooms).

Highly Profitable and Scalable Business Model Supported by an Efficient Operating Structure and Proven Development Expertise

Over the past decade, our cost-efficient and flexible operation structure and our systematic, disciplined and streamlined development platform has enabled us to open an average of one hotel every 7.0 weeks and achieve an average ROIC of 12.4% for our owned and co-owned Established Hotels in 2012. Our hotels are mostly new developments, which we believe cost less than re-modeling or re-positioning existing properties and support the long-term value of our investments. Our average development cost per room for hotels developed under the *City express* brand, excluding those developed in Mexico City or Costa Rica, was approximately Ps.573,000 for the period between 2010 and 2012.

We consistently seek to improve the efficiency of our operations. On average, our properties are operated with 21 employees per 100 installed rooms. We have a flexible centralized monitoring system for all our hotel operations, enabling us to respond in real-time to the market and adjust prices and marketing accordingly. We maintain a central repository of room inventory, which ensures that we can accurately and quickly manage reservations via a variety of direct and indirect channels. We also seek increased environmental efficiency. Our five EDGE-certified hotels have experienced, on average, a 24.0% and 32.6% reduction in energy and water use, respectively, compared to similarly positioned properties.

Our hotels are constructed by third-party contractors, whom we select through transparent bidding processes based on projected cost, experience, track record and technical qualifications, under the supervision and on-site project management of our own development team, which has significant expertise having developed over 16,000 hotel rooms. This experience helps differentiate us from our local competition. Our contractors follow highly detailed and standardized designs, which enhance our ability to meet budget and timing expectations. On average, the process from ground-breaking to opening for one of our hotels lasts between six and eleven months. Standardized room size, layout and FF&E further contribute to our efficiency and quality control. These streamlined and systematic development processes, combined with the quantity and continuous flow of our construction projects, allow us to benefit from economies of scale and preferential contracting and pricing terms.

As we are one of the largest hotel operators in Mexico, we have considerable scale relative to our competitors, particularly when compared to independent hotel owners/managers, and we are therefore able to achieve more operating synergies. Relative size and operating scale allows us to operate our hotel chain with a single and standardized management platform and business guidelines, work with large corporate clients that require safe and high-quality accommodation for their personnel across different locations in Mexico, negotiate better terms with suppliers in the hospitality industry and benefit from broader marketing strategies and programs that allow us to reach a larger guest base. As a result of the aforementioned, we have achieved historical compounded annual Adjusted EBITDA growth of 26.6% from 2010 to 2012. Our track record of building high-quality properties at low cost and operating hotels efficiently has provided us with a broad network of strong relationships with third parties with development and financing expertise across Mexico, enhancing our growth opportunities and our access to land sites across the country.

National Presence and Diversified Revenue Stream Through our Three Well-Defined Hotel Brands Located Throughout Mexico

As of December 31, 2012, we had a presence in 26 of Mexico's 32 states, which states, according to INEGI, cover over 90% of Mexico's population and over 94% of its GDP. We have focused on providing high-quality services in areas close to major business and commercial centers to meet the needs of junior- and mid-level business travelers and value-conscious travelers in general. Our hotels are situated along the main drivers of business-related demand, including industrial hubs, the U.S.-Mexico border corridor, the NAFTA manufacturing and agricultural corridors, the petrochemical, exporting and industrial corridor along the Gulf of Mexico, the aerospace and automotive industries of central Mexico and the commercial sector of the most important cities in Mexico. Our dedicated location-scouting and market research teams undertake several levels of analysis to select prime sites with maximum revenue potential within these areas. By the end of 2013, we expect to be present in 28 states, which together cover approximately 94% of Mexico's population and over 96% of Mexico's GDP, according to INEGI.

As Mexico's lodging market continues to evolve, we expect segment-specific demand within the economy and budget hotel segments to increase, driven by consumers looking for accommodations with international quality and safety standards tailored to their needs and price range. In anticipation of this increase in consumer selectivity, we have established a portfolio of three well-defined hotel brands, with a range of ADRs from Ps.550 to Ps.1,700, which positions us to offer affordable accommodations to the substantial majority of the Mexican population.

- Our flagship brand, *City express*, caters to professionals, mid-level managers, owners of small- and medium-sized enterprises and other business travelers in the economy segment, and generally offers ADRs between Ps.680 and Ps.950.

- Our extended-stay brand, *City Suites*, offers fully equipped apartment-like rooms to business travelers for higher ADRs of Ps.900 to Ps.1,700, while still offering accommodation within the economy segment.

- *City junior* targets non-managerial employees and other travelers in the budget segment, and generally offers ADRs between Ps.550 and Ps.720.

We believe our distinct product offerings have not only enabled us to increase our exposure to key high-growth lodging segments with different demand dynamics and to diversify our revenue mix and exposure across different economic segments, but also increase our resiliency to possible economic downturns.

Experienced Management Team with Extensive Track Record Developing and Operating Hotels

The majority of our senior management team has been with us since the company was founded; together, they have overseen our growth since our founding in 2002 and have delivered a compounded annual growth rate in number of hotels of 34.3% since 2003, our first full year of operation. Our senior management team has been responsible for the structuring, financing, development and operation of our 71 hotels, with a collective 8,092 rooms, since 2003, which represent more hotel and room openings than any other hotel chain in Mexico in such period. Our top six executives have over 100 years of combined experience in the hospitality industry, including tenure at other leading hospitality groups. Our co-founder and CEO, Luis Eduardo Barrios Sánchez, has extensive industry experience across Latin America, and, through his prior senior management roles within the industry, has led expansions into Brazil, Chile and Argentina, acquisition transactions and initial public offerings. We have a highly professional and experienced management team across all key areas of the hospitality business, including lodging-specific real estate structuring, investing and financing, hotel project management and development, hospitality operations and marketing.

Recognized National Brand Associated with Superior Value

We currently operate more limited-service hotels in the economy and budget segments in Mexico than any other international or domestic hotel chain and believe we are widely recognized as offering quality, safe and comfortable accommodation while maintaining affordable prices. By offering a tiered product under three well-defined brands, we believe that we have created a reliable product that caters to the largest combined segments of business travelers across Mexico. We believe our strong price-value proposition has helped us achieve greater market penetration than the brands we compete with in Mexico.

Through targeted marketing campaigns, effective use of social media and other digital platforms and commercial partnerships with leading airlines, rental car companies and other businesses, we have become a widely recognized brand associated with superior value and consistent service for the business traveler within the economy and budget segments. Our hotels rank highly in national brand recognition surveys, and our *City express* brand has been accorded the status of a "well-known brand" in Mexico by the IMPI, the Mexican intellectual property authority. As of December 31, 2012, we had over 6,700 corporate accounts and over 3,600 locally managed agreements, which reflects a combined 23.0% increase in accounts over the previous year. Room rentals associated with corporate accounts and local agreements represented approximately 42% and 18% of our room nights occupied in 2012, respectively. We also have several corporate alliances, primarily with airlines such as Aeroméxico, Interjet and Avianca-Taca, whose customers can book room nights at our hotels simultaneously with the purchase of an airline ticket. We intend to continue to pursue these targeted marketing programs to increase our visibility among key populations.

Our fast-growing *City premios* guest loyalty program boasts over 300,000 subscribers. Points earned through *City premios* can be earned and used for goods and services across a wide variety of retail stores such as Walmart, airlines such as Aeroméxico, restaurants, entertainment venues and rental car agencies. In 2012, reservations at our hotels made by *City premios* members totaled approximately 22% of all reservations. We believe that the strength of our loyalty program, in addition to the nearly 90% of our reservations that were made through our proprietary reservation systems or through other direct channels or relationships with our hotels in 2012, demonstrates a strong consumer identification with our brand.

Differentiated Product Compared to the Majority of Existing Inventory in our Target Markets

We believe that we are uniquely positioned as the only limited-service hotel chain in Mexico focused exclusively on the value-conscious business traveler, which has historically been served by a highly fragmented hotel industry comprised of smaller, independent, non-branded hotels lacking standardization and uniform safety and quality standards. These independent hotels comprise approximately 79% of the hotels available in Mexico as of 2011, according to Euromonitor.

We believe that we offer a lodging experience that is significantly distinct from national and international hotel chains in our target segments and independently owned hotels across Mexico. Within our target segments, accommodations largely consist of outdated inventory inconsistently available from independent, non-branded hotels. In contrast to much of the existing inventory, our hotels are largely new constructions with an average age of only 4.2 years.

As opposed to most independent, non-chained hotels, we offer rooms with attributes and features in line with international hospitality standards at lower prices than most chain hotels in Mexico. We offer a range of amenities that are essential for the business traveler, including wireless internet, complimentary breakfast, meeting rooms and business centers, along with fitness centers in our *City express* and *City Suites* brand hotels, which are not common to most independent limited-service hotels in Mexico. Our hotels are carefully designed to merge efficient functionality with modern and clean aesthetics, which we believe further differentiates our hotels from the substantial majority of inventory in our target markets.

In contrast to many of the existing hotels in our segments, we have made state-of-the-art technology a primary focus of our operations and guest experience. Our IT infrastructure connects all our hotels to our centralized monitoring and reservations platforms, so that we can optimize hotel performance, manage chain-wide room inventory and ensure our guests can make reliable reservations throughout our hotel network. We also focus on technologically advanced customer interaction with our brand, by, for example, creating proprietary mobile device and web-based applications so that our guests can access our reservation services remotely. Our proprietary mobile device application has been well received by guests and early adopters of such technology in Mexico, and approximately 10% of our reservations in 2012 were made via our proprietary website or mobile device applications.

In addition to providing consistent quality and accessibility across our hotel network, we build all of our hotels to be compliant with national and international fire, safety and environmental standards. Our hotels are also specifically designed to meet environmental efficiency standards. We have obtained LEED certifications for four of our properties, and we are in the process of obtaining certification for an additional nine properties; we have also obtained EDGE certifications for five of our properties. We are also in the process of having our hotels certified by the Biosphere Responsible Tourism program, a joint certification program of UNESCO and the Institute for Responsible Tourism, and we expect to have all of our hotels certified by 2015.

Our Shareholder Base Distinguishes Us From Other Participants in our Target Markets

We also benefit from the support and involvement of a large institutional shareholder base, which includes investors such as Morgan Stanley Real Estate Special Situation Fund III (MSSSFIII), the IFC (a member of the World Bank Group) and, indirectly, Mexican pension funds (*Afores*). Since our inception, our manner of conducting business, due to our corporate conviction and in part due to our contractual obligations to our international shareholder base, demonstrates our commitment to increased diligence and accountability regarding our business practices in general and also with respect to environmental, social impact, safety and corporate governance standards. We believe these standards differentiate us from most independent, non-branded hotels and make us more attractive to business travelers from multinational companies.

Our Business Strategy

Increase Market Leadership in our Segments Through the Continued Expansion of our Hotel Network in Mexico

Our primary business growth strategy is to continue leveraging our integrated business platform and to focus on ownership and co-ownership of new-construction hotels throughout Mexico. We also plan on engaging in strategic and opportunistic acquisitions of existing properties in markets where there is generally a scarcity of sites available for development of new-construction hotels. We expect to expand into new geographic territories to both reach a larger percentage of the Mexican population and increase our penetration within the industrial and commercial hubs in Mexico. In addition, we anticipate augmenting brand coverage in areas in which at least one but not all of our brands are already present, particularly in cities that we believe have significant market demand for such additional coverage. We expect our land investments and projects under contract will support our development pipeline for up to 24 months. The diversity of our land investments means that we can choose to develop properties tactically to maximize our return on investment in doing so. Additionally, a substantial portion of this pipeline has already been funded by our existing equity and internal cash flow or other financing sources; thus, we intend to use proceeds from this global offering to accelerate our existing growth profile and take advantage of opportunities in Mexico and select markets in Latin America. We intend to capitalize on our existing operational platform to grow our development capabilities up to approximately 18 new hotels per 12-month cycle in the coming years, in addition to strategic hotel acquisitions. We also plan to continue rolling renovations of our existing properties to ensure that our guests can continue to rely on our hotels for superior quality in our target segments. Consistent with past practice, we expect to continue our primary strategy of developing new units to replace obsolete room inventory, belonging mainly to independent, non-chain hotels, throughout our target markets. We plan on capitalizing on our existing business platform and brand recognition to further expand our hotel network and solidify our presence across Mexico.

Capitalize on Macroeconomic Opportunities in Mexico and Attractive Target Market Dynamics

We believe that our integrated hospitality platform, our efficient operating model and our focus on the economy and budget limited-service segments position us well to benefit from the structural drivers of the Mexican economy and the ongoing growth of Mexico's middle-class population. According to INEGI, Mexico is the second-largest economy in Latin America and is experiencing rebounding growth following the global credit crisis, with GDP growth of 5.3% in 2010 and 3.9% in both 2011 and 2012, in each case above the average annual historic rate of 3.2% since 1995. The Mexican manufacturing sector, in particular, has become highly competitive globally, attracting significant investment from domestic and multinational companies, while Mexico's petrochemical sector has also seen an important increase in investment and infrastructure development. Prudent fiscal policies, which include inflation levels and stable interest rates below 5.0%, each over the past three years, and a low debt-to-GDP ratio of 27.0% in 2012, have positively impacted Mexico's recovery. In addition, positive trends in Mexican demographics include increased per capita income, access to credit and expanded domestic consumption, together with a sustainable birth rate, which translate into a sustainable demand for goods in the future. According to CONAPO, over 50% of the Mexican population is under the age of 26. As this population group ages and transitions into seeking jobs, buying homes and obtaining economic independence, further increases in domestic consumption are expected.

We believe that an increase in economic activity in Mexico will benefit us by increasing domestic business travel and, consequently, demand for hospitality services in our target segments. Domestic travelers account for approximately 87% of all tourism spending in Mexico, according to information from Mexico's Ministry of Tourism.

We also believe these target customers have been underserved by hotel chains, as chain hotels represent only approximately 21% of the total existing hotels in Mexico, compared to approximately 69% of the room inventory in the United States. Of the chains operating in Mexico, only four chains, of which only one is an international chain, currently have 35 or more hotels. By contrast, we expect to expand our 71 hotels to 84 by the end of 2013 and have established a reputation for modern facilities and consistent value and quality across Mexico. Our scale, combined with the fragmented existing hotel network, offers significant market share and organic growth opportunities for operators like us with a highly recognized product, superior brands and nationwide coverage.

As per capita income and Mexican GDP continue to grow, we believe value-conscious travelers will be increasingly selective in their lodging choices, a trend that we believe we can capitalize on through our price-value proposition, our three distinct, well-defined and recognized brands and our distribution network. Additionally, we believe we can benefit from an increase in ADRs driven by rising industry-wide occupancy rates and increasing consumer purchasing power. Our integrated business platform and flexible operating model enabled us to adapt our development plans to the global economic crisis of 2009 by, for example, promptly adjusting the rate of new-hotel developments to preserve our balance sheet, increasing the use of our IT platform to enhance productivity across the business and revising our marketing and commercial initiatives to sustain or grow RevPAR during the economic crisis. While industry-wide investment in new rooms has not fully recovered since the economic crisis, we believe we invested more than any other hotel chain in Mexico in new-room growth over the past four years. Due to our operating efficiencies, we were able to maintain consistent RevPARs for Established Hotels over the same period. We therefore believe we are well-positioned to increase our market leadership as Mexican lodging demand and GDP continue to recover.

Target Organic Growth and Improved Profitability by Building on our Strong Business Platform

Our business platform offers guests limited-service accommodations with consistent standards of quality, safety and comfort across Mexico at affordable prices. By continuing to focus on this business platform, we expect to consistently grow our revenue and Adjusted EBITDA organically through new-construction hotel openings and higher ADRs and occupancy as our new properties continue their ramp-up cycle and become Established Hotels. As of December 31, 2012, 36.6% of our hotels and 38.3% of our rooms had not yet become Established Hotels and were still in their initial ramp-up cycle. We intend to use a significant portion of our free cash flow and balance sheet capacity to invest in greenfield hotel projects and strategic hotel property acquisitions. We also intend to increase cost-efficiencies at our Established Hotels, by causing such properties to become more productive. As we grow, we expect to benefit from additional economies of scale to optimize costs for supplies, hotel development and operations. Our significant investment in technology is expected to further streamline our centralized systems, increase our operating efficiency and improve our marketing efforts and guest satisfaction. We also seek to improve our profitability by focusing our capital investments on properties with the greatest potential to deliver high returns.

Given the opportunities in the market, we expect to grow our business of managing our managed-only hotels. This type of growth allows us to increase the number of hotels we manage without making significant capital investments and provides exposure to urban areas in which there are limited opportunities to acquire land or hotels. In addition, we will continue to reinvest a significant portion of our management and franchise services fees in our brands in order to improve our market position in Mexico and penetrate select markets in Latin America.

Expand our Hotel Network in Latin America Through Select Strategic Opportunities

While our main focus will continue to be expansion within Mexico, we expect to continue our international expansion plans in countries in which our business model can be most effectively deployed. We view expansion into certain Latin American markets as a natural extension of our current business strategies and expect to benefit from a penetration of chain hotels in Latin America that is even lower than in Mexico. We expect to carry out this selective expansion through joint-venture arrangements with local business partners. As of December 31, 2012, we had already entered into two joint-venture agreements in respect of new hotel developments in Costa Rica, Colombia, Peru and Chile. We have also begun to strategically acquire parcels of land to support these projects.

Recent Developments

In February 2013, we opened a 109-room *City express* in Chetumal, the capital city of the state Quintano Roo.

In May 2013, we closed on the acquisition of the 67-room *City express* EBC Reforma hotel property in Zona Rosa, Mexico City, which we previously managed for a third-party owner.

On May 13, 2013, we entered into agreements with three of our investment partners to acquire their minority interests in order to own 100% of (i) Sac Be Ventures, LLC, our joint venture to develop hotels in Central America and Colombia, including the 134-room *City express* hotel in San José, Costa Rica; (ii) the subsidiary that owns the 137-room *City express* Reforma "El Angel" hotel in Mexico City. Pursuant to these agreements and immediately prior to the consummation of the global offering, we will acquire these minority interests and issue our investment partners equity interests in us (the "Roll–Up Transactions"); and (iii) Promotora Hotelera City Express, S.A. de C.V., our international holding subsidiary. Pursuant to the Roll-Up Transactions, each investment partner shall be compensated through the delivery of a number our shares, calculated by dividing the value of each of these operations by the price per share at which the offering is conducted in Mexico under the Mexican underwriting agreement. As a result, on June 13, 2013, we subscribed and paid for 12,185,724 shares. Given that we have historically consolidated the results of operation of these subsidiaries, we do not expect that the Roll-Up Transactions will have any impact on our results of operations.

On May 22, 2013, our shareholders approved the Stock Split, which increased the number of shares of outstanding common stock to approximately 192 million shares. For the purpose of illustrating the dilutive effects of the global offering and the shareholder interests after the global offering, we have incorporated the effect of the Stock Split. See "Dilution" and "Principal and Selling Shareholders."

In June 2013, we expect to open a wholly owned mixed-use project in Santa Fe, Mexico City, which will consist of a 160-room *City express*, a 41-room *City Suites* and a ground-level commercial area and office space. The commercial area has been fully rented to third parties that provide services that complement our hotel business, and the office space will be occupied by our central office. We believe consolidating our central office allows us to eliminate rental expenses associated with our central office activities in Mexico City and to increase operating efficiencies by housing all our corporate, finance, administration, development, operations, IT, sales and marketing activities in one building. In addition, this central office has the capacity to accommodate our expected growth over the next five years.

History

We were incorporated under the laws of Mexico in April 2002 by Luis Eduardo Barrios Sánchez (our current chairman and CEO) and Francisco Javier Arce Gándara (our current Chief Development Officer). Our first hotel opened in the city of Saltillo in northern Mexico in May 2003, and we opened four other hotels in the same year, all under the *City express* brand. We launched our *City Suites* brand the following year. From 2004 to 2007, we continued to expand rapidly by opening five new hotels every year, for a total of 26 hotels by 2007, under both the *City express* and *City Suites* brands. In 2008, we launched our third brand, *City junior*, by opening our first *City junior* hotel in Toluca. This launch was followed by five years of continued expansion, with an average of nine new hotel openings per year, across our three brands. In 2010, we entered into a joint-venture agreement with Hospiteum, which has facilitated our expansion into Costa Rica and Colombia. As a result of this joint venture, we opened our first hotel outside Mexico, a *City express* in San José, Costa Rica, in 2012. In 2011, we entered into a joint-venture agreement with Inversiones HSG, S.A. in Chile, which is expected to serve as the basis for our expansion in Chile and Perú. By the end of 2012, we had grown to operate 71 hotels, with 13 expected openings in Mexico during 2013.

We have undergone four rounds of equity funding since our initial funding raise in 2002. In our third round in 2007, Morgan Stanley Real Estate Special Situations Fund III (MSSSFIII), through subsidiaries, acquired a non-controlling stake in us, and, during our fourth round in 2010, IFC (a member of the World Bank Group), ALAC Belgium Holding Company N.V. (an affiliate of IFC), WAMEX Participaciones, S.A.P.I. de C.V. and other private investors became part of our shareholder base.

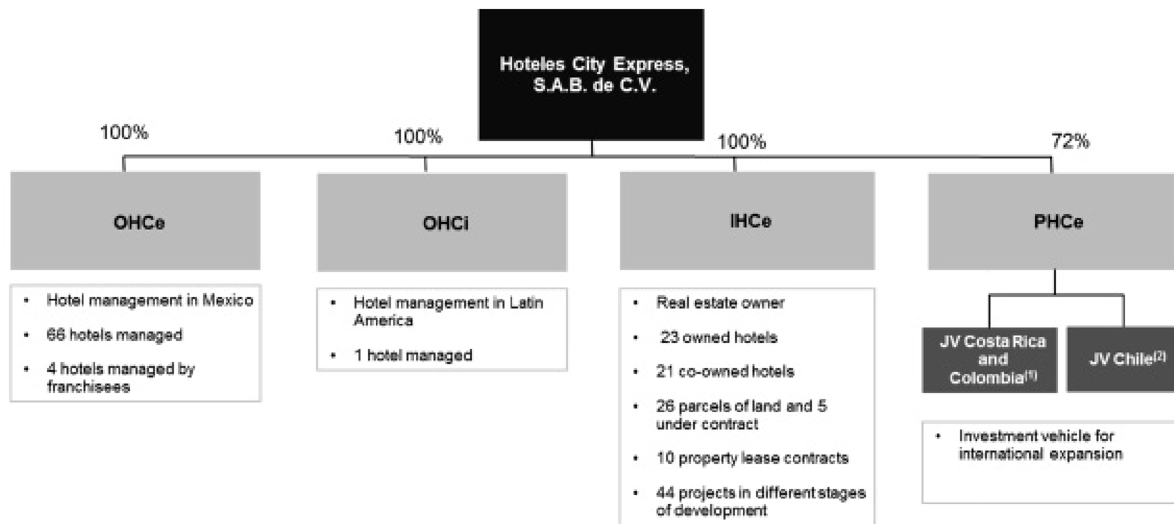
Our guest loyalty program, *City premios*, has been in existence since our first year of operation. We have also entered into key partnerships with major retail, airline and transportation companies, among others, which permit our guests to earn and use transferrable loyalty program points with airlines, rental cars and various goods and services.

We pride ourselves on offering affordable accommodations that meet international safety and quality standards. We incorporate LEED criteria in our hotel designs, and in 2010 the San Luis *City express* was the first hotel in Latin America to obtain Silver LEED certification. In 2012, we were the first company worldwide to receive IFC's EDGE certification, which we received for the Villahermosa *City express*. In this same year, we were the first hotel chain worldwide to participate in the Biosphere Responsible Tourism certification, developed by the Institute of Responsible Tourism, a non-profit organization that is a member of the World Trade Organization and is supported by the UN Foundation and UNEP. We expect to have all of our hotels certified by the Biosphere Responsible Tourism program by 2015.

Organizational Structure

We have established several holding subsidiaries as well as indirect subsidiaries formed to own our interests in one or several owned or co-owned hotels. We also have a wholly owned subsidiary, *Servicios Comerciales y Promoción de Hoteles, S.A. de C.V.*, which employs the 242 employees who work in our central administration.

The following illustration shows our principal subsidiaries as of December 31, 2012:



Operadora de Hoteles City Express, S.A. de C.V. (OHCe) and Operadora de Hoteles City Internacional, S.A. de C.V. (OHCi): As managers and franchisors of hotels, OHCe and OHCi operate through franchise and management agreements with all HCe-branded hotels. Together, they supervise the administration and management of 67 hotels, with four hotels managed by franchisees.

Inmobiliaria Hotelera City Express, S.A. de C.V.: This subsidiary holds, directly or indirectly, the ownership stakes of our owned and co-owned hotels as well as our lease contracts. These include 23 owned, 21 co-owned and 10 leased hotels, as well as a variable number of land sites held for development.

Promotora Hotelera City Express, S.A. de C.V.: This subsidiary is the holding company of the two joint ventures for our international expansion in Costa Rica, Colombia, Chile and Peru, and therefore indirectly owns the interest in our properties in such countries.

Principal Business Activities

We design, develop, manage and franchise owned, co-owned and third-party owned limited-service hotels for the value-conscious business traveler under three brands. As of December 31, 2012, we operated 71 properties, comprising 8,092 rooms.

Owned Hotels. Historically, we have primarily focused on ownership and co-ownership of hotels. Our owned hotels are 100%-owned by us, and their results are consolidated into our financial statements. The owned hotels have been financed with a combination of company equity and, to a lesser extent, bank debt. Prior to initiating the construction of an owned hotel, a capital increase in the entire amount of the project is approved at the relevant subsidiary, and over time, as the project requires cash, the shares in respect of such capital increase are paid in full. As of December 31, 2012, we owned 23 hotels.

Co-Owned Hotels. We typically own at least a 50%-interest in hotels co-owned by us, with the remaining interest held by local business partners who frequently contribute land and/or equity towards the project development and provide insight into the local market. The co-owned hotels have been financed with a combination of company equity and, to a lesser extent, bank debt. We also capitalize co-owned hotels by capital increases as described above in "—Owned Hotels." We include our Latin American joint-venture arrangements under our co-owned *City express* hotels. The results of our co-owned hotels are consolidated into our financial statements, and the minority interest is reflected on our balance sheet. As of December 31, 2012, we co-owned 21 hotels.

Leased Hotels. We also lease hotels and the properties on which the hotels operate from third-party owners. Our lease contracts typically run for a period of fifteen years, with five-year renewal options. We are required to make fixed lease payments, which partially depend on the hotel's total cost of development and operation (including land and construction), as well as additional variable payments in certain instances, which are based on a percentage of the hotel's room revenues. The hotel revenues and operating profit of our leased hotels are consolidated into our financial statements. As of December 31, 2012, we leased and operated ten hotels.

Managed Hotels. Under our management contracts, we license our brand to the hotel property owners, with whom we enter into contracts typically of a minimum of fifteen years, with five-year renewal options. Our management contracts also contain a right of first offer in favor of our operating subsidiaries, which gives us a priority right to acquire the hotel we manage should the owner desire to sell it. We remain responsible for the administration of our managed hotel, which includes sales, marketing, reservations and establishing ADR. Furthermore, we manage these hotels according to our established commercial and operating specifications and strict quality standards. As of December 31, 2012, we managed 13 hotels.

Franchised Hotels. We franchise our brands to third-party owners of hotels under franchise agreements, with a minimum term of fifteen years, with five-year renewal options. We are not involved in the operation of the franchised hotel; however, the property owner is required to meet established commercial operating specifications and strict quality standards, including participation in all sales and marketing programs. As of December 31, 2012, we had four franchised hotels.

With the exception of our four franchised properties, all hotels in our portfolio are managed by our operations team, regardless of ownership.

Our hotel brands

We operate our limited-service hotels under three well-defined brands. Each brand targets a different guest profile within the budget and economy business travel segments. Within each brand, construction, internal furnishings, architecture and common areas are standardized across all our hotels.

City express. Our original and flagship brand, beginning with the opening of the Saltillo *City express* in May 2003. *City express* hotels target value-conscious business travelers by offering simple, modern and comfortable furnishings along with essential business traveler amenities, such as wireless internet, business centers, conference rooms, fitness centers and complimentary continental breakfast. *City express* hotels have ADRs ranging from Ps.680 to Ps.950, which places them competitively in the Mexican economy hotel segment. Each *City express* hotel typically has 100 to 150 rooms and an average room size of 248 ft^2 (23 m^2). As of December 31, 2012, we operated 58 *City express* hotels, representing 84.1% of our total rooms and 81.7% of our total hotels.

City Suites. Our extended-stay brand, launched in 2004 with the opening of the Anzures *City Suites* hotel. For a slightly higher ADR, ranging from Ps.900 to Ps.1,700, *City Suites* offers larger, apartment-like rooms, with an average room size of 323 ft^2 (30 m^2), with in-room kitchenettes, microwaves, day-use furniture and extended closet space, along with the standard business traveler amenities such as wireless internet, business centers and complimentary continental breakfast. Some *City Suites* hotels have swimming pools as well. *City Suites* hotels are developed for carefully selected markets and are designed to complement existing hotels under the *City express* and *City junior* brands. The furnishings and interiors are similar to *City express*, although the *City Suites* hotels have fewer rooms, with a range of 26 to 120 rooms per hotel. As of December 31, 2012, we operated four *City Suites* hotels, representing 5.6% of our total hotels and 3.5% of our total rooms.

City junior. Our budget business traveler brand, launched in 2008 with the opening of the Toluca *City junior* hotel. With ADRs ranging from Ps.550 to Ps.720, *City junior* hotels are priced lower than our *City express* hotels but still offer basic amenities such as wireless internet, meeting rooms and limited breakfast. Rooms are smaller, with an average room size of 183ft^2 (17m^2), with more modest interiors than the *City express* hotels. Each *City junior* hotel has 105 to 134 rooms. As of December 31, 2012, we operated nine *City junior* hotels, or 12.7% of our total hotels and 12.4% of our total rooms.

The following table sets forth our hotels and rooms by type of ownership and brand as of December 31, 2012.

Type of ownership	Hotels	Rooms
Total Owned	23	2,787
City express	20	2,462
City Suites	1	91
City junior	2	234
Total Co-owned	21	2,569
City express	20	2,435
City Suites	0	0
City junior	1	134
Total Leased	10	1,020
City express	4	465
City Suites	1	26
City junior	5	529
Total Managed	13	1,323
City express	11	1,158
City Suites	2	165
City junior	0	0
Total Franchised	4	393
City express	3	288
City Suites	0	0
City junior	1	105

The following table sets forth our hotels in operation as of December 31, 2012, by brand, location, type of ownership, opening date, and number of rooms. With the exception of the hotels with franchised ownership, we manage all of the hotels listed below.

***City express* Hotels**

Hotel	State	Ownership		Opening Date	Rooms
Saltillo	Coahuila		Owned	May 2003	120
San Luis	San Luis Potosí		Owned	July 2003	120
Monterrey Santa Catarina	Nuevo León		Owned	October 2003	105
Querétaro	Querétaro		Owned	November 2003	121
León	Guanajuato		Owned	December 2003	120
Puebla	Puebla		Owned	May 2004	124
Nuevo Laredo	Tamaulipas		Managed-only	August 2004	107
Ciudad Juárez	Chihuahua	50.0%	Co-owned	October 2004	114
Irapuato	Guanajuato		Owned	November 2004	104
Reynosa	Tamaulipas	50.0%	Co-owned	February 2005	104
Cancún	Quintana Roo		Leased	March 2005	128
Tepatitlán	Jalisco		Managed-only	April 2005	80
Tuxtla Gutiérrez	Chiapas		Franchised	December 2005	124
Chihuahua	Chihuahua		Franchised	March 2006	104
Guadalajara	Jalisco		Owned	July 2006	145
Tampico	Tamaulipas	50.0%	Co-owned	November 2006	124
Mexicali	Baja California Norte		Owned	December 2006	117
Toluca	Estado de México		Owned	December 2006	141
EBC Reforma	Mexico City (D.F.)		Managed-only	January 2007	67
Hermosillo	Sonora	50.0%	Co-owned	April 2007	120
Celaya	Guanajuato		Leased	May 2007	104
Insurgentes Sur	Mexico City (D.F.)		Owned	July 2007	159
Coatzacoalcos	Veracruz	50.0%	Co-owned	August 2007	118
Tepozotlán	Estado de México		Leased	December 2007	109
Mazatlán	Sinaloa		Managed-only	June 2008	110
Morelia	Michoacan		Franchised	July 2008	60
Lázaro Cárdenas	Michoacan	50.0%	Co-owned	October 2008	119
Puebla Angelópolis	Puebla	50.0%	Co-owned	November 2008	118
Tijuana Río	Baja California Norte		Managed-only	December 2008	131
Silao	Guanajuato	50.0%	Co-owned	December 2008	121
Monterrey Aeropuerto	Nuevo Léon		Owned	December 2008	130
Reforma El Angel	Mexico City (D.F.)	61.0%	Co-owned[(1)]	January 2009	137

Hotel	State		Ownership	Opening Date	Rooms
Tula	Hidalgo		Managed-only	March 2009	103
Los Mochis	Sinaloa		Owned	June 2009	124
Zacatecas	Zacatecas		Managed-only	June 2009	109
Veracruz	Veracruz		Leased	September 2009	124
Saltillo Sur	Coahuila		Managed-only	December 2009	107
Poza Rica	Veracruz	50.0%	Co-owned	April 2010	118
Nogales	Sonora		Owned	July 2010	109
San Luis Universidad	San Luis Potosí	50.0%	Co-owned	December 2010	109
Minatitlán	Veracruz	50.0%	Co-owned	September 2011	109
Mérida	Yucatán	50.0%	Co-owned	April 2011	130
Torreón	Coahuila		Managed-only	May 2011	115
Culiacan	Sinaloa	50.0%	Co-owned	June 2011	133
Aguascalientes	Aguascalientes		Owned	August 2011	123
Buenavista	Mexico City (D.F.)		Managed-only	August 2011	103
Puebla Autopista	Puebla	50.0%	Co-owned	August 2011	108
Playa del Carmen	Quintana Roo	50.0%	Co-owned	August 2011	135
Manzanillo	Colima		Owned	November 2011	116
Ciudad del Carmen	Campeche	50.0%	Co-owned	December 2011	129
Ciudad Obregon	Sonora		Owned	February 2012	120
Campeche	Campeche		Owned	April 2012	110
Villahermosa	Tabasco		Owned	July 2012	127
Queretaro Jurica	Querétaro	50.0%	Co-owned	September 2012	135
Durango	Durango	50.0%	Co-owned	October 2012	120
San José	Costa Rica	50.0%	Co-owned[1]	November 2012	134
Xalapa	Veracruz		Managed-only	December 2012	126
Tijuana Insurgentes	Baja California Norte		Owned	December 2012	127

(1) Prior to the consummation of the global offering, we will have acquired the remaining interest from our co-owners, such that these hotels will be fully owned by us. See "Summary—Recent Developments."

City Suites Hotels

Hotel	State	Ownership	Opening Date	Rooms
Anzures	Mexico City (D.F.)	Leased	April 2004	26
Querétaro	Querétaro	Managed-only	December 2005	45
Toluca	México	Owned	December 2008	91
San Luis Potosí	San Luis Potosí	Managed-only	July 2012	120

City junior Hotels

Hotel	State	Ownership	Opening Date	Rooms
Toluca	México	Leased	February 2008	106
Mexicali	Baja California	Owned	February 2009	106
Chihuahua	Chihuahua	Franchised	March 2009	105
Tijuana	Baja California Norte	50.0% Co-owned	June 2009	134
Cancún Las Americas	Quintana Roo	Leased	November 2009	106
Guadalajara Perifierico Sur	Jalisco	Leased	February 2010	107
Ciudad Juárez	Chihuahua	Owned	March 2010	128
Veracruz	Veracruz	Leased	July 2011	104
Tuxtla Gutierrez	Chiapas	Leased	October 2011	106

Hotel Development Capacity

Hotel construction and development

Our new hotels are primarily greenfield developments, with only four reconversions of existing buildings as of December 31, 2012. We are able to undertake greenfield developments due to our extensive experience in hotel development and our ability to adequately budget for costs related to new hotel construction. We believe that development of new hotels is more cost-effective than converting or remodeling the poorly constructed buildings that make up the majority of Mexico's existing hotel infrastructure. This process also enables us to maintain our standards of quality and safety and achieve our target ROIC.

Our hotel development pipeline is facilitated by a variable number of land sites that we hold for development. We strategically select the land for our hotels based on the expected economics of the site, performance indicators related to the relevant sector and industry, market studies related to the particular site and our general geographic and market strategy. We believe this makes our development pipeline more secure and predictable. Our sites remain pending development for a variety of time depending on market opportunity, which can be anywhere from five to six weeks to 24 months. Some sites have been selected as appropriate for development of more than one brand. Once a land parcel is acquired, it must then pass through the permitting, and occasionally zoning, processes, which vary according to the applicable municipal, state or federal requirements. The sites that we hold are in various stages of permitting and zoning. We also own parcels in Colombia and Chile to facilitate our expansion plans in those countries. As of December 31, 2012, we had not failed to receive the applicable permitting or zoning for any of our parcels of land. See "—Regulation."

The construction of our hotels is performed by independently contracted construction companies, who are selected by us in a transparent bidding process based on projected cost, experience, track record and technical qualifications. The construction itself is closely monitored by our own experienced development team. Contractors follow highly detailed construction manuals that we have developed for each of our three brands, which include precise specifications as to construction processes, furnishings, trimmings and equipment to be installed. These specifications ensure not only consistency in the development of new hotels across our network but keeps unexpected costs and delays, at a minimum. Our timeframes average six to eleven months from groundbreaking to opening. Furthermore, our continuous stream of construction projects and the scale of our expansion allows us to benefit from economies of scale and preferential contracting and pricing terms, which contributes to our cost-efficient construction process.

Although it is not part of our central business strategy, we also selectively enter into multi-use real estate projects, for example pairing hotels with limited commercial or office space, when supported by the surrounding real estate profile. These currently represent less than approximately 10% of our hotels, with about half of the projects fully owned by us and the other half being joint projects in which we participate.

Depending on the brand, the cost of each new hotel varies due to the differing specifications related to size, design and furnishing needs. The average cost of construction per room for the *City express* brand during the period from 2010 to 2012, excluding hotels located in Mexico City and Costa Rica, was approximately Ps.573,000. The cost includes the cost of land acquisition, hard costs, equipment, furnishing, and pre-operating expenses.

Projects Under Development

We believe that the market in Mexico allows for ample opportunities to develop new hotels in the economy and budget business traveler segments within Mexico. We estimate our current development capacity to be approximately 14 hotels a year, although the annual maximum we have built in our history was 12 hotels. We believe that we have the potential capacity to expand our annual output to approximately 18 hotels per twelve month cycle.

The following table sets forth our planned openings by brand and location, during 2013:

Brand	Location	State
City express	Chetumal[1]	Quintana Roo
City express	Santa Fe (Mexico City)	Mexico City (D.F.)
City Suites	Santa Fe (Mexico City)	Mexico City (D.F.)
City junior	Puebla Autopista	Puebla
City express	La Paz	Baja California Sur
City express	Paraíso	Tabasco
City express	Cananea	Sonora
City express	Universidad (Mexico City)	Mexico City (D.F.)
City express	Oaxaca	Oaxaca
City express	Salina Cruz	Oaxaca
City junior	Ciudad del Carmen	Campeche
City junior	Ciudad del Carmen Aeropuerto	Campeche
City express	Irapuato Norte	Guanajuato

(1) Hotel currently in operation.

Our expansion into other countries in Latin America commenced with the signing of our joint-venture agreement in 2010 with Hospiteum and the opening of our first international hotel in San José, Costa Rica, in November 2012. We entered into another joint-venture agreement with Inversiones HSG, S.A. in 2011, which is expected to serve as the basis for our expansion into Chile and Peru. We have one further international hotel under construction and seven hotels under different stages of development.

Distribution and Franchising

Marketing and Reservations

Our operations are centralized and headquartered in Mexico City, where we monitor hotel performance and operating data in real-time. We also monitor the quality of our hotels and our guests' satisfaction through electronic exit surveys, guest feedback, and mystery guest programs. Because our centralized system contains our entire hotel inventory, we are able to monitor the operating data and access the availability of every hotel room in our network.

From our centralized platform, we can make up-to-the-minute decisions and adjustments to, for example, offer targeted sales or other promotions. As part of this platform, we operate a central reservation system (CRS) that manages room night sales, corporate agreements, third-party vendors and e-commerce. Our marketing department manages our CRS; our sales department is responsible for negotiating individual corporate agreements and sales on a local, single-hotel level.

We receive central and local reservations via four channels: (i) direct customer sales, including the City express 24-hour hotline, our website, mobile applications and hotel walk-ins; (ii) third-party agents, such as travel agents, internet portals, travel consortiums and reservation booking tools (including Galileo, Amadeus and Sabre); (iii) corporate accounts, by which corporations purchase a fixed amount of room nights per year for a negotiated daily

rate; and (iv) corporate alliances, for example with airlines such as Aeroméxico, Interjet and Avianca-Taca, through which customers can book airline flights and hotel rooms simultaneously.

As of the end of 2012, we had entered into over 6,700 corporate agreements, as well as over 3,600 local, single-hotel arrangements, an increase of 23.0% from the end of the prior year. These currently represent 41.6% and 18.0% of our room nights sold, respectively. Such agreements cover a wide range of arrangements, from one night in a single hotel location to the sale of multiple room nights in numerous hotels across our network.

Loyalty Programs

Our fast-growing guest loyalty program, *City premios*, was founded in December 2003. Currently over 300,000 subscribers can earn and use points at our hotels, which are also redeemable for other goods and services at department stores, entertainment venues, rental car agencies and other businesses, including with international companies in Mexico such as Walmart, Six Flags, Sodexo and national companies such as Liverpool, Sanborns and Cinepolis, among others. Some of these sharing arrangements, such as with Aeroméxico, allow customers to earn and redeem transferrable loyalty points across both our company and our partner. Reservations via *City premios* currently represent 22% of our room nights sold, which we believe reflects a growing consumer awareness of and identification with our brand.

Operating Efficiency

Hotel Management

Our top management team enjoys a combined 100 years of experience in the hotel industry. Operations are led from our central office in Mexico City, where we monitor all aspects of our hotels' performance, quality and guest service.

Monitoring*:* Our central administration department oversees the monitoring of our hotels, collects and analyzes data from each hotel and sets operating benchmarks. Along with the corporate administration team, they consolidate our financial statements on a monthly basis and identify cost-cutting opportunities. Our accounting and audit teams also assist in monitoring finances and expenses to confirm efficient and correct operation and accounting.

Sales and Marketing*:* Our sales department is responsible for monitoring each hotel's performance and that of the local market. Data analyzed includes daily occupancy rates and ADRs from our hotels as well as comparable data sourced informally from competitor hotels in each market. From this information, the sales department prepares detailed monthly budgets and annual business plans for each hotel. The sales team also sets prices based on performance data. Our sales and marketing teams work together, using a wide range of advertising methods to promote our brands to local and national audiences.

Quality Assurance*:* We employ several methods of quality assurance to increase the likelihood that our guests receive consistent, quality service. We have a dedicated guest service and quality control department, and our central management carries out its own biannual, unannounced site visits by which we evaluate the hotel's services, standards and image, as well as how closely on-site management is adhering to our general guidelines, policies and procedures. We also utilize a "mystery guest" program run by independent third-party consultants, who evaluate our hotels' facilities and service by staying as guests at our hotels on an anonymous basis. We offer an electronic survey to guests at checkout, in addition to reviewing and responding to concerns or comments lodged with our personnel, on our website or at other third-party lodging websites such as TripAdvisor.

Staff*:* Our human resources department is responsible for maintaining adequate, well-trained staffing in our hotels. This is accomplished through a variety of training methods, including group training, individual development and coaching by fellow employees. We have a comprehensive set of employee manuals that ensure standardized training across all our hotels, and we monitor each employee's training through e-learning programs.

Procurement*:* The scale of our hotel network enables us to efficiently manage our supplies for all our hotels. While many of our products are sourced centrally in order to take advantage of favorable prices obtained in large-scale orders, we also source products locally for our hotels, such as breakfast food, when doing so is more cost-efficient.

Systems and Technology

We believe our use of modern and sophisticated technology is critical to the success of our operations. We invest in updating our systems on a rolling basis and routinely evaluate the merits of new or different platforms. Our various platforms enable us to monitor hotel operations and adjust to the market in real-time, manage our various reservations channels and our entire room inventory from one central repository and respond to guest concerns and inquiries made throughout our network. Combined, these technologies enable us to optimize our prices and maintain quality across all our hotels. We also have developed web-based and mobile device-based applications that allow guests to conveniently book and manage reservations. Our proprietary mobile device application has been well received by guests and early adopters of such technology in Mexico, and approximately 10% of our reservations in 2012 were made via our proprietary website or mobile device applications.

Established Hotels

We assess the performance of our hotels based in part on the year of each hotel's opening. We estimate that our hotels will generally have completed their initial ramp-up cycle three years after opening, at which time we consider them Established Hotels. Due to our rapid expansion, a large percentage of our hotels are new properties that have not completed their ramp-up cycle or achieved their projected occupancy rate and ADR. In order to compare our operating performance with other companies in the hospitality industry that are not experiencing the same rapid growth, we separately evaluate the key performance indicators of Established Hotels.

The following table shows our Established Hotels as of year-end for the years indicated, along with key operating and performance data.

Established Hotels and Key Performance Indicators

	As of the Year Ended December 31,		
	2012	2011	2010
Number of Established Hotels …………………	45	35	26
Occupancy ………………	59.8%	59.4%	61.9%
ADR (Ps.)..……………….	691	682	676
RevPAR (Ps.) ………………..	413	405	418
Revenues (thousands of Ps)……………………..	766,608.9	557,371.7	444,131.0
Hotel operating costs …..	(454,294.8)	(326,531.6)	(254,975.4)
Revenue growth for Established Hotels…………………..	37.5%	25.5%	48.7%

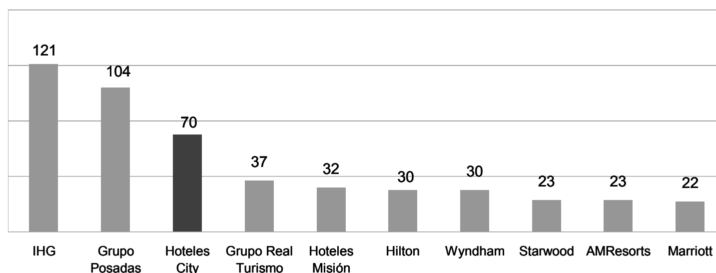
Seasonality

Much of the hotel industry is inherently seasonal in nature. However, our primary focus on the business traveler and our predominantly urban or suburban geographic footprint means that most of our business is not affected by seasonality. We estimate that less than 10% of our business relies on tourist travel. Instead, our business more closely tracks Mexican GDP and macroeconomic conditions and is less seasonal than the hotel industry in general. Nevertheless, our occupancy rates tend to decrease during the holidays from mid-December to mid-January.

Competition

We operate in a highly competitive market. The chains with the largest presence in Mexico are Grupo Posadas and InterContinental Hotels Group, both of which have several brands that compete with our hotels (Fiesta Inn and One; and Holiday Inn and Holiday Inn Express, respectively). Among the chain hotels present in Mexico, there are several competitor brands that are tailored to reach the same value-conscious business traveler that is the focus of our lodging offerings. For our *City express* brand, competing brands include Microtel, Fairfield Inn and Sleep Inn. For our *City Suites* brand, competing brands include Holiday Inn, Courtyard, Calinda, Mision, Fiesta Inn and Garden Inn. Competing brands for our *City junior* brand include One and Ibis.

While some of our competitor brands, such as Posada's Fiesta Inn, are well-established in Mexico, others have only a minimal presence. For example, as of December 31, 2012, Garden Inn (Hilton) had three hotels in operation, Sleep Inn (Marriot) had one hotel in operation, Ibis (Accor) had eleven hotels in operation and One (Posadas) had eighteen hotels in operation. The following table shows the top ten brands that compete with us in Mexico, by number of hotels in Mexico as of December 31, 2012.



Source Public Filings, Company Websites, Press Releases, Press Articles

Notwithstanding that competitor hotel chains may have an interest in expanding their participation in the limited-service hotel market, the bulk of our competitor hotels within the economy and budget segment in Mexico continues to be independent, non-chain hotels. It is a primary focus of our business strategy to present our lodging offerings as market replacements for the largely obsolete and inconsistent offerings of these competitor hotels.

Regulation

We are subject to a wide range of foreign and Mexican federal, state and local government laws and regulation, including those relating to building and zoning requirements, business licenses, taxation, the environment, franchising, consumer protection, real property ownership and occupational safety. We believe we are in compliance with all applicable laws and regulations and that all of our hotels have the necessary permits to operate.

Each of our hotels is granted a business license by both the state and the municipality to operate locally. In addition, we are required to register each of our hotels and the daily rates charged with the Mexican National Tourism Registry (*Registro Nacional de Turismo*). State and municipal laws in Mexico also regulate fire safety. Additionally, each of our hotels is required to have sanitation licenses, and hotel construction projects are required to have a construction license and environmental authorization, and must comply with several zoning and land-use regulations. We believe that we are in material compliance with all applicable sanitation and construction licenses in Mexico, and with the environmental authorizations and zoning and land-use regulations applicable to our operations.

Each of our hotels is also required to obtain various licenses and permits on a periodic basis, including, but not limited to, those relating to the operation of swimming pools, fitness club facilities, parking garages, advertisement and occupational health and safety.

As a company operating in Mexico, we are subject to the recent amendments to the Mexican Federal Code of Civil Procedure and other federal environmental and consumer protection laws that implemented the availability of recourse through class action lawsuits in Mexico related to, among other matters, consumer and environmental protection. As of the date of this offering memorandum, no collective lawsuits have been filed against us in any of the contexts discussed above nor in any other contexts.

Neither us nor any of our subsidiaries is regarded as a real estate investment trust, or REIT, as set forth in article 224-A of the Mexican Income Tax Act, as a result of which neither we nor our subsidiaries are entitled to any special arrangements or tax benefits accorded under the Mexican Income Tax Act to such companies.

See also "Risk Factors—Risks Related to our Business—We are subject to governmental regulation."

Law on the Protection of Data

We are subject to the provisions of the Federal Law on the Protection of Personal Data in the Possession of Private Parties (*Ley Federal de Protección de Datos Personales en Posesión de los Particulares*, or the "Data Protection Act"), which entered into force on July 6, 2010. The Data Protection Act applies to private entities, whether individuals or companies, that handle personal data; we are subject to its provisions because we handle the personal data of our hotel guests.

In accordance with the provisions of the Data Protection Act, the processing and transfer of personal data is subject to the prior consent of the owner. Such consent may obtained through a "privacy notice" by which the owner is informed of the purposes of the processing or transfer, any options to limit the use or disclosure thereof and the means to exercise his or her rights of access, redress, cancellation or opposition. If the owner does not contest the privacy notice, his or her consent is presumed. The privacy notice may be made available to such owners through printed, digital, electronic, audio or any other technological means. In accordance with the provisions of the Data Protection Act, owners of personal data may at any time revoke their consent to the processing or transfer of such data. The Data Protection Act sets out certain requirements and exceptions regarding the transfer of personal data to third parties.

Environmental Matters

Our operations are subject to general Mexican federal and state laws and regulations relating to the protection of the environment. We are subject to laws and regulations relating to operation and closure of storage tanks and preservation of wetlands, coastal zones or endangered species, which could affect our ability to develop, use, or sell our real property or use it as collateral. Mexican environmental law and enforcement thereof has become more stringent over time. We believe we are in material compliance with all applicable environmental laws and regulations.

Specifically, our hotels are subject to the Mexican General Law of Ecological Stabilization and Environmental Protection (*Ley General de Equilibrio Ecológico y de la Protección al Ambiente*), the rules and regulations published thereunder and the state and local equivalents. We are also subject to the National Waters Law (*Ley de Aguas Nacionales*), the General Waste Prevention and Management Law (*Ley General para la Prevención y Gestión Integral de los Residuos*), the General Sustainable Forest Development Law (*Ley General de Desarrollo Forestal Sustentable*), the General Wildlife Law (*Ley General de Vida Silvestre*) and numerous standards known as Official Mexican Standards (*Normas Oficiales Mexicanas*), which complement the environmental regulations.

We also voluntarily seek to comply with a number of international standards for safety, quality and environmental responsibility. Hoteles City Express incorporates LEED criteria in its hotel designs; the San Luis *City express* was the first hotel in Latin America to obtain Silver LEED certification. Four hotels currently have LEED certification, and nine additional hotels are in the process of obtaining certification. We also participated in IFC's EDGE pilot program for green buildings. We are also in the process of having our hotels certified by the Biosphere Responsible Tourism program, a joint certification program of UNESCO and the Institute for Responsible Tourism, and we expect to have all of our hotels certified by the Biosphere Responsible Tourism program by 2015.

Insurance

We believe that our hotels are covered by adequate property and liability insurance policies that we believe contain coverage similar to the policies carried by other hotel chains in Mexico. For our owned and co-owned hotels, we maintain coverage for general liability, property, business interruption and other risks.

For our leased and managed hotels, the governing agreements typically require the property owner to obtain insurance policies that are valid from the opening of the hotel and maintained throughout the term of the agreement and cover (i) the hotel, its buildings, operation supplies and equipment against fire, flooding and other natural risks, for 100% of the replacement cost; (ii) consequential losses incurred by business interruption caused by fire, flooding and other natural risks, equivalent to 12 months of gross operating profit plus fixed operating expenses and salaries; and (iii) damages derived from hotel civil liability. Our franchise agreements typically require the franchisor to

obtain insurance policies with similar coverage. Such insurance policies must be obtained from a recognized insurance company in Mexico.

In addition, we require our independent contractors to carry construction insurance and insurance for liability for damages to third parties, which must be valid for the entire construction period.

Third-Party Agreements

In 2010, we entered into a joint-venture agreement with Hospiteum, which facilitated our expansion into Costa Rica and our projected expansion into Colombia. Together with Hospiteum, we opened our first hotel outside Mexico, a *City express* in San José, Costa Rica, in 2012. Pursuant to the Roll-Up Transactions, however, we will terminate this agreement and Hospiteum will become an equity interest holder in us and agree to certain non-compete provisions. See "Summary—Recent Developments."

In 2011, we also entered into a joint-venture agreement with Inversiones HSG, S.A. ("IHSG"), which is part of CorpGroup in Chile. This is expected to serve as the basis for our expansion into Chile and Peru. During the term of the joint venture, we and IHSG have agreed to direct our investments in a coordinated manner.

We expect to consider strategically entering into similar joint-venture agreements with similar terms in order to continue our planned expansion into other parts of Latin America.

With respect to each co-owned hotel, we, through our subsidiaries, agree to certain transfer restrictions including preemptive rights, rights of first refusal and the tag-along rights with our local investment partners.

We have also entered into an agreement with IFC, pursuant to which we have agreed (so long as IFC is a shareholder) to (i) comply with certain guidelines established by IFC in respect of anti-corruption, environmental and health and safety matters and (ii) provide certain information to IFC, as permitted by applicable law, in connection with our compliance with such covenants.

Intellectual Property

We regard the protection of our three brands and their associated name recognition as integral to our success. As of the close of 2012, we had secured the intellectual property rights of our three brands in Mexico and in Central America and most countries in South America. This includes registering our brands with the respective intellectual property authorities as mixed (or logo-based) and nominative trademarks. We have sought similar protection of mixed and nominative trademarks for our *City premios* program in Mexico.

Our *City express* brand has also received a designation as a "well-known brand" in Mexico, which is awarded by the same intellectual property authorities based on independent studies of market brand recognition.

We also have licenses to operate the third-party software used in our central reservation system and operations platforms.

Employees

As of December 31, 2012, we had a total of 1,808 employees, 1,566 of which were directly involved with hotel operations and 242 of which worked in our central office. Approximately 45% of our personnel at the hotels are unionized, and we have never had any material labor disputes or issues during our history. We believe that we maintain a good relationship with our employees and the unions to which they belong.

Legal Proceedings

Except as otherwise described herein, we are not, and our subsidiaries are not, presently involved in any material litigation nor, to our knowledge, is any material litigation threatened against us, our properties or our subsidiaries, the resolution of which could result in a material adverse effect on our operations. We, our subsidiaries

and our directors, management and employees may from time to time be involved in routine litigation arising in the ordinary course of business. See "Risk Factors—Risks Related to our Business—We are subject to risks related to litigation filed by or against us."

Corporate Information

Our principal office is located at Juan Salvador Agraz 69, 12º Piso, Col. Zedec Santa Fe, Cuajimalpa, 05300 México, D.F.

MANAGEMENT AND CORPORATE GOVERNANCE

Pursuant to our bylaws, we are managed by a board of directors. Following the completion of this offering, we will be subject to certain corporate governance and management rules established in our bylaws and the LMV, as discussed below. This discussion does not purport to be complete and is qualified by reference to our bylaws, and the applicable provisions of the LGSM and the regulations of the CNBV and the BMV.

Our Board of Directors

Our Board of Directors is responsible for the management of our business. It meets at least once every quarter, and can meet extraordinarily as necessary. Our Board of Directors currently consists of nine principal members and their respective alternate members, appointed at the ordinary and extraordinary shareholders' meetings held on May 22, 2013. Pursuant to the LMV, at least 25% of the members of the Board of Directors must be "independent," as such term is defined in the LMV.

Members of our Board of Directors will first serve in their position for a period of two years from the date of the global offering. On the second anniversary of the global offering, and at every general shareholders' meeting thereafter, the shareholders, at the general shareholders' meeting, shall remove, designate or ratify, as the case may be, one third of the members of the Board of Directors, based on the recommendations of the Nominating Committee. Subject to certain limited exceptions, members are eligible for reelection or removal if they have not been submitted for reelection or removal at the previous two general shareholders' meetings. Members of our Board of Directors not submitted for reelection during a general shareholders' meeting will be considered to have been ratified in their positions for an additional year. Directors will therefore serve in their positions until removed by the shareholders in accordance with our bylaws, unless a director submits a voluntary resignation or the entire Board of Directors is removed.

In addition, any shareholder that owns 10.0% or more of the shares in circulation may designate a member of the Board of Directors who will hold this post for a period of one year and may be reelected or removed by such shareholder in the following annual general shareholders' meeting. If the majority of shareholders decide to remove a director nominated by a shareholder who exercised this minority right without the vote of such minority shareholder, the majority of shareholders may only do so by removing the entire Board of Directors, provided that if the shareholder that nominated such director no longer holds 10.0% or more of the shares in circulation at the time of the following annual general shareholders' meeting, a majority of the remaining shareholders may vote to reelect or remove such director, without having to remove the rest of the members of the Board of Directors.

The following table sets forth our current directors and their alternates, as applicable, as appointed by our shareholders:

Name	Age	Date of Initial Appointment	Alternate	Age	Date of Initial Appointment
Luis Eduardo Barrios Sánchez (Chairman)	60	2002	Harald Feldhaus Herrmann	70	2002
Armando J. García Segovia*	61	2002	Jorge García Segovia	55	2002
John Timothy Morris*	46	2011	Jonathan Harper	33	2013
Juan Luis Elek Klein*	69	2002	Carlos Bracho González	66	2002
Ricardo Maldonado Sosa*	66	2002	Stefan Ricardo Maldonado Sent	34	2010
Eduardo Raúl Azcárraga Pérez*	43	2002	Luis Emilio Azcárraga Pérez	45	2013
Francisco Andragnes*	43	2013	Jaime Espinosa de los Monteros Cadena	62	2013
Sergio del Valle Cantú*	43	2010	José Antonio Contreras Leyva	52	2010
José Ignacio Mariscal Torroella*	66	2013	Herbert de Sola Wright	65	2013

*Independent Directors.

Luis Eduardo Barrios Sánchez. Mr. Barrios is our current Chairman of the Board of Directors. Mr. Barrios has over 25 years of hospitality industry experience and has been our Chairman of the Board and Chief Executive Officer since our inception. Prior to co-founding our company in 2002, he held several top management positions at Grupo Posadas, one of the largest hotel operators in Latin America, including Chief Executive Officer (1994-1999) and Chief Financial Officer (1986-1993). He was responsible for leading Grupo Posadas' IPO in 1992. During his tenure at Grupo Posadas, he led the company's rapid growth from a local Mexican player to the largest hotel operator in Latin America, based on the number of rooms and hotels at the time of his departure. Mr. Barrios was instrumental in Grupo Posadas' international expansion to Brazil and Argentina through the acquisition of the Caesar Park chain. Additionally, he was responsible for the development of the Fiesta Inn brand, which was the first business travel hotel chain in Mexico.

Mr. Barrios also participates in the Board of Directors of Corporación Actinver, S.A.B. de C.V., Consejo Consultivo Metropolitano de NAFINSA, Asociación Mexicana de Hoteles de la Ciudad de México, A.C. and Asociación Mexicana de Cadenas de Hoteles. Mr. Barrios holds a degree in Systems Engineering from the Universidad Iberoamericana, as well as a Master's degree in Business Administration from the University of Texas.

Armando J. García Segovia. Mr. García currently serves as a member of the boards of directors of CEMEX, S.A.B. de C.V., Grupo Cementos de Chihuahua, S.A.B. de C.V. and Innovación y Conveniencia, S.A. de C.V. (ICONN). He also chairs the board of the Escuela de Ingeniería y Tecnologías del ITESM at the Instituto Tecnológico y de Estudios Superiores de Monterrey. Mr. García is also a member of the board of directors of the University of Monterrey and of various entities associated with sustainability and conservation, including Unidos para la Conservación, A.C., Pronatura Noreste, A.C., Consejo Consultivo de Flora y Fauna del Estado de Nuevo León and Parques y Vida Silvestre de Nuevo León. He is also founder and chairman of Comenzar de Nuevo, A.C., a

non-profit organization for the prevention, diagnosis and treatment of eating disorders, and he is a founding member of Expertos en Acción, S.C., a consulting firm.

Mr. García formerly served in several top management positions at CEMEX, including as Director of all CEMEX operations, General Director of Development, Executive Vice President of Development and, most recently, Executive Vice President of Technology, Energy and Sustainability at CEMEX. He also was chairman of the boards of the Comisión de Estudios del Sector Privado para el Desarrollo Sustentable (CESPEDES), a private research center for sustainable development, Gas Industrial de Monterrey, S.A. de C.V., Aeropuerto Internacional del Norte, S.C. and Casino Monterrey, S.C. He also served as a member of the boards of the Executive Committee of COPARMEX, the World Environmental Center, Grupo Aeroportuario Centro Norte, S.A.B. de C.V., Compañía Industrial de Parras, S.A. de C.V. and Universidad Regiomontana. Mr. García holds a degree in mechanical engineering and business administration from the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and has a Master's degree in Business Administration from the University of Texas.

J. Timothy Morris. Mr. Morris is currently founder and partner of Proprium Capital Partners, LLC. Prior to founding Proprium Capital Partners, Mr. Morris served as a Managing Director at Morgan Stanley and as Chief Investment Officer of Morgan Stanley's Real Estate Special Situations Funds, where he gained extensive experience in managing international real estate investments. Mr. Morris has served on the Boards of Directors of several public, as well as private, real estate companies in Europe, Latin America, Asia and the U.S., including Fadesa, American Industrial Properties, Motel 168, Grove Property Trust, Tower Realty, Atlas and WNY Properties. Mr. Morris also serves on the Board of Trustees for Greenwich Academy in Greenwich, Connecticut, among other educational and youth-related public commitments. Mr. Morris is also a member of the Dean's Advisory Council for the Kelley School of Business at Indiana University. He received a Bachelor's degree in Finance from Indiana University in 1988.

Juan Luis Elek Klein. Mr. Elek is the founder and co-chairman of Elek, Moreno Valle y Asociados (EMVA), a premier investment banking firm in Mexico founded in 1986. He served for six years as deputy president of Banamex and nine years at Citibank, N.A., including two years in New York, two years managing Citibank's Canadian operations, and two years running its Mexican operations. He is a member of the boards of various companies and participates actively in those in which EMVA acts as a principal. He has also served as chairman of the board of Compañía Industrial San Cristóbal (Scott Paper Co.) and has served on the boards of Banamex, Cementos Apasco, Mastercard International, Seguros America, Compañía Hulera Euzkadi, Química Borden, Intermex in London, Farmacias Benavides, Mex-Capital, Korn Ferry, Sulzer Hermanos and Centex Corporation in Dallas, Texas.

Mr. Elek also formerly served as president and chair of the Mexico-U.S. Bilateral Committee and the Mexican Business Council for International Affairs (C.E.M.A.I.). He has served as vice president of the National Museum of Art in Mexico (MUNAL), the Centro Mexicano de la Filantropía and The Americas Society, and he was elected to the Board of Trustees of Southern Methodist University (SMU) in 2001. He was also honored by the Brazilian Government for promoting international trade and investment. Mr. Elek earned degrees from Central Methodist College in Fayette, Missouri and Harvard Business School in Cambridge, Massachusetts.

Ricardo Maldonado Sosa. Mr. Maldonado currently serves as a member of the Regional Advisory Board of BBVA Bancomer and the Advisory Committee of the Universidad Loyola del Pacífico, and he previously was a member of the Mexican Institute of Financial Executives (IMEF). He has been involved as an investor in several hospitality ventures both in Mexico and the United States. Mr. Maldonado is a Certified Public Account and also has a degree in advanced management studies from the Universidad Autónoma de Nuevo León.

Eduardo Raúl Azcárraga Pérez. Mr. Azcárraga currently serves as CEO of Inmobiliaria y Desarrolladora Destin, S.A. de C.V. and of Fraccionadora Villa Las Fuentes, S.A. de C.V. He has served in various companies in the fields of real estate development, information technology and financing. He also has served as member of the boards and audit committees for Corporación MDS, S.A. de C.V. and Valle Alto Club de Golf A.C. Mr. Azcárraga has a degree in computer systems engineering from the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) as well as a Master's degree in business and finance from the EGADE Business School in Monterrey.

Francisco Andragnes. Mr. Andragnes currently serves as Managing Partner at Metro Building LLC, a real estate development company that focuses on major Latin American metropolitan areas, as well as managing Fondo Compass de Desarrollo y Renta Residencial Mexico, a residential rental property fund that he also co-founded with Compass Group. Mr. Andragnes has extensive experience in Latin American real estate. He previously served as Chief Investment Officer and Head of Transactions for Latin America for Prudential Real Estate Investors, and he was also previously a real estate consultant for Ernst and Young in Buenos Aires. Mr. Andragnes also served as a member of the Board of Directors of Paz Corp, S.A., a Chilean homebuilder, and has independently consulted for Pulte Homes Corporation. Mr. Andragnes holds a Bachelor's degree in Management from the University of Buenos Aires, where he has also served as adjunct professor, and a Master's degree in Real Estate Development from Columbia University.

Sergio del Valle Cantú. Mr. del Valle is Managing Partner at WAMEX Private Equity and responsible for operations of the funds and investor relations. He joined WAMEX Private Equity in 2001. He is also a member of the boards of directors of WCAP Holdings, S.A.P.I. de C.V. and Productos Medix, S.A.P.I. de C.V. and has served as a member of the boards of directors of several portfolio companies of the funds managed by WAMEX. Mr. del Valle has significant experience in mergers and acquisitions and in corporate finance. He worked for Bankers Trust Mexico and for its acquirer Deutsche Bank in structuring debt in local currency and promoting capital markets products, private equity and M&A. Previously, he served as Coordinator of the Vice Presidency of Finance with Grupo Televisa and as Mergers & Acquisitions Manager at OBSA Serfin. Mr. del Valle holds an engineering degree from the Universidad Panamericana and has a graduate degree from the Instituto Panamericano de Alta Dirección de Empresas (IPADE).

José Ignacio Mariscal Torroella. Mr. Mariscal currently serves as Executive President of Grupo Marhnos, S.A. de C.V. and Vice President of FinComún Servicios Fincancieros Comunitarios. He is a member of the Board of Directors of Grupo Bimbo, S.A.B. de C.V.; at Grupo Bimbo, Mr. Mariscal also presides over the Planning and Finance Committee of the Board of Directors. In addition, he serves on the Boards of Directors of Grupo Aserta, S.A. de C.V. and Grupo Calidra, S.A. de C.V. Mr. Mariscal also participates in the leadership of several public organizations. He is a member of the executive commision and presides over the committee for human development of COPARMEX, the Employers' Association of Mexico, and has been president of USEM, the Employers' Social Union of Mexico, in which he now serves as a member of the council of the national USEM and of the advisory boards of both the national and Mexico City USEM organizations. Mr. Mariscal also currently serves as the Vice President of the Business and Industry Advisory Council to the OECD and as president of the Committee for a Single Economy Within the Law within the Business Coordinating Council. Further, Mr. Mariscal leads the Fundación Leon XII, a charity that serves the needy in Oaxaca. Mr. Mariscal graduated with a degree in architecture from the Universidad Autónoma de México; he also has a Master's degree in Business Administration from Columbia University and a degree from the Advanced Management Program at Harvard University.

Actions of the Board

Our Board of Directors is our legal representative and is authorized to take any action, as a collegiate body, in connection with our operations not expressly reserved to our shareholders.

The Board of Directors must approve, among other matters:

- our general strategy;
- with the prior opinion from our Audit and Corporate Practices Committees, on an individual basis: (1) transactions with related parties, subject to very limited exceptions, (2) the election of our Chief Executive Officer, his compensation and removal for just cause and policies for the description and comprehensive remuneration of other members of our senior management, (3) the guidelines on our internal control and internal audit and those of our subsidiaries; (4) our financial statements and those of our subsidiaries, and (5) contracts with external auditors;
- the calling of shareholders' meetings;

- the creation of special committees and granting them power and authority, provided that the committees will not have the authority which, by law, or under our bylaws is expressly reserved for the shareholders or our Board of Directors; and
- the exercise of our general powers in order to fulfill our corporate purpose.

Meetings of the Board of Directors will be validly convened and held if a majority of our members are present. Resolutions at the meetings will be valid if approved by a majority of the directors.

Meetings of our Board of Directors may be called by (i) 25% of our board members, (ii) the Chairman of the Board of Directors, or (iii) the Chairman of the audit committee or the corporate practices committee.

The Mexican Securities Market Law imposes a duty of care and a duty of loyalty on our directors. For further information see "The Mexican Securities Market—The Mexican Securities Market Law."

Members of the Board of Directors with a conflict of interest and, if applicable, the secretary of the Board of Directors, must abstain from participating and being present during the deliberation and voting of the matter at the relevant Board of Directors or committee meeting, without this affecting the necessary quorum for that particular meeting.

Members of the Board of Directors and the secretary of the Board of Directors will breach their duty of loyalty to us and be liable for damages to us and, if applicable, our subsidiaries, if they have a conflict of interest and they vote or make a decision with respect to us or our subsidiary's assets or if they fail to disclose any conflict of interest they may have unless confidentiality duties prevent them from disclosing such conflict.

Each of our committees may create one more sub-committee to receive support in the execution of its obligations. The forming committee has the authority to appoint or remove the members of the sub-committee and determine its authority.

Our Committees

Our Audit, Corporate Practices, Planning and Finance and Nominating Committees are each comprised of at least three members. The members of our Audit and Corporate Practices Committee were each appointed at the general ordinary and extraordinary shareholders' meeting held on May 22, 2013. Following the completion of the global offering, the members of our Audit and Corporate Practices Committees will be independent pursuant to Article 26 of the LMV.

As set forth in our bylaws, our Audit, Corporate Practices and Planning and Finance Committees and our Nominating Committee may be merged at any time with the approval of our Board of Directors, as long as the duties of each committee are all allocated to the merged committee or sub-committees and they meet the requirements of the LMV.

In addition, we have also established a Procurement and Construction Committee and a Compensation Committee.

Audit Committee

The LMV requires us to have an audit committee, which must be comprised of at least three independent members appointed by the Board of Directors (except in the case of corporations controlled by a person or corporate group holding 50.0% or more of the outstanding capital stock, in which case the majority of the members must be independent).

We established our Audit Committee at our general ordinary and extraordinary shareholders' meeting held on May 22, 2013. Our Audit Committee members are Jaime Espinoza de los Monteros Cadena, Sergio del Valle Cantú and Carlos Bracho Gonzalez. We believe that all of the members of our Audit Committee are independent, as set

forth in our bylaws and pursuant to LMV standards, and that each member qualifies as a financial expert. However, standards for independence and financial expertise under the LMV differ from those under the New York Stock Exchange, NASDAQ or U.S. securities law standards, which our Audit Committee members are not required to meet.

Our Audit Committee's principal duties are the following:

- make recommendations to our Board of Directors regarding the appointment and removal of our external auditors;
- supervise our external auditors and analyze their reports;
- analyze and supervise the preparation of our financial statements;
- inform the Board of Directors about our internal controls and their adequacy;
- assist our Board of Directors in the preparation of a report about the operations and activities in which our board of directors has intervened pursuant to the LMV;
- receive and analyze recommendations and observations from the shareholders, members of the Board of Directors, members of our senior management, our external auditors or any third party and take the necessary actions based on such recommendations or observations;
- call shareholders' meetings;
- oversee the execution by our chief executive officer of resolutions by the shareholders or the Board of Directors in accordance with the instructions provided by the shareholders or the Board of Directors in such resolutions; and
- provide a report of its activities to our Board of Directors.

Corporate Practices Committee

The current members of our Corporate Practices Committee were appointed at our general ordinary shareholders' meeting held on May 22, 2013; those members are José Antonio Contreras Leyva, Eduardo Raúl Azcárraga Pérez, José Ignacio Mariscal Torroella and Francisco Andragnes. In accordance with the provisions of the LMV and our bylaws, all of the members of our Corporate Practices Committee are independent.

The Corporate Practices Committee's principal duties are the following:

- provide opinions and recommendations to our Board of Directors;
- provide assistance to our Board of Directors in the preparation of reports about the main accounting and information guidelines used in the preparation of financial information;
- provide assistance to our Board of Directors in the election of our chief executive officer compensation and comprehensive remuneration of the other members of our senior management;
- provide assistance to our Board of Directors in the preparation of reports for the annual shareholders' meeting;
- request and obtain opinions and recommendations from independent experts; and
- call shareholders' meetings.

Planning and Finance Committee

The Board of Directors will appoint three members to our Planning and Finance Committee.

The Planning and Finance Committee's principal duties are the following:

- analyze and evaluate our long-term business plan, including financial structure and organizational resources; and

- opine on fund raising efforts (equity and debt), new products and international expansion.

Nominating Committee

The Board of Directors will appoint three members to form our Nominating Committee, which will have the following functions:

- To identify and evaluate candidates for election or designation as members of our Board of Directors;

- To make recommendations to the Board of Directors regarding individuals to be appointed members of the Board of Directors; and

- To propose to the Board of Directors the compensation to be paid to the independent members of the Board of Directors as well as the members of the Board of Directors appointed by our shareholders.

Additional Committees

We have also established a Procurement and Construction Committee and a Compensation Committee. The Procurement and Construction Committee's responsibilities include:

- optimizing cost, quality and time considerations in the development of new projects;

- defining and reviewing bidding processes for fairness and lack of conflicts of interest;

- reviewing the analyses and recommendations of management prior to assigning construction and installation contracts; and

- overseeing the purchase of FF&E for our hotels.

The Compensation Committee's responsibilities include:

- defining compensation policy and performance evaluation for our senior management;

- utilizing best practices for market compensation to align the interest of our shareholders with that of our senior management;

- analyzing best practices through market data research, including through the use of specialized external consultants; and

- developing plans for senior management succession.

Our Main Executive Officers

The following table lists the names, ages, positions and years of service of our main executive officers:

Name	Age	Position	Year of Joining the Company
Luis Eduardo Barrios Sánchez	60	Chief Executive Officer	2002
Francisco Javier Arce Gándara	50	Chief Development Officer	2002
Roberto Palacios Prieto	39	Chief Financial Officer	2006
Rogelio Avedaño Martínez	50	Chief Operating Officer	2003
Blanca Aidee Herrera Colmenero	49	Chief Marketing and Franchise Services Officer	2002
Francisco José Fabregat Ramírez	47	Chief IT and Systems Officer	2002

The following sets forth biographical information for our main executive officers.

Luis Eduardo Barrios Sánchez, Chairman of the Board of Directors and Chief Executive Officer

For Mr. Barrios' biography, see "—Our Board of Directors."

Francisco Javier Arce Gándara, Chief Development Officer

Mr. Arce has over 17 years of experience in hotel development and supervision and is responsible for the development of each of our hotels, including land sourcing, selection and acquisition, architectural planning, budgeting, contractor selection and construction supervision. Prior to co-founding Hoteles City Express, Mr. Arce was previously with Posadas, where he was Manager of Development and Land Acquisitions. During his career, Mr. Arce and his development team have been responsible for the cumulative development of over 16,000 hotel rooms across Mexico and other countries in Latin America, such as Costa Rica, Colombia and Chile. Mr. Arce has a degree in Industrial Engineering and a Master's degree in Business Administration, both from the Universidad del Valle de Mexico.

Roberto Palacios Prieto, Chief Financial Officer

Mr. Palacios has been with our company since 2006. Mr. Palacios is responsible for our finance, planning, administration, business development and legal activities. Mr. Palacios has managed the structuring, capital-raising and debt financing supporting the development of hotels during his tenure at Hoteles City. Prior to joining Hoteles City, Mr. Palacios served as Operations Director in Grupo Dupuis and previously worked for the investment banking division of Goldman, Sachs & Co. and Protego (Evercore Partners). Mr. Palacios holds a Business Administration degree from the Instituto Tecnológico Autónomo de Mexico, as well as a master's degree in Business Administration from Stanford University Graduate School of Business.

Rogelio Avendaño Martínez, Chief Operating Officer

Mr. Avendaño has been with us since 2003 and has over 20 years of industry specific expertise in hotel management, operations and human resources. Mr. Avendaño has had direct managerial hotel responsibilities with Posadas (in Fiesta Americana and Fiesta Inn), InterContinental Hotels Group (Crowne Plaza and Holiday Inn) and

other hotel brands. Mr. Avendaño has headed our hotel operations since 2003. Mr. Avendaño holds a degree in Business Administration and has completed advanced management studies through the IPADE and ITESM/IE executive business studies programs.

Blanca Aidee Herrera Colmenero, Chief Marketing and Franchise Services Officer

Ms. Herrera joined our company in 2002 and was previously a manager in the market research and marketing team of Posadas. Ms. Herrera obtained broad experience in market research by initiating her career at Fomento Turistico Banamex. Ms. Herrera has more than 20 years of experience in the tourism industry and has led our marketing, commercial and distribution initiatives. Ms. Herrera holds a degree in Tourism from the National Polytechnic Institute and has completed advanced management studies through IPADE's executive business studies program.

Francisco José Fabregat Ramírez, Chief IT and Systems Officer

Mr. Fabregat has been with us since 2002 and previously headed the IT department at GMAC Mexico, Posadas, and Serfin (now Banco Santander). Mr. Fabregat has over 20 years of experience in technology management and IT infrastructure development. Mr. Fabregat designed our IT platform at our founding and has since grown, enhanced and implemented the product. Mr. Fabregat holds an engineering degree in Information Technology and Systems and various advanced certifications from IT hardware and service providers.

Compensation of Directors and Executive Officers

Salaries and benefits received by our senior officers that were paid or accrued by us in 2012 and 2011 amounted to Ps.43.3 million and 38.0 million, respectively, consisting of base salary amounts, benefits and variable compensation programs.

Business Address of the Members of our Board of Directors and Main Executive Officers

The business address of the members of our company's Board of Directors and the members of our senior management is: Juan Salvador Agraz 69, 12º Piso, Col. Zedec Santa Fe, Cuajimalpa 05300, México, Distrito Federal, Mexico.

Share Subscription Agreements

Certain of our officers executed on May 15, 2013 share subscription agreements to acquire our shares. Pursuant to such Share Subscription Agreements, these officers have subscribed to and partially paid for an aggregate total of 6,517,092 of our shares, which have been deposited in a management trust. See "Principal and Selling Shareholders." The obligation to pay the remaining portion of the subscription price is contingent upon our meeting certain performance metrics each year for a four year period following the date of the global offering. These shares may be redeemed by us at any time for an amount equal to the subscription price that would have been paid up until the time of redemption, even if the performance metrics established in the relevant Share Subscription Agreements have not been met. As long as the shares have not been paid in full, they will be voted in the same manner as the majority of our other shares, and once the subscriptions are paid in full, they will be released from such voting trust and can be freely voted. The relevant officers have entered into loan agreements to cover payments related to the subscription and pledged the relevant shares as security for payment. The shares are to be released from the pledge upon full payment of the amounts due under the relevant loan agreements.

External Auditors

Our independent auditors are Galaz, Yamazaki, Ruíz Urquiza, S.C., members of Deloitte Touche Tohmatsu Limited, whose offices are located in Mexico City. Our independent auditors were appointed by the Audit Committee and ratified at a general shareholders' meeting.

Our independent auditor has served as our external auditor since fiscal year 2010. In the past three years, they have not issued a qualified opinion or a negative opinion, nor have they refrained from giving an opinion on our financial statements.

Share Ownership

See "Principal and Selling Shareholders" for a description of the current ownership of our capital stock by directors and executive officers.

PRINCIPAL AND SELLING SHAREHOLDERS

The table below sets forth certain information regarding the ownership of our capital structure as of May 22, 2013 and after giving effect to the global offering by (i) each person that owns more than 5.0% of our capital stock and (ii) each of the directors and executive officers who owns more than 1.0% of our capital stock.

	Shares owned prior to the global offering		**Shares to be sold in the global offering**		**Shares owned after the global offering**	
Name of shareholder	**Number**	**%**	**Number**	**%**	**Number**	**%[7]**
Affiliates of Morgan Stanley[1]*	45,689,970	22.40%	9,137,994	4.48%	36,551,976	13.29%
IFC (directly and indirectly)[2]	31,940,400	15.66%	6,388,080	3.13%	25,552,320	9.29%
Management Trust No. 206 (Trust Banco Actinver, S.A., Institución de Banca Múltiple, Grupo Financiero Actinver)[3]*	14,176,971	6.95%	—	—	14,176,971	5.15%
Affiliates of Wamex[4]	12,032,448	5.90%	2,406,490	1.18%	9,625,958	3.50%
Juan Luis Elek Klein*	8,466,360	4.15%	1,693,272	0.83%	6,773,088	2.46%
Armando J. García Segovia*.......	6,956,898	3.41%	1,391,380	0.68%	5,565,518	2.02%
Jorge García Segovia*	5,938,278	2.91%	1,187,656	0.58%	4,750,622	1.73%
Management Trust No. 908 (with Actinver Casa de Bolsa, S.A. de C.V. Grupo Financiero Actinver as Trustee)[5]	6,517,092	3.20%	—	—	6,517,092	2.37%
Stefan Maldonado Sent*	4,563,849	2.24%	912,770	0.45%	3,651,079	1.33%
Management Trust No. 208 (with Banco Actinver, S.A., Institución de Banca Múltiple, Grupo Financiero Actinver as Trustee) [3]	4,056,435	1.99%	—	—	4,056,435	1.47%
Eduardo Raúl Azcárraga Pérez*	3,423,822	1.68%	684,764	0.34%	2,739,058	1.00%
Luis Emilio Azcárraga Pérez*	3,422,571	1.68%	684,514	0.34%	2,738,057	1.00%
Carlos Bracho González*	2,546,481	1.25%	509,296	0.25%	2,037,185	0.74%
Luis Eduardo Barrios Sánchez*[6]	1,200,000	0.59%	1,200,000	0.59%	—	—
Harald Feldhaus Hermann*[6]	149,100	0.07%	149,100	0.07%	—	—
Former subsidiary investment partners	12,185,724	5.97%	—	—	12,185,724	4.43%
Other	40,690,728	19.95%	8,138,146	3.99%	32,552,582	11.83%
Total	203,957,127	100.00%	34,483,462	16.91%	169,473,665	61.60%

* Shareholders with an asterisk appearing next to their respective names are expected to sell shares in the Mexican offering.

(1) Includes shares held by Vaarn BVBA and Jardenne Corporation, S.àr.l.. Affiliates of Morgan Stanley are acting as initial purchaser and Mexican underwriter for this global offering.

(2) Includes shares held by ALAC (Belgium) Holding Company, N.V. IFC has granted loans to certain of our subsidiaries. See "Related Party Transactions."

(3) Members of our management (and in respect of Management Trust No. 208, certain friends and family of management) have entered into this trust, which holds their equity interests in us. Voting and control of the shares within the trust is directed by select members of senior management.

(4) Includes WAMEX Participaciones, S.A.P.I. de C.V., Multinational Industrial Fund II LP and Irrevocable Trust No. F/00618, with Bank of New York Mellon, S.A. Institución de Banca Múltiple as trustee, who together vote their combined shares.

(5) Trust created to hold the shares issued pursuant to share subscription agreements with certain members of our management. See "Management and Corporate Governance—Share Subscription Agreements." The shares within the trust are voted as a block with the majority vote.

(6) Although Luis Eduardo Barrios Sánchez and Harald Feldhaus Hermann are selling all the shares that they hold directly immediately prior to the offering, each remains a member of our Board of Directors and an indirect shareholder as beneficiary of Management Trust No. 206.

(7) Assuming no exercise of the option to purchase additional shares.

The above table reflects the effectiveness of the Stock Split and the completion of the Roll-Up Transactions, pursuant to which our former subsidiary partners obtained an equity interest in us. See also "Summary—Recent Developments."

In addition to the selling shareholders that are principal shareholders as set forth in the table above, the following shareholders are also selling shares in the Mexican offering. The table below sets forth ownership of our capital structure as of May 22, 2013 and reflects the effectiveness of the Stock Split.

	Shares owned prior to the global offering		Shares to be sold in the global offering		Shares owned after the global offering	
Name of shareholder	**Number**	**%**	**Number**	**%**	**Number**	**%[1]**
Alberto Ignacio Sánchez Palazuelos	5,955,900	2.92%	1,191,180	0.58%	4,764,720	1.73%
Oliver Carlos Maldonado Sent	4,563,843	2.24%	912,769	0.45%	3,651,074	1.33%
Melanie Gisela Maldonado Sent	4,563,843	2.24%	912,769	0.45%	3,651,074	1.33%
Rafael Moreno Valle Suarez	4,039,671	1.98%	807,934	0.40%	3,231,737	1.17%
Victor Zorrilla Vargas	3,708,450	1.82%	741,690	0.36%	2,966,760	1.08%
Joel Zorrilla Vargas	3,708,450	1.82%	741,690	0.36%	2,966,760	1.08%
Rafael Moreno Valle Rosas	3,600,000	1.77%	720,000	0.35%	2,880,000	1.05%
Claudia del Carmen Azcárraga Bortoni	3,422,571	1.68%	684,514	0.34%	2,738,057	1.00%
Mauricio Román Azcárraga Bortoni	3,422,571	1.68%	684,514	0.34%	2,738,057	1.00%
Gerardo Andrés López Angulo	1,014,192	0.50%	202,839	0.10%	811,353	0.29%
Daniela Cristina López Angulo	1,014,186	0.50%	202,837	0.10%	811,349	0.29%
Barbara Veronica López Angulo	1,014,186	0.50%	202,837	0.10%	811,349	0.29%
Trust No. 851-00587 (with Banco Regional de Monterrey, S.A., Institución de Banca Múltiple, Banregio Grupo Financiero	662,865	0.33%	132,573	0.07%	530,292	0.19%

(1) Assuming no exercise of the option to purchase additional shares.

Participation in the global offering in Mexico by the selling shareholders will not result in a complete divestiture of their equity interests in us as each selling shareholder will continue to hold, directly or indirectly, shares after the Mexican offering.

Liquidity Agreement

All of our existing shareholders prior to the global offering, including the above-described investment partners that subscribed for shares of our capital stock pursuant to the Roll-Up Transactions, have entered into a Liquidity Agreement (the "Liquidity Agreement"), which will be effective as of the consummation of the global offering. Pursuant to the Liquidity Agreement, such shareholders have agreed, subject to certain exceptions, to certain rules and restrictions regarding the sale and disposition of the shares that are owned by them following the global offering (the "Restricted Shares"). In accordance with the Liquidity Agreement, every six months after the expiration of the Lock-up Agreements, a predetermined number of Restricted Shares will be released and will become freely transferable, such that at the end of a 540-day period following the expiration of the Lock-up Agreements all of the

Restricted Shares will have been released. An ad-hoc committee may increase the number of Restricted Shares or accelerate the foregoing calendar to release Restricted Shares in advance on the basis of, and after taking into consideration, market conditions and the trading performance of the shares. Such ad-hoc committee may also organize book-building efforts during the restricted period through which the shareholders that are bound to the Liquidity Agreement may sell their Restricted Shares as part of a block sale during the restricted period. Additionally, the shareholders will be entitled to sell their Restricted Shares: (i) in private transactions outside of the BMV, subject to the tag-along rights that may be exercised by the rest of the shareholders that are bound by the Liquidity Agreement and provided that the purchaser becomes a party to the Liquidity Agreement; (ii) to their affiliates, without being subject to such aforementioned tag-along rights, provided that the purchaser becomes a party to the Liquidity Agreement; (iii) in secondary tranches of any offerings that may be undertaken by us, with the prior consent of the shareholders; or (iv) as part of a transaction involving 100% of our shares that has been approved by our Board of Directors or during a shareholders' meeting in accordance with our bylaws, in which case shareholders bound by the Liquidity Agreement will be entitled to participate pro rata based on their ownership of Restricted Shares held at such time. The Liquidity Agreement shall automatically terminate: (i) upon the agreement of all signatories thereto; (ii) in the event of a dissolution or liquidation of our company; (iii) upon the reaching or surpassing of certain thresholds regarding the trading price of our shares; (iv) if Luis Eduardo Barrios Sánchez ceases to serve as our CEO and Chairman of our Board of Directors; or (v) when there are no more Restricted Shares. Further, the Liquidity Agreement shall terminate with respect to any shareholder if such shareholder ceases to hold Restricted Shares. Notwithstanding the above, the right of the shareholders that are bound by the Liquidity Agreement to take part in secondary tranches of any offering organized by us shall remain in effect for a period of three years following the termination of the Liquidity Agreement. In addition, Luis Eduardo Barrios Sánchez has agreed that in certain cases of his voluntary resignation, 33.0% of his Restricted Shares will remain subject to the transfer restrictions for a period of two years following such resignation, unless a public tender offer for 100.0% of our shares takes place.

RELATED PARTY TRANSACTIONS

As of the date of this offering memorandum, we have not entered into any other transaction with any entity in which we hold more than 10.0% of the outstanding voting shares or with any of our shareholders holding more than 10.0% of our outstanding voting shares other than as disclosed below.

Currently, one of our subsidiaries has entered into a transaction with IFC (International Finance Corporation), our shareholder, for a line of credit in an amount of approximately US$210.2 million, the terms of which, in our opinion and that of our subsidiary, are substantially in accordance with market conditions.

We have also entered into an agreement with IFC, pursuant to which we have agreed (so long as IFC is a shareholder) to (i) comply with certain guidelines established by IFC in respect of anti-corruption, environmental and health and safety matters and (ii) provide certain information to IFC, as permitted by applicable law, in connection with our compliance with such covenants.

We and certain shareholders have entered into a Liquidity Agreement with respect to shares held by such shareholders at the time of the global offering. See "Principal and Selling Shareholders."

DESCRIPTION OF OUR CAPITAL STOCK AND CORPORATE BYLAWS

Set forth below is a description of our capital stock and a brief summary of certain significant provisions of our bylaws and Mexican law relating to our shares and capital stock. This description does not purport to be complete and is qualified in its entirety by reference to our bylaws and Mexican law.

We were incorporated on April 16, 2002 in Mexico City, Mexico, under the corporate name ''Hoteles City Express, S.A.de C.V.'' as a variable capital corporation (*sociedad anónima de capital variable*) organized pursuant to the LGSM. On October 23, 2007, we adopted the form of a variable capital investment stock corporation (*sociedad anónima promotora de inversión de capital variable*), amended our bylaws in their entirety and changed our corporate name to Hoteles City Express, S.A.P.I. de C.V. On or before the closing of the offer, we expect to hold an ordinary and extraordinary shareholders' meeting during which our shareholders will approve the amendment and restatement of our bylaws in their entirety to conform them to the provisions of the LMV (applicable to public corporations), to adopt the form of a listed variable capital stock corporation (*sociedad anónima bursátil de capital variable*) and to change our name to ''Hoteles City Express, S.A.B. de C.V.'' However, the financial information included in this offering memorandum and in our Financial Statements is for Hoteles City Express, S.A.P.I. de C.V. A copy of our bylaws, as amended, has been filed with, and can be examined at, the CNBV and the BMV and is available for review at www.bmv.com.mx.

The duration of our company is indefinite. We are a holding company and conduct all of our operations through our subsidiaries. Our corporate domicile is in the Federal District of Mexico City, our headquarters are located at Juan Salvador Agraz 69, 12º Piso, Col. Zedec Santa Fe, Cuajimalpa 05300, México, Distrito Federal, and our telephone number at that office is +52 55 5249 8050.

Capital Stock

Because we are a variable capital stock corporation, our capital stock must have a fixed portion and may have a variable portion. As of the date of this offering memorandum and giving effect to the Stock Split, our issued and outstanding share capital consists of 203,957,127 ordinary, nominative, no par value shares of common stock, of which 300 represent the fixed portion of our capital stock and 203,956,827 the variable portion of our capital stock. Immediately after giving effect to the global offering, assuming the initial purchasers and the Mexican underwriters do not exercise their option to purchase additional shares from us, 275,111,459 shares will be outstanding. Our shares may be issued to, paid for and held by either Mexican or non-Mexican investors.

Voting Rights and Shareholders' Meetings

All of our shares have full voting rights. Each share entitles the holder to one vote at any meeting of our shareholders.

Under our current bylaws, we may hold two types of shareholders' meetings, special or general, and general meetings may be ordinary or extraordinary. Ordinary shareholders' meetings are those called to discuss any issue not reserved for extraordinary shareholders' meetings. An annual ordinary shareholders' meeting must be held at least once a year within the first four months following the end of each fiscal year to discuss, among other things, the approval of our financial statements, the report prepared by the Board of Directors on our financial statements, the appointment of the principal and alternate members of the Board of Directors, the reports of the chairman of the Audit Committee and the chairman of the Corporate Practices Committee, the report of our CEO, and the determination of compensation for members of the Board of Directors.

Extraordinary shareholders' meetings are those called to consider any of the following matters, among other things:

- the cancellation of the registration of the shares representative of our capital stock with the RNV or with any national or foreign stock exchange in which such shares are traded;
- an extension of the our duration;

- our dissolution;
- an increase or decrease in the fixed portion of the our capital stock or in the terms of Article 53 of the LMV;
- a change in our corporate purpose or nationality;
- any transformation, merger or spin-off involving us;
- any stock redemption or issuance of preferred stock;
- redemption of our shares payable with retained earnings;
- the issuance of bonds, debentures, obligations, debt or capital instruments or any instrument;
- amendments to our bylaws; and
- any other matters for which applicable Mexican law or the bylaws specifically require an extraordinary meeting.

Shareholders' meetings are required to be held at our corporate domicile in México City, Federal District, excepting cases of unforeseen circumstances or force majeure. The Board of Directors, the Secretary or Chairman of the Board of Directors, the Corporate Practices Committee, the Audit Committee or a Mexican court of competent jurisdiction may call a shareholders' meeting. In addition, any shareholder or group of shareholders representing 10.0% of our outstanding capital stock has the right to request that the Board of Directors, the Audit Committee or Corporate Practices Committee, through their Chairman, call a shareholders' meeting to discuss the matters indicated in the relevant request.

Calls for shareholders' meetings must be published in the official gazette of our corporate domicile or in a newspaper of general circulation in México City, Federal District, at least 15 days prior to the date of the meeting. Each call must set forth the agenda for the meeting but cannot not include any general agenda items. The call must be signed by the individual that convened the meeting, in the understanding that if the meeting was called by the Board of Directors, the signature of the chairman, secretary or alternate secretary shall be sufficient. From the date on which a call is published until the date of the corresponding meeting, all relevant information will have to be available to the shareholders at the domicile of the secretary of the Company.

To be admitted to any shareholders' meeting, shareholders must present evidence that their certificates have been deposited with a financial institution, brokerage house or deposit institution at least one day prior to the shareholders' meeting. These documents will be exchanged for certificates issued by us that must be used to be admitted to the meeting. Shareholders may appoint one or more attorneys-in-fact to represent them pursuant to general or special powers of attorney or by a proxy in the form distributed by us 15 days prior to the meeting.

Quorums

Ordinary meetings are legally convened on a first call when at least one more than half of the shares representing our outstanding capital stock are present or duly represented at the meeting. Resolutions at ordinary meetings of shareholders pursuant to a first call are valid when approved by the holders of the majority of the shares present at such meeting. On second or subsequent calls, any number of shares represented at an ordinary meeting of shareholders constitutes a quorum and resolutions are valid when approved by the holders of a majority of the shares represented at the meeting.

Extraordinary shareholders' meetings and special shareholders' meetings are legally convened on a first call when at least 75.0% of the shares representing our outstanding capital are present or duly represented. Resolutions at an extraordinary meeting of shareholders pursuant to a first call are valid when adopted by the holders of at least 50.0% of our capital. On a second or subsequent call, extraordinary shareholders' meetings are legally convened

when at least 50.0% of the shares representing our outstanding capital are present or duly represented. Resolutions at an extraordinary meeting of shareholders pursuant to a second or subsequent call are valid when adopted by the holders of shares representing at least 50.0% of our capital.

Notwithstanding the preceding paragraph, the affirmative vote of shares with or without voting rights (i) representing 75.0% of our outstanding capital stock is required to amend our bylaws (except for provisions relating to change of control, which require 66.0%) and (ii) representing 95.0% of our outstanding capital stock is required to meet and request the cancellation of the registration by the CNBV of our shares with the RNV, pursuant to the provisions of the LMV and other applicable provisions.

Dividends and Distributions

Typically, at an annual ordinary shareholders' meeting, the Board of Directors submits our financial statements for the previous fiscal year to the shareholders for approval. Once shareholders approve the financial statements, they determine the allocation of our net profits for the preceding fiscal year. Pursuant to the law and our bylaws, prior to any distribution of dividends we deduct the amounts that legally correspond to (i) the income tax of the concerning fiscal year; (ii) the payment of profit sharing to our employees, if applicable; (iii) the redemption of losses generated in past fiscal years, if applicable; and (iv) at least 5.0% of our net profits to a legal reserve fund, until such legal reserve fund is equal to at least 20.0% of our paid-in capital stock. As of December 31, 2012, our legal reserve fund contained approximately Ps.2.7 million. Additional amounts may be allocated to other reserve funds as the shareholders may determine, including amounts allocated to a reserve for the repurchase of shares. The remaining balance, if any, may be distributed as dividends.

All shares outstanding at the time a dividend or other distribution is declared are entitled to participate in such dividend or other distribution. If and when we declare dividends, we will distribute through Indeval cash dividends on shares held through Indeval. Any cash dividends on shares evidenced by physical certificates will be paid by surrendering to us the relevant dividend coupon registered in the name of its holder. See "Dividends and Dividend Policy."

While there are currently no restrictions on our ability to pay dividends, certain of our subsidiaries are restricted from paying dividends to us in accordance with their debt obligations.

Changes to our Capital Stock

The fixed portion of our capital stock may be increased or decreased by a resolution adopted by our shareholders in an extraordinary shareholders' meeting, provided that our bylaws are concurrently amended to reflect the increase or decrease in the capital stock. The variable portion of our capital stock may be increased or decreased by our shareholders in an ordinary shareholders' meeting without the amendment of our bylaws.

Increases or decreases in the fixed or variable portion of our capital stock must be recorded in our capital variations registry book, which we are required to maintain under the LGSM. Any minutes from a shareholders' meeting with a resolution increasing or decreasing the fixed portion of our capital stock must be notarized and registered in the Public Registry of Commerce of our corporate domicile whereas the minutes from a shareholders' meeting with a resolution increasing or decreasing the variable portion of our capital stock are only required to be notarized. New shares cannot be issued unless the issued and outstanding shares at the time of the issuance have been paid in full, except in certain limited circumstances.

Share Repurchases

We may choose to acquire our own shares through the BMV on the following terms and conditions:

- the acquisition must be carried out through the BMV;
- the acquisition must be carried out at market price, unless a public offer or auction has been authorized by the CNBV;

- the acquisition must be carried out against our net worth (*capital contable*), without approving a capital stock reduction, or against our capital stock, in which case the shares so acquired will be held as treasury stock without any requirement to adopt a resolution approving a capital stock reduction. No shareholder consent is required for such purchases.

- the amount and price paid in any share repurchase must be made public;

- the annual ordinary shareholders meeting must determine the maximum amount of funds to be used in any fiscal year for the repurchase of shares;

- we may not be delinquent on payments due on any outstanding debt instruments issued by us that are registered with the RNV; and

- any acquisition of shares must be in accordance with the requirements of Article 56 of the LMV, and we must maintain a sufficient number of outstanding shares to meet the minimum trading volumes required by the stock markets on which our shares are listed.

The economic and voting rights corresponding to repurchased shares may not be exercised during the period in which we own such shares, and such shares are not deemed to be outstanding for purposes of calculating any quorum or vote at any shareholders' meeting during such period.

Ownership of Capital Stock by Subsidiaries

Our subsidiaries may not, directly or indirectly, invest in our shares, except for shares acquired as part of an employee stock option plan and in conformity with the LMV.

Redemption

Subject to the approval of shareholders in a general extraordinary shareholders' meeting, shares representing our capital stock are subject to redemption in connection with either (i) a reduction of capital stock or (ii) a redemption with retained earnings. In connection with a capital reduction, the redemption of shares shall be made pro rata among the shareholders. In the case of a redemption with retained earnings, such redemption shall be conducted (i) by means of a tender offer conducted on the BMV, in accordance with the process, prices, terms and conditions approved at a general extraordinary shareholders' meeting, or by our Board of Directors if such authority is delegated by the shareholders, and (ii) pro rata among the shareholders.

Dissolution or Liquidation

Upon dissolution of the issuer, one or more liquidators must be appointed at an extraordinary shareholders' meeting to wind up the issuer's affairs. All fully paid and outstanding shares of capital stock will be entitled to participate equally in any liquidation proceeds.

Registration and Transfer

We have filed an application to have our shares registered with the RNV, as required under the LMV and regulations issued by the CNBV. Shares are evidenced by certificates issued in registered form, which are to be deposited with Indeval at all times. Our shareholders may only hold their shares in book-entry form, through participants that have accounts with Indeval. Indeval is the holder of record in respect of all of the shares. Accounts may be maintained at Indeval by brokers, banks and other Mexican and non-Mexican financial institutions and entities authorized by the CNBV to be participants at Indeval. In accordance with Mexican law, only persons listed in our stock registry, and holders of certificates issued by Indeval coupled with certificates issued by Indeval participants, will be recognized as our shareholders. Under the LMV, certifications issued by Indeval, together with certifications issued by Indeval participants, are sufficient to evidence ownership of our shares and to exercise rights in respect of those shares, at meetings of shareholders or otherwise. Transfers of shares must be registered through book entries that may be traced back to the records of Indeval.

Preemptive rights

Under Mexican law and our bylaws, our shareholders have preemptive rights for all share issuances or capital stock increases, except in the cases noted below. Generally, if we issue additional shares of capital stock, our stockholders will have the right to purchase the number of shares necessary to maintain their existing ownership percentage. Stockholders must exercise their preemptive rights within the time periods set forth by our shareholders at the meeting approving the relevant issuance of additional shares. This period may not be less than 15 days following the publication of notice of the issuance in the Official Gazette or in the official newspaper of the registered office of the Company.

Under Mexican law, stockholders cannot waive their preemptive rights in advance, and preemptive rights may not be represented by an instrument that is negotiable separately from the corresponding share. Preemptive rights will not apply to (i) shares issued by us in connection with mergers; (ii) shares issued in connection with the capitalization of accounts specified in our balance sheet; (iii) the resale by us of shares held in our treasury as a result of repurchases of shares conducted by us on the BMV; and (iv) shares to be placed in a public offering pursuant to Article 53 of the Mexican Securities Market Law, which permits the non-applicability of preemptive rights in connection with public offerings by existing public companies, if the issuance of those shares was approved at a general stockholders' meeting.

Certain Minority Protections

Pursuant to the LMV and the LGSM, our bylaws include a number of minority shareholder protections. These minority protections include provisions that allow:

- holders of at least 10.0% of our outstanding share capital entitled to vote (including voting in a limited or restricted manner): (i) to request a call for a shareholders' meeting; (ii) to request that resolutions, with respect to any matter on which they were not sufficiently informed, to be postponed; and (iii) to appoint or revoke the appointment of one principal member of our Board of Directors and its corresponding alternate member.

- holders of at least 20.0% of our outstanding capital stock to oppose any resolution adopted at a shareholders' meeting and file a petition for a court order to suspend the resolution if the claim is filed within 15 days following the adjournment of the meeting at which the action was taken, provided that (i) the challenged resolution violates Mexican law or our bylaws; (ii) the opposing shareholders neither attended the meeting nor voted in favor of the challenged resolution; and (iii) the opposing shareholders deliver a bond to the court to secure payment of any damages that we may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder; however, these provisions have seldom been invoked in Mexico, and, as a result, it is uncertain how a competent court may enforce such provisions; and

- holders of at least 5.0% of our outstanding shares may initiate an action for civil liabilities against some or all of our directors, as a shareholder derivative suit, for violations of their duty of care or their duty of loyalty, for our benefit, in an amount equal to the damages or losses caused to us; however any such actions are subject to a statute of limitations of five years.

The protections afforded to minority shareholders under Mexican law are different from those in the United States and many other jurisdictions. The substantive law concerning fiduciary duties of directors has not been the subject of extensive judicial interpretation in Mexico, unlike many states in the United States where duties of care and loyalty elaborated by judicial decisions help to shape the rights of minority shareholders. Shareholders cannot challenge corporate action taken at a shareholders' meeting unless they meet certain procedural requirements.

As a result of these factors, in practice it may be more difficult for our minority shareholders to enforce rights against us or our directors or controlling shareholders than it would be for shareholders of a U.S. company.

Anti-Takeover Protections

According to our bylaws, and subject to certain exceptions set forth therein, no person or group of persons may (i) acquire, directly or indirectly, shares if such acquisition would result in the ownership by such person or group of persons of an amount equal to or greater than 9.99% of our total shares or (ii) enter into agreements that have as their purpose or result in the formation or adoption of mechanisms or voting partnership agreements, or agreements to vote in block or in conjunction, involving a change in control of our company or a stake of at least 20.0% in our capital stock or results in a change of control, without the prior authorization of our Board of Directors. The Board of Directors shall approve or reject the request for authorization within 90 days following its receipt of such request, which request must contain all the information required by the Board of Directors in accordance with our bylaws. At least 66% of the members of the Board of Directors must approve the acquisition or voting agreement at issue.

If a person or group of persons holds greater than 10.0% of our shares, such person or group of persons must also notify the Board of Directors of any acquisition made that results in an increase in the shares owned by such person or group of persons of 2.0% or more of our total shares.

If the Board approves an acquisition or voting agreement, and the acquisition or voting agreement would result in a participation of a person or group of persons in 20.0% or greater of our total shares or in a change of control, the person or group of persons intending to acquire or enter into the voting agreement, as applicable, shall, in addition, make a tender offer for 100.0% of our total shares, in accordance with the LMV, at a price equal to the highest of: (x) the book value per share according to the most recent quarterly financial statements approved by the Board of Directors or submitted to the CNBV and the BMV; (y) the highest closing price per share with respect to transactions on the BMV published on any of the 365 days prior to the date of filing of the application or the authorization granted by the Board of Directors regarding the relevant transaction; or (z) the highest price paid during the 365 days prior to the date of filing of the application or the authorization granted by the Board of Directors, for the purchase of any shares by the person or group of persons who intends to acquire the shares or enter into the voting agreement, which is the subject of the request authorized by the Board of Directors, plus, in each case, a premium equal to 15.0% of the price per share to be paid in connection with the requested acquisition, with the understanding that the Board of Directors may increase or decrease the amount of the premium, in consultation with a recognized investment bank. To the extent that the Board rejects an acquisition or voting agreement resulting in a participation of equal to or greater than 20.0% of our share capital by such person or group of persons or involving a change of control, which acquisition or voting agreement nonetheless has met all the requirements established in the bylaws, including the minimum price set above, the Board of Directors must convene a shareholders' meeting, during which a simple majority may ratify such rejection or otherwise approve the acquisition or voting agreement in question.

If the afore-described acquisitions of shares or restricted voting agreements take place or are entered into without obtaining the prior written approval of the Board of Directors (or via the shareholders' meeting in the case described above), the shares subject to such acquisitions or the voting agreements will not have the right to vote at any shareholders' meeting, and the shares will not be registered in our share registry. Furthermore, the Board of Directors may enact the following measures, among others: (i) the reversal of those transactions carried out, with mutual restitution among the parties to the extent possible or (ii) the transfer of the shares that were the subject of the acquisition, to a third party approved by the Board of Directors at a minimum price determined by the Board.

Certain transactions are exempt from the application of the provisions of our bylaws intended to prevent a change of control, such as: (i) acquisitions of shares made by succession, either through inheritance or bequest; (ii) acquisitions of shares or the entering into of any voting agreement on behalf of us or of trusts created by us; or (iii) the creation of a voting trust or similar entity by the existing shareholders on the date of the global offering, which will be performed at some point in the future.

The provisions of our bylaws intended to prevent a change of control may only be removed from the bylaws or modified by the favorable resolution of (i) until May 22, 2015, shareholders representing at least 95.0% of the shares outstanding or (ii) at any time on or following May 23, 2015, shareholders representing 66.0% of shares outstanding at such time.

Delisting or Cancellation of Registration with the RNV

If we wish to cancel our registration of shares with the RNV, or if it is cancelled by the CNBV, our controlling shareholders are required to conduct a tender offer to purchase all the outstanding shares held by minority shareholders prior to such cancellation. Shareholders deemed to have "control," as defined in the relevant provisions of the LMV, are those that own a majority of our shares, have the ability to control the outcome of decisions made at our shareholders' meetings, or have the ability to appoint or revoke the appointment of a majority of the members of our Board of Directors, managers or equivalent officers, or that may control directly or indirectly our administration, strategy or principal policies.

In accordance with applicable law and regulations and our bylaws, in the event that our controlling shareholders are unable to purchase all of our outstanding shares pursuant to a tender offer, they will be required to create a trust for a period not to exceed six months and contribute to it funds in an amount sufficient to purchase, at the same price that was set at the tender offer, all of the outstanding shares that remain held by the general public.

The offer price will be the higher of: (i) the weighted average quotation price per share on the BMV for the 30 trading days prior to the date on which the tender offer is made or (ii) the book value of the shares in accordance with the most recent quarterly report submitted to the CNBV and the BMV.

The voluntary cancellation of the registration shall be subject to (i) the prior authorization of the CNBV and (ii) the authorization of not less than 95.0% of the holders of outstanding capital stock in an extraordinary shareholders meeting.

Tender Offer Rules

Under the LMV, any person or group of persons that, directly or indirectly, in a single transaction or in a series of transactions, intends to acquire control of our outstanding shares (or any percentage of our outstanding shares equal to or exceeding 30.0% of our outstanding shares), would be required to, besides obtaining the approval of our Board of Directors and stockholders, undertake a tender offer for 100.0% of our outstanding shares or for the relevant lower percentage of the transaction requiring the tender offer is for less than 51.0% of our outstanding shares, at a price equal to the greater of (i) the average trading price for our shares, for 30 trading days prior to the offer, or (ii) the last reported book value per share. The LMV defines control, for these purposes, as: (i) the ability to impose decisions, directly or indirectly, at a shareholders' meeting; (ii) the right to vote 50.0% or more of our shares; or (iii) the ability to cause, directly or indirectly, that our management, strategy or policies be pursued in any given fashion.

In connection with a tender offer, our Board of Directors is required, subject to the prior opinion of our Corporate Practices Committee, to give an opinion in respect of the price of the offer. Prior to expressing such opinion, our Board of Directors may request the opinion of an independent third party expert. The members of our Board of Directors and our CEO are required to disclose to the public whether or not each of them will sell any of our shares owned by them in the tender offer.

Additional Matters

Variable Capital

We are permitted to issue shares representing fixed capital and shares representing variable capital. The issuance of variable-capital shares, unlike the issuance of fixed-capital shares, does not require an amendment of the bylaws, although it does require a majority vote of our shares.

Forfeiture of Shares

As required by Mexican law, our bylaws provide that any non-Mexican shareholder shall be considered as a Mexican citizen with respect to shares held by it, property rights, concessions, participations and interests we own and rights and obligations derived from any agreements we have with the Mexican government. Non-Mexican

shareholders shall be deemed to have agreed not to invoke the protection of their governments, under penalty, in case of breach of such agreement, of forfeiture to the Mexican government of such interest or participation. Mexican law requires that such a provision be included in the bylaws of all Mexican corporations unless such bylaws or applicable law prohibit ownership of shares by non-Mexican persons.

Conflict of Interest

Pursuant to the LGSM, a shareholder that votes on a business transaction in which its interest conflicts with our interests must abstain from any deliberation on the applicable matter. A breach by any shareholder of any such obligation may result in the shareholder being liable for damages, but only if the transaction would have not been approved without this shareholders' vote.

Appraisal rights

Pursuant to the LGSM, whenever the shareholders approve a change in our corporate purpose, nationality or corporate form, any shareholder entitled to vote that voted against the approval of such matter is entitled to withdraw its shares at book value, as set forth in the financial statements last approved by our shareholders; provided it exercises its appraisal rights within 15 days following the adjournment of the meeting at which the relevant change was approved.

TAXATION

The following summary contains a general description of certain Mexican federal and U.S. federal income tax consequences of the acquisition, ownership and disposition of our shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, hold or sell our shares. In particular, this summary does not describe any tax consequences arising under the laws of any state, municipality or taxing jurisdiction other than certain federal laws of Mexico and the United States.

This discussion does not constitute, and should not be considered as, legal or tax advice to prospective holders of our shares. The discussion is for general information purposes only and is based upon the federal tax laws of Mexico and of the United States as in effect on the date of this offering memorandum (including the "Tax Treaty," as defined below), which are subject to change, and such changes may have retroactive effect. Potential investors in our shares should consult their own tax advisors as to the Mexican, U.S. or other tax consequences of the purchase, ownership and disposition of our shares, including, in particular, the effect of any foreign, state or local tax laws and any tax treaties to which Mexico is a party, which are in effect.

The Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, and the protocols thereto, between the United States and Mexico, became effective on January 1, 1994 and were amended by an additional protocol on July 3, 2003 (collectively, the "Tax Treaty"). The United States and Mexico have also entered into an agreement concerning the exchange of information with respect to tax matters.

Mexican Tax Considerations

Non-Mexican Residents

The following summary contains a description of certain relevant tax consequences under the Mexican Federal Tax Laws of the acquisition, ownership and disposition of our shares by a holder of such shares that is a non-Mexican holder (as described below), and it does not purport to be a comprehensive description of all of the Mexican tax considerations that may be relevant to a decision to purchase, hold or dispose of our shares. In addition, this summary does not address any United States or other country or Mexican state or municipal tax considerations that may be relevant to any non-Mexican holder.

This summary is intended to be for general information purposes only and is based upon the Mexican Federal Tax Laws as in effect on the date of this offering memorandum, which are subject to change. Any change could affect the continued validity of this description.

Prospective investors in the shares should consult their own tax advisors as to the United States, Mexican or other tax consequences of the purchase, ownership and disposition of the shares including, in particular, the effect of any foreign, state or local tax laws, and their entitlement to the benefits, if any, afforded by the income tax treaty between Mexico and the United States (the "Tax Treaty") and other tax treaties to which Mexico may be a party and that are in effect.

For purposes of this summary, the term "non-Mexican holder" shall mean a holder that is not a resident of Mexico for tax purposes, and that will not hold the shares, or a beneficial interest therein, in connection with the conduct of a trade or business, through a permanent establishment for tax purposes in Mexico.

For purposes of Mexican taxation:

- individuals are residents of Mexico for tax purposes if they have established their residence in Mexico or, if they also have a residence outside Mexico, if their center of vital interests (*centro de intereses vitales*) is located within Mexican territory. The center of vital interests will be deemed to be located in Mexico if (i) at least 50.0% of their aggregate annual income derives from Mexican sources of wealth or (ii) the main center of their professional activities is located in Mexico. Mexican nationals who changed their tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico and in which their income is subject to a preferred tax regime pursuant to the

provisions of the Mexican Income Tax Law, will be considered Mexican residents for tax purposes during the fiscal year of filing of the notice of such residence change and during the following three fiscal years;

- unless proven otherwise, a Mexican national individual shall be deemed a Mexican resident for tax purposes. An individual will also be considered a resident of Mexico for tax purposes if such individual is a state employee, regardless of the location of the individual's center of vital interests; and
- a legal entity is a resident of Mexico for tax purposes if it maintains the principal administration of its business or the place of effective management in Mexico.

Non-residents of Mexico who are deemed to have a permanent establishment in Mexico for tax purposes shall be subject to Mexican tax laws, and all income obtained attributable to such permanent establishment will be subject to Mexican taxes in accordance with the Mexican Income Tax Law.

Non-residents of Mexico for tax purposes that become holders of our shares will neither be deemed to be residents of Mexico for tax purposes nor be deemed to have a permanent establishment in Mexico for tax purposes exclusively for purchasing, owning or disposing of such shares.

Mexican tax residents—both individuals and legal entities—are taxed on worldwide income basis regardless of the location of the source of the income. Mexican resident individuals are subject to income tax at progressive rates, while legal entities are subject to income tax at the applicable corporate tax rate. The current maximum income tax rate for individuals and the current corporate income tax rate for legal entities is 30.0% (the applicable provisions establish that a 29.0% rate will apply in 2014 and a 28.0% rate will apply in 2015 and thereafter).

Taxation on Dividends

Pursuant to the provisions of the Mexican Income Tax Law, dividends paid to holders that qualify as non-residents of Mexico for tax purposes, with respect to our shares, are currently not subject to Mexican withholding tax or any similar tax.

Dividends paid from distributable earnings that have not been subject to Mexican corporate income tax are subject to a tax at the corporate level, payable by us. This corporate tax on the distribution of earnings is not final and may be credited by us against income tax payable by us during the fiscal year in which the tax was paid and in the following two years. Dividends paid from distributable earnings, after corporate income tax has been paid on such earnings, are not subject to additional corporate income tax. For such purposes, Mexican legal entities are obliged to maintain a net after-tax profit account ("CUFIN"), the balance of which will be increased by the net after tax profit for each tax year, as well as by any dividends received from other Mexican entities, and decreased by distributions of previously taxed profits.

Taxation on Capital Gains

Gains on the sale of shares by a non-Mexican holder will generally not be subject to Mexican income tax, if the transaction is carried out through the BMV or other stock exchange or securities market approved by the Secretary of Finance and Public Credit. Transfers of shares by a non-resident shareholder carried out in a different manner are generally subject to a 25.0% income tax rate in Mexico, which is applicable to the gross proceeds realized from the sale. Should the buyer in any such transactions be a Mexican resident for tax purposes, or a non-resident with a permanent establishment in Mexico for tax purposes, the applicable tax should be withheld by such Mexican resident from the acquisition price and remitted to the Federal Treasury. Alternatively, a non-resident shareholder may, subject to certain requirements, opt to pay taxes on the gains realized from the sale of the shares on a net basis at a rate of 30.0% during 2013 (29.0% in 2014 and 28.0% in 2015 and thereafter).

The Mexican Income Tax Law provides that, any person or group of persons that, directly or indirectly, hold 10.0% or more of our outstanding shares, are not exempt from income tax on the gains realized from the sale or other disposition of our shares, regardless of whether the sale or disposition is carried out through the Mexican Stock Exchange or such other approved securities market, if the sale comprises a block of shares equal to or exceeding

10.0% of our outstanding shares, in a single transaction or a series of transactions, during any 24-month period, except in the case described below. The referred exemption does not apply either if the person or group of persons that control us, sell the control of the company either in a single transaction or a series of transactions, during any 24-month period. The tax exemption described in the previous paragraph will not be applicable to pre-negotiated or protected trades executed through the BMV, which preclude the holders from accepting more competitive offers than those received prior to and during the period in which they are offered for sale. If the sale carried out through the BMV were not subject to the exemption, the financial intermediaries will withhold 5.0% of the sales price or, subject to the election of the taxpayer, 20.0% on the gain realized from the sale of the shares on a net basis.

Under the Tax Treaty, a holder that is eligible to claim the benefits under such Tax Treaty may be exempt from Mexican taxes on gains realized from a sale or other disposition of shares issued by a Mexican entity in a transaction that is or is not conducted through the BMV or such other approved securities market, to the extent such holder did not own, directly or indirectly, 25.0% or more of the outstanding shares of the issuer during the twelve-month period preceding the date of the sale or disposition, and provided that certain formal requirements set forth by the Mexican Income Tax Law are also complied with. The Tax Treaty specifically excludes this benefit in the case of shares issued by an entity whose value derives mainly from real estate located in Mexico.

Business Flat Tax

The Business Flat Tax Law provides that individuals and legal entities deemed as Mexican residents for tax purposes, as well as foreign residents with a permanent establishment in Mexico, are obligated to pay this tax, regardless of where the income is generated, on revenues obtained from engaging in the following activities: (i) transfer of goods; (ii) rendering of independent services; and (iii) granting of temporary use or enjoyment of goods. Therefore, foreign residents that do not have a permanent establishment in Mexico will not be subject to the business flat tax. Additionally, subsection (a) of section VI of article 4 of the Business Flat Tax Law expressly provides that the sale of shares is exempt from this tax.

Other Mexican Taxes

There is currently no Mexican estate, gift, inheritance or value-added tax applicable to the purchase, ownership or disposition of our shares by a non-Mexican resident for tax purposes; however, gratuitous transfers of our shares may, in certain circumstances, result in the imposition of Mexican federal income tax on the recipient.

There is currently no Mexican stamp, issue, registration or similar tax or duty payable by a non-resident of Mexico for tax purposes with respect to the purchase, ownership or disposition of the shares.

Mexican Residents

The following summary contains a description of certain relevant tax consequences under the Mexican Federal Tax Laws of the acquisition, ownership and disposition of our shares by a holder of such shares that is a Mexican resident for tax purposes (as described above), and it does not purport to be a comprehensive description of all of the Mexican tax considerations that may be relevant to a decision to purchase, hold or dispose of our shares.

Mexican Legal Entities

Under the Mexican Federal Tax Laws, any incorporated entity, such as an SA or an SRL, is treated as a separate entity for tax purposes. Therefore, Mexican and non-Mexican entities or individual shareholders of a Mexican entity are not directly subject to taxation in Mexico solely as a result of holding an interest in a Mexican entity. Under the Mexican Federal Tax Laws, no Mexican tax is levied on capital contributions.

However, gains on the sale of shares by Mexican entities will be subject to income tax as ordinary income at a rate of 30.0% (29.0% in 2014 and 28.0% in 2015 and thereafter). Such gain on the sale of shares must be considered for purposes of the advance payments of the Mexican entity corresponding to the month in which the transaction is carried out and must be included in its annual tax return.

In the case that the tax cost basis of the shares is higher than the sales price, Mexican entities will generate a tax loss that, in principle, may only be deducted against the amount of the gains on the sale of shares that are obtained by the same Mexican entity in the related year in question or the following ten years.

Mexican Individuals

Under the Mexican Federal Tax Laws, gains on the sale of shares by a Mexican individual will generally not be subject to Mexican income tax, if the transaction is carried out through the BMV or other stock exchange or securities market approved by the Secretary of Finance and Public Credit, subject to certain limitations described below.

The Mexican Income Tax Law provides that any person or group of persons that directly or indirectly hold 10.0% or more of our outstanding shares are not exempt from income tax on the gains realized from the sale or other disposition of our shares, regardless of whether the sale or disposition is carried out through the Mexican Stock Exchange or such other approved securities market, if the sale comprises a block of shares equal to or exceeding 10.0% of our outstanding shares, in a single transaction or a series of transactions, during any 24-month period. This exemption also does not apply if the person or group of persons that control us sell the control of the company either in a single transaction or a series of transactions, during any 24-month period. The tax exemption described in the previous paragraph will not be applicable to pre-negotiated or protected trades executed through the BMV, which preclude the holders from accepting more competitive offers than those received prior to and during the period in which they are offered for sale. If the sale carried out through the BMV is not subject to the exemption, the financial intermediaries will withhold 5.0% of the sales price as an advance payment.

Gains received by a Mexican individual in transactions not carried out through the BMV are considered taxable, and with regards to annual tax liability, the tax shall be withheld by the buyer if it is a Mexican resident or a non-resident having a permanent establishment located in Mexico; otherwise, an advanced tax payment has to be made through a tax return to be filed within the following 15 business days.

In the case that the tax cost basis of the shares is higher than the sales price, Mexican individuals will generate a tax loss that may be deducted against their income, except against salaries income and income from professional and entrepreneurial activities.

Business Flat Tax

The Business Flat Tax Law provides that individuals and legal entities deemed as Mexican residents for tax purposes, as well as foreign residents with a permanent establishment in Mexico, are obligated to pay this tax, regardless of where the income is generated, on revenues obtained from engaging in the following activities: (i) transfer of goods; (ii) rendering of independent services; and (iii) granting of temporary use or enjoyment of goods. Subsection (a) of section VI of article 4 of the Business Flat Tax Law expressly provides that the sale of shares is exempt from this tax; therefore, Mexican residents will not be subject to business flat tax on the sale of our shares.

Other Mexican Taxes

There is currently no Mexican estate, gift, inheritance or value-added tax applicable to the purchase, ownership or disposition of our shares by a Mexican residents for tax purposes; however, gratuitous transfers of our shares may, in certain circumstances, result in the imposition of Mexican federal income tax on the recipient.

There is currently no Mexican stamp, issue, registration or similar tax or duty payable by a Mexican resident for tax purposes with respect to the purchase, ownership or disposition of the shares.

Certain U.S. Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT MEMORANDUM 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL INCOME TAX ISSUES IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN 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 INCLUDED HEREIN BY THE COMPANY IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF MEMORANDUM 230) BY THE COMPANY OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following summary describes certain other U.S. federal income tax consequences for a U.S. Holder (as defined below) of acquiring, owning and disposing of our shares of common stock. This summary deals only with U.S. Holders that will hold our shares as capital assets for U.S. federal income tax purposes, and does not purport to deal with all U.S. federal income tax considerations that may be relevant to a particular investor. In particular, this summary does not address the tax consequences that may be applicable to persons in special tax situations, including, without limitation, banks, financial institutions, regulated investment companies, partnerships (and partners in a partnership) or other pass-through entities, dealers, traders who elect to use a mark to market method of accounting, insurance companies, investors who hold our shares as part of a hedge, straddle, conversion, integrated transaction, or other risk-reduction transaction, tax-exempt entities, including individual retirement accounts, persons liable for the alternative minimum tax, investors who have a "functional currency" other than the U.S. dollar or investors who own or are treated as owning 10.0% or more of the voting shares of our company. This discussion does not address the tax consequences to U.S. Holders of acquiring, owning or disposing of shares under any U.S. federal estate or gift, U.S. state or local, foreign or other tax laws, including the Medicare tax on net investment income.

For purposes of this discussion, you will be a "U.S. Holder" if you are the beneficial owner of a share of common stock and you are an individual who is a citizen or resident of the United States, a U.S. domestic corporation or otherwise subject to U.S. federal income tax on a net income basis with respect to income from our shares.

This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, final, temporary and proposed regulations promulgated thereunder, administrative pronouncements and judicial decisions, all as currently in effect. These authorities are subject to change, possibly on a retroactive basis, and could result in U.S. federal income tax consequences different from those discussed below.

You should consult your own tax advisers concerning the U.S. federal, state, local, foreign and other tax consequences of purchasing, owning and disposing of shares in light of your particular circumstances.

Taxation of Dividends

The gross amount of cash distributions paid with respect to our shares generally will be treated as dividends to the extent such distribution is actually or constructively paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends. The dividends will be treated as foreign-source income and will not be eligible for the dividends-received deduction generally available to U.S. corporations.

Any distributions paid in pesos will be included in your income in a U.S. dollar amount calculated by reference to the spot rate of exchange in effect on the date of your receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars on such date. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. If such a dividend is not converted into U.S. dollars on the date of receipt, you generally will have a basis in the non-U.S. currency equal to its U.S. dollar value on that date. You generally will be required to recognize foreign

currency gain or loss realized on a subsequent conversion or other disposition of such currency, which will be treated as U.S.-source ordinary income or loss. You should consult your own tax advisers regarding the treatment of foreign currency gain or loss, if any, on any pesos received that are converted into U.S. dollars on a date subsequent to receipt.

Dividends received by certain non-corporate U.S. holders will generally be subject to taxation at reduced rates if the dividends are "qualified dividends." Dividends paid on our shares will be qualified dividends if (i) we were not, in the year prior to the year in which the dividend payment was made, and are not, in the year in which the dividend payment is made, a passive foreign investment company ("PFIC") and (ii) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service (the "IRS") has approved for purposes of the qualified dividend rules. We expect to be eligible for the benefits of the Tax Treaty (which has been approved by the IRS for the purpose of the qualified dividend rules). Based on our financial statements and current expectations regarding our income, assets and activities, we believe that we were not a PFIC in 2012 and do not anticipate becoming a PFIC in 2013 or in the foreseeable future. Accordingly, we expect that the dividends received by non-corporate U.S. holders will generally be subject to taxation at a lower rate than other ordinary income. If we were to be a PFIC for any taxable year during which a U.S. holder holds our shares, certain adverse U.S. federal income tax consequences (including, but not limited to, the treatment of dividends received by non-corporate U.S. holders as other than qualified dividends) could apply.

Distributions of additional shares to you with respect to our shares of common stock that are made as part of a pro rata distribution to all of our shareholders and for which there is no option to receive other property generally will not be subject to U.S. federal income tax. The basis of any new shares so received will be determined by allocating your basis in the old shares between the old shares and the new shares, based on their relative fair market values on the date of distribution.

Taxation on Sale, Exchange or Other Disposition

Upon a sale, exchange, or other taxable disposition of our common shares, you will generally recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized on the disposition and your adjusted tax basis in the shares as determined in U.S. dollars. Such gain or loss generally will be U.S.-source gain or loss, and will be long-term capital gain or loss if you have held our shares for more than one year. Certain non-corporate U.S. Holders may be eligible for preferential rates of U.S. federal income tax in respect of net long-term capital gains. The deductibility of capital losses is subject to limitations.

The amount realized on a sale or other taxable disposition of our shares for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or disposition. On the settlement date, you will recognize U.S.-source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the U.S. dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, in the case of shares traded on an established securities market that are sold by a cash basis U.S. holder (or an accrual basis U.S. holder that so elects), the amount realized will be based on the exchange rate in effect on the settlement date for the sale, and no exchange gain or loss will be recognized at that time.

Your tax basis in our shares will generally equal the U.S. dollar cost of the shares to you. The U.S. dollar cost of shares purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase, or the settlement date for the purchase in the case of shares traded on an established securities market that are purchased by a cash basis U.S. holder (or an accrual basis U.S. holder that so elects).

If any Mexican withholding tax is imposed on the disposition of your shares, you may be able to claim a foreign tax credit for such withholding tax, but your ability to do so may be substantially limited, because any capital gain would generally be U.S.-source capital gain. U.S. holders should consult their own tax advisors regarding the application of the foreign tax credit rules to an investment in and disposition of our shares.

Legislation enacted in 2010 requires certain U.S. Holders who are individuals, estates or trusts to pay a 3.8% tax on unearned income, including, among other things, dividends on, and capital gains from, the sale or other taxable disposition of the shares, subject to certain limitations and exceptions.

U.S. Information Reporting and Backup Withholding

Dividend payments and proceeds from the sale or other disposition of our shares may be subject to the information reporting requirements of the Code and may be subject to backup withholding unless you (i) establish that you are a corporation or other exempt holder or (ii) timely provide an accurate taxpayer identification number and certify that you are not subject to backup withholding and otherwise comply with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that certain required information is furnished to the IRS.

PLAN OF DISTRIBUTION

Morgan Stanley & Co. LLC, Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated will act as initial purchasers with respect to the offering of shares sold to investors located outside of Mexico. The global offering consists of the international offering of 41,985,620 shares in the United States and in other countries outside of Mexico and a concurrent initial public offering of 63,652,174 shares in Mexico by means of a separate Spanish-language prospectus.

Pursuant to the terms and subject to the conditions set forth in the purchase agreement, each of the initial purchasers has severally agreed to purchase, and we have agreed to sell to the initial purchasers, the number of shares set forth opposite such initial purchaser's name:

Initial Purchasers	Number of Shares
Morgan Stanley & Co. LLC	18,783,041
Citigroup Global Markets Inc.	18,783,041
Merrill Lynch, Pierce, Fenner & Smith Incorporated	4,419,538
Total	41,985,620

In respect of the Mexican offering, subject to the terms and conditions set forth in the Mexican underwriting agreement (*contrato de colocación*), the Mexican lead underwriters, in their capacity as leaders of the syndicate of underwriters in Mexico, have agreed to purchase, and we and the selling shareholders have agreed to sell to the Mexican underwriters, an aggregate of 63,652,174 shares, consisting of 29,168,712 shares to be sold by us and 34,483,462 shares to be sold by the selling shareholders.

The initial purchasers and the Mexican underwriters have entered into an intersyndicate agreement providing for the coordination of their activities. Under the intersyndicate agreement, the Mexican underwriters may offer and sell a portion of the shares to be sold pursuant to the purchase agreement, the initial purchasers may purchase a portion of the shares to be sold pursuant to the Mexican underwriting agreement, and the initial purchasers and the Mexican underwriters have agreed to coordinate their efforts to stabilize and exercise overallotment options, in each case, on the terms and subject to the conditions set forth in the intersyndicate agreement and observing the applicable rules prescribed by the CNBV.

The closing of the international offering and the Mexican offering by the Mexican underwriters are conditioned upon one another and will occur simultaneously. We have granted the initial purchasers an option, exercisable within a period of 30 days from the date of this offering memorandum, to purchase up to an additional 6,297,842 shares at the offering price, set forth on the cover of this offering memorandum less discounts and commissions, to cover overallotments, if any. We have also granted the Mexican underwriters an option, exercisable within a period of 30 days from the date of this offering memorandum, to purchase up to an additional 9,547,826 shares at the offering price, set forth on the cover of this offering memorandum less discounts and commissions, to cover overallotments, if any. To the extent an option is exercised, each initial purchaser and Mexican underwriter, as applicable, must purchase an additional number of shares approximately proportionate to that person's initial commitment. Each of the options granted to the initial purchasers and the Mexican underwriters may be exercised independently, in accordance with applicable law in the relevant jurisdiction. The amount of additional shares may be reallocated between syndicates in accordance with the provisions of the intersyndicate agreement.

The shares have not been, and will not be, registered under the Securities Act, and they 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 and to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. Terms used in this paragraph have the meanings given to them by Rule 144A and Regulation S under the Securities Act. Resales of the shares are restricted as described under "Transfer Restrictions."

In addition, until 40 days after the commencement of the offering, an offer or sale of shares within the United States by a 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.

The Mexican underwriting agreement and the purchase agreement provide that the obligation of the Mexican underwriters and the initial purchasers to purchase, offer and sell the shares is subject to, among other conditions, the delivery of certain legal opinions by legal counsel to us and the selling shareholders in Mexico and by legal counsel to us in the United States and comfort letters from our independent accountants. The initial purchasers must purchase all the shares (other than those covered by the initial purchasers' option to purchase additional shares described below) if they purchase any of the shares. The purchase agreement further provides that if any of the shares covered by such agreements are not purchased, offered or sold, the initial purchasers are obligated, severally and not jointly, to purchase them on a firm commitment basis on the settlement date subject to certain conditions and exceptions contained therein. The shares will initially be offered at the price indicated on the cover page of this offering memorandum and the Mexican prospectus, respectively, less the underwriting discounts and commissions. Purchasers of shares outside of 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 memorandum. See "Transfer Restrictions." The price at which the shares are offered may be changed at any time without notice.

We have agreed to indemnify the initial purchasers and the Mexican underwriters and the selling shareholders have agreed to indemnify the Mexican underwriters, under the terms of each of the purchase agreement and the Mexican underwriting agreement, against liabilities, including liabilities under the Securities Act and under the Mexican securities laws, and, in the case of the purchase agreement, to contribute to payments that they may be required to make in that respect, subject to limitations set forth in the purchase agreement in respect of indemnification and contribution and the Mexican underwriting agreement in respect of indemnification.

The initial purchasers and/or their affiliates may enter into derivative transactions in connection with the shares, acting at the order and for the account of their clients. The initial purchasers and/or their affiliates may also purchase some of the shares in this offering as a hedge for such transactions. These transactions may have an effect on demand, price or other terms of the global offering.

Prior to this offering, there has been no public market for our shares. Consequently, the offering price for the shares was determined by negotiations among us, the selling shareholders and the representatives. Among the factors considered in determining the offering price were our results of operations, our current financial condition, our future prospects, our markets, the economic conditions in and future prospects for the industry in which we compete, our management, and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly traded companies considered comparable to our company.

We have applied to register the shares in Mexico with the RNV maintained by the CNBV and to list the shares for trading on the BMV under the symbol "HCity." The shares have not been and will not be listed in any national securities exchange or quoted in any automated interdealer quotation system in the United States or elsewhere outside Mexico. However, we cannot assure you that the prices at which the shares will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the shares will develop and continue after this offering. The initial purchasers have advised us that they currently intend to make a market in the shares. However, they are not obligated to do so, and they may discontinue any market-making activities with respect to the shares at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the shares.

In connection with the offering, the initial purchasers may purchase and sell shares in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions, which may include purchases pursuant to the initial purchasers' option to purchase additional shares, and stabilizing purchases.

- Short sales involve secondary market sales by the initial purchasers of a greater number of shares than they are required to purchase in the offering.

- “Covered” short sales are sales of shares in an amount up to the number of shares represented by the initial purchasers’ option to purchase additional shares.
- “Naked” short sales are sales of shares in an amount in excess of the number of shares represented by the initial purchasers’ option to purchase additional shares.

- Covering transactions involve purchases of shares either pursuant to the initial purchasers’ option to purchase additional shares or in the open market after the distribution has been completed in order to cover short positions.
  - To close a naked short position, the initial purchasers must purchase shares in the open market after the distribution has been completed. A naked short position is more likely to be created if the initial purchasers are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.
  - To close a covered short position, the initial purchasers must purchase shares in the open market after the distribution has been completed or must exercise their option to purchase additional shares. In determining the source of shares to close the covered short position, the initial purchasers will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares by exercising their option to purchase additional shares.
- Stabilizing transactions involve bids to purchase shares so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the initial purchasers for their own accounts, may have the effect of preventing or retarding a decline in the market price of the shares. They may also cause the price of the shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The initial purchasers may conduct these transactions in the over-the-counter market or otherwise. If the initial purchasers commence any of these transactions, they may discontinue them at any time.

Lock-up Agreements

We, the selling shareholders, our other shareholders and our officers and directors have agreed, subject to certain exceptions, not to issue, offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any of our equity securities, or securities convertible into or exchangeable or exercisable for any of our equity securities, enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our equity securities, whether any of these transactions are to be settled by delivery of our equity securities or such other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Morgan Stanley & Co. LLC, Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, until 180 days after the date of this offering memorandum.

Relationship Between Company and Selling Shareholders and the Initial Purchasers and the Mexican Underwriters

The initial purchasers and the Mexican underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. In addition to the commercial relationships arising from the global offering, from time to time, certain of the initial purchasers and the Mexican underwriters and their respective affiliates maintain commercial relationships with us and our affiliates and have provided, and may provide in the future, investment banking, financial advisory and other banking services to us and our affiliates, in the ordinary course of their business, for which they have received or may receive customary fees and commissions. In the ordinary course of their various

business activities, the initial purchasers and the Mexican underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of ours (except when such investments or transactions involving securities of ours are expressly prohibited by law). In the case of derivatives transactions on behalf of clients outside of Mexico, in connection with our shares, the initial purchasers and the Mexican underwriters and their respective affiliates may also purchase some of the securities in the global offering as a hedge for such transactions, and these transactions may have an effect on the demand, price or other terms of the global offering. The initial purchasers and the Mexican underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. Except for the commissions and discounts to be received within the scope of the global offering, no other remuneration will be paid by us and the selling shareholders to the initial purchasers and the Mexican underwriters, or their respective affiliates.

Vaarn BVBA and Jardenne Corporation, S.àr.l., each of which is an affiliate of Morgan Stanley & Co. LLC, and Morgan Stanley México, Casa de Bolsa, S.A. de C.V., are selling shareholders in the Mexican offering. See "Principal and Selling Shareholders."

Selling Restrictions

Other than with respect to the public offering of the shares listed on the BMV, no action has been or will be taken in the United States, the United Kingdom or any country or jurisdiction by us, the Mexican underwriters or the initial purchasers that would permit a public offering of the shares, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, the shares may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisements in connection with the shares may be distributed, published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This offering memorandum does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this offering memorandum comes are advised to inform themselves about and to observe any restrictions relating to the offering of the shares, the distribution of this offering memorandum and resale of the shares. See "Transfer Restrictions."

Australia

No prospectus, disclosure document, offering material or advertisement in relation to the shares has been lodged with the Australian Securities and Investments Commission or the Australian Stock Exchange Limited. Accordingly, a person may not (a) make, offer or invite applications for the issue, sale or purchase of shares within, to or from Australia (including an offer or invitation which is received by a person in Australia) or (b) distribute or publish this offering memorandum or any other prospectus, disclosure document, offering material or advertisement relating to the shares in Australia, unless (i) the minimum aggregate consideration payable by each offeree is the U.S. dollar equivalent of at least A$500,000 (disregarding moneys lent by the offeror or its associates) or the offer otherwise does not require disclosure to investors in accordance with Part 6D.2 of the Corporations Act 2001 (CWLTH) of Australia; and (ii) such action complies with all applicable laws and regulations.

Hong Kong

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside

Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may they be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Japan

The securities offered in this offering memorandum have not been registered under the Securities and Exchange Law of Japan. The securities have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law, and (ii) in compliance with any other applicable requirements of Japanese law.

Where the shares are subscribed or purchased under section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the shares under section 275 except: (1) to an institutional investor under section 274 of the SFA or to a relevant person, or any person pursuant to section 275(1a), and in accordance with the conditions, specified in section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

European Economic Area

In relation to each Member State of the European Economic Area 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 shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares 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 and the 2010 PD Amending Directive to the extent implemented, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive or the 2010 PD Amending Directive if the relevant provision has been implemented;

- to fewer than (i) 100 natural or legal persons per Relevant Member State (other than qualified investors as defined in the Prospectus Directive or the 2010 PD Amending Directive if the relevant provision has been implemented) or (ii) if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons per relevant Member State (other than qualified investors as defined in the Prospectus Directive or the 2010 PD Amending Directive if the relevant provision has been implemented), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

- in any other circumstances falling within Article 3(2) of the Prospectus Directive or Article 3(2) of the 2010 PD Amending Directive to the extent implemented.

For the purposes of this provision, the expression an "offer of shares to the public," in relation to any shares 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 shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression Prospectus Directive means Directive 2003/71/EC, and includes any relevant implementing measure in the Relevant Member State, and the expression 2010 PD Amending Directive means Directive 2010/73/EC.

United Kingdom

Each of the initial purchasers has agreed that 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 (Financial Promotion) Order 2005, or the Order, or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling with Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such shares 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.

France

No prospectus (including any amendment, supplement, or replacement thereto) has been prepared in connection with the offering of our shares that has been approved by the *Autorité des marchés financiers* or by the competent authority of another Relevant Member State and notified to the *Autorité des marchés financiers*. No shares have been offered or sold and will be offered or sold, directly or indirectly, to the public in France except to permitted investors ("Permitted Investors") consisting of persons licensed to provide the investment service of portfolio management for the account of third parties, qualified investors (*investisseurs qualifiés*) acting for their own account and/or corporate investors meeting one of the four criteria provided in article D. 341-1 of the French *Code moniétaire et financier* and belonging to a limited circle of investors (*cercle restreint d'investisseurs*) acting for their own account, with "qualified investors" and "limited circle of investors" having the meaning ascribed to them in Article L. 411-2, D. 411-1, D. 411-2, D. 734-1, D. 744-1, D. 754-1 and D. 764-1 of the French *Code moniétaire et financier*; none of this offering memorandum or any other materials related to the offer or information contained therein relating to the shares has been released, issued or distributed to the public in France except to Permitted Investors; and the direct or indirect resale to the public in France of any shares acquired by any Permitted Investors may be made only as provided by articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the French *Code moniétaire et financier* and applicable regulations thereunder.

Italy

The offering of our shares has not been cleared by the Italian Securities Exchange Commission (*Commissione Nazionale per le Societá e la Borsa*, or the CONSOB) pursuant to Italian securities legislation and, accordingly, our shares may not and will not be offered, sold or delivered, nor may or will copies of this offering memorandum or any other documents relating to our shares or the offer be distributed in Italy other than to professional investors (*operatori qualificati*), as defined in Article 31, paragraph 2 of CONSOB Regulation No. 11522 of July 1, 1998, as amended, or Regulation No. 11522, or in other circumstances where an exemption from the rules governing solicitations to the public at large applies in accordance with Article 100 of Legislative Decree No. 58 of February 24, 1998, as amended, or the Italian Financial Law, and Article 33 of CONSOB Regulation No. 11971 of May 14, 1999, as amended.

Any offer, sale or delivery of our shares or distribution of copies of this offering memorandum or any other document relating to our shares or the offer in Italy may and will be effected in accordance with all Italian securities, tax, exchange control, and other applicable laws and regulations, and in particular, will be:

- made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Legislative Decree No. 385 of September 1, 1993, as amended, or the Italian Banking Law, the Italian Financial Law, Regulation No. 11522, and any other applicable laws and regulations;

- in compliance with Article 129 of the Italian Banking Law and the implementing guidelines of the Bank of Italy; and

- in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Any investor purchasing our shares in the offer is solely responsible for ensuring that any offer or resale of shares it purchased in the offer occurs in compliance with applicable laws and regulations. This offering memorandum and the information contained herein are intended only for the use of its recipient and are not to be distributed to any third party residing in or located in Italy for any reason. No person residing in or located in Italy other than the original recipients of this document may rely on it or its content.

In addition to the above (which shall continue to apply to the extent not inconsistent with the implementing measures of the Prospective Directive in Italy), after the implementation of the Prospectus Directive in Italy, the restrictions, warranties and representations set out under the heading "—Notice to Prospective Investors in the European Economic Area" above shall apply to Italy.

Switzerland

The shares may not be publicly offered in Switzerland and will not be listed on the Swiss Exchange ("SIX") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under article 652a or article 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under article 27 ff of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, our company or our shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority ("FINMA"), and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("CISA"). The investor protection afforded to acquirors of interests in collective investment schemes under the CISA does not extend to acquirors of shares.

Spain

Neither the shares nor this offering memorandum have been approved or registered in the administrative registries of the Spanish *Comisión Nacional del Mercado de Valores* (National Securities Exchange Commission). Accordingly, the shares may not be offered in Spain except in circumstances which do not constitute a public offer of securities in Spain within the meaning of articles 30bis of the Spanish Securities Market Law of 28 July 1988 (*Ley 24/1988, de 28 Julio, del Mercado de Valores*), as amended and restated, and supplemental rules enacted thereunder.

Germany

The shares will not be offered, sold or publicly promoted or advertised in the Federal Republic of Germany other than in compliance with the German Securities Prospectus Act (*Gesetz über die Erstellung, Billigung und Veröffentlichung des Prospeckts, der beim öffentlichen Angebot von Wertpapieren oder bei der Zulassung von Wertpapieren zum Handel an einem organisierten Markt zu veröffentlichen ist—Wertpapierprospektgesetz*) as of 22 June 2005, effective as of 1 July 2005, as amended, or any other laws and regulations applicable in the Federal Republic of Germany governing the issue, offering and sale of securities. No selling prospectus (*Verkaufsprospeckt*)

within the meaning of the German Securities Selling Prospectus Act has been or will be registered within the Financial Supervisory Authority of the Federal Republic of Germany or otherwise published in Germany.

The Netherlands

Our shares may not be offered, sold, transferred or delivered, in or from the Netherlands, as part of the initial distribution or as part of any reoffering, and neither this offering memorandum nor any other document in respect of the offering may be distributed in or from the Netherlands, other than to individuals or legal entities which trade or invest in securities in the conduct of their profession or trade (which includes banks, investment banks, securities firms, insurance companies, pension funds, other institutional investors and treasury departments and finance companies of large enterprises), in which case, it must be made clear upon making the offer and from any documents or advertisements in which a forthcoming offering of shares is publicly announced that the offer is exclusively made to said individuals or legal entities.

Brazil

The offer of securities described in this offering memorandum will not be carried out by any means that would constitute a public offering in Brazil under Law No. 6,385, of December 7, 1976, as amended, and under CVM Rule (*Instrução*) No. 400, of December 29, 2003, as amended. The offer and sale of the securities have not been and will not be registered with the *Comissão de Valores Mobiliários* in Brazil. Any representation to the contrary is untruthful and unlawful. Any public offering or distribution, as defined under Brazilian laws and regulations, of the interests in Brazil is not legal without such prior registration. Documents relating to the offering of the securities, as well as information contained therein, may not be supplied to the public in Brazil, as the offering of the securities is not a public offering of securities in Brazil, nor may they be used in connection with any offer for sale of the securities to the public in Brazil. This offering memorandum is addressed to you personally, upon your request and for your sole benefit, and is not to be transmitted to anyone else, to be relied upon by anyone else or for any other purpose either quoted or referred to in any other public or private document or to be filed with anyone without our prior, express and written consent.

Chile

Neither we nor the shares are registered in the Securities Registry (*Registro de Valores*) or the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the Chilean Securities and Insurance Commission (*Superintendencia de Valores y Seguros de Chile*, or the "SVS"), or subject to the control and supervision of the SVS. This offering circular and other offering materials relating to the offer of the shares do not constitute a public offer of, or an invitation to subscribe for or purchase, the shares in the Republic of Chile, other than to individually identified purchasers pursuant to a private offering within the meaning of Article 4 of the Chilean Securities Market Act (*Ley de Mercado de Valores*) (*i.e.*, an offer that is not "addressed to the public at large or to a certain sector or specific group of the public").

TRANSFER RESTRICTIONS

This offering is being made in accordance with Rule 144A and Regulation S under the Securities Act. The shares have not been and will not be registered in the United States under the Securities Act or any U.S. securities laws, nor may they be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except to (a) qualified institutional buyers in the United States (as defined under Rule 144A) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) outside of the United States and Mexico, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 of Regulation S under the Securities Act.

Each purchaser of the shares and each owner of any beneficial interest therein will be deemed, by accepting delivery of the shares, to represent, agree and acknowledge as applicable, as follows:

- the offering and sale of the shares have not been registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction except Mexico, and are exempt from registration under the Securities Act pursuant to Section 4 thereof;

- the purchaser is acquiring the shares for its own account (or, if it is acquiring the shares as a fiduciary or agent for one or more investor accounts, the purchaser has the full power and authority to make the representations, warranties and agreements herein on behalf of each such account);

- the purchaser is not acquiring the shares with a view to any distribution of the shares within the meaning of the Securities Act;

- the purchaser is (or, if it is acquiring the shares as a fiduciary or agent for one or more investor accounts, each such account is) (i) a "qualified institutional buyer," as such term is defined in Rule 144A or (ii) not a "U.S. person," as such term is defined in Regulation S, and is purchasing the shares in an offshore transaction pursuant to Regulation S;

- the purchaser has sufficient knowledge and experience in financial and business matters so as to be capable of independently evaluating the merits and risks of an investment in the shares, and the purchaser is able to bear the economic risk of the investment. The purchaser has made its own investment decision regarding the shares based on its own knowledge;

- the purchaser understands and agrees that neither the shares may be re-offered, resold, pledged or otherwise transferred except (1) (A) to a person who it reasonably believes is a qualified institutional buyer in a transaction exempt from registration under U.S. securities laws or (B) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S and, in either case, (2) in accordance with all applicable securities laws of the states of the United States;

- the purchaser (1) will not transfer the shares to any person or entity, unless such person or entity could itself truthfully make each of the foregoing representations, warranties and covenants and (2) will provide notice of the transfer restrictions applicable to the shares to any subsequent transferees;

- the purchaser has had the opportunity to ask questions of, and receive answers from us, concerning us, our business and financial condition and the shares to be acquired by the purchaser and other related matters. The purchaser further represents and warrants that we have made available to the purchaser or its agents all documents and information requested by the purchaser or on its behalf relating to an investment in the shares, including this offering memorandum. In evaluating the suitability of an investment in the shares, the purchaser has not relied and will not rely on any other representations or other information (whether oral or written) made by or on behalf of us (or any of our agents, including, without limitation, the Mexican underwriters and the initial purchasers) other than as contemplated by the two preceding sentences;

- the purchaser agrees not to deposit the shares into an unrestricted American or global depositary facility, for so long as the shares constitute restricted securities, as such term is defined in Rule 144 under the Securities Act; and

- the purchaser acknowledges that we, the selling shareholders, the initial purchasers, the Mexican underwriters and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

LEGAL MATTERS

The validity of the shares and certain other legal matters under Mexican law will be passed upon for us by Creel, Garcia-Cuéllar, Aiza y Enríquez, S.C., our Mexican counsel, and for the initial purchasers by Raz Guzmán, S.C., Mexican counsel to the initial purchasers.

Certain legal matters under U.S. federal and New York state law will be passed upon for us by Cleary Gottlieb Steen & Hamilton LLP, New York, New York, our U.S. counsel, and for the initial purchasers by Paul Hastings LLP, New York, New York, U.S. counsel to the initial purchasers.

INDEPENDENT AUDITORS

The consolidated financial statements for Hoteles City Express, S.A.P.I. de C.V. and its subsidiaries as of December 31, 2012, 2011 and 2010 and January 1, 2010 and for the years ended December 31, 2012, 2011 and 2010 included elsewhere in this offering memorandum have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C. (Member of Deloitte and Touche Tohmatsu Limited), independent auditors, as stated in their report appearing herein.

Our independent auditors were appointed by our Board of Directors based on their experience and quality of service.

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Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries

Unaudited Condensed Consolidated Interim Statements of Financial Position

(In Mexican pesos)

Assets	**Note**	**March 31, 2013**	**December 31, 2012**
Current assets:			
Cash, cash equivalents and restricted cash	**5**	$ 453,782,600	$ 555,008,607
Trade receivables, net	**6**	51,761,057	43,325,018
Recoverable taxes – mainly value-added tax		106,955,201	121,930,128
Prepaid expenses		40,509,771	36,689,818
Total current assets		653,008,629	756,953,571
Property, equipment and leasehold improvements, net	**7**	4,632,149,462	4,494,785,837
Guarantee deposits		2,897,807	2,897,807
Other assets	**8**	96,303,480	108,122,729
Derivative financial instruments		136,019	344,011
Total assets		$ 5,384,495,397	$ 5,363,103,955
Liabilities and equity			
Current liabilities:			
Bank loans and current portion of long-term debt	**9**	$ 95,153,582	$ 86,688,414
Trade accounts payable		48,164,476	47,750,622
Other taxes, accrued expenses and other liabilities		74,149,084	85,836,786
Derivative financial instruments		129,017	262,888
Income tax and business flat tax		8,404,356	10,387,418
Direct employee benefits		397,881	6,067,292
Total current liabilities		226,398,396	236,993,420
Long-term debt	**9**	1,607,267,070	1,625,551,129
Deferred revenue		18,485,762	17,851,159
Employee benefits		1,067,378	1,033,442
Deferred income tax	**10**	221,883,919	224,713,509
Total liabilities		2,075,102,525	2,106,142,659
Equity			
Equity attributable to owners of the Entity:			
Issued capital	**12**	716,942,825	716,942,825
Additional paid-in capital		1,074,219,173	1,074,219,173
Retained earnings		633,987,802	651,702,837
Accumulated other comprehensive income		(6,191,185)	1,187,218
Total equity attributable to owners of the Entity		2,418,958,615	2,444,052,053
Non-controlling interests		890,434,257	812,909,243
Total equity		3,309,392,872	3,256,961,296
Total liabilities and equity		$ 5,384,495,397	$ 5,363,103,955

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries

Unaudited Condensed Consolidated Interim Statements of Profit and Other Comprehensive Income (Loss)

For the three months ended March 31, 2013 and 2012
(In Mexican pesos)

	Note	For the three months ended March 31, 2013	March 31, 2012
Revenues from hotel operation		$ 232,818,423	$ 198,075,101
Revenues from hotel management		7,582,543	6,076,081
Total	**16**	240,400,966	204,151,182
Hotel operating costs and expenses		127,726,988	114,414,799
Selling and administrative expenses		38,374,258	28,848,823
Depreciation		36,933,851	33,092,964
Cost and expenses		203,035,097	176,356,586
Expenses associated with opening of new hotels		(3,576,227)	(2,802,404)
Other income		1,756,553	2,220,998
Consolidated operating profit		35,546,195	27,213,190
Finance costs		(23,216,445)	(16,385,393)
Finance income		2,847,232	3,351,450
Exchange result, net		(2,216,527)	(12,434,836)
Effects of valuation of financial instruments		470,618	(374,566)
		(22,115,122)	(25,843,345)
Profit before tax		13,431,073	1,369,845
Income tax expense	**10**	2,686,215	(246,572)
Consolidated net profit		10,744,858	1,616,417
Other comprehensive loss, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(10,619,700)	(2,882,971)
Items that may not be reclassified subsequently to profit or loss:			
Net actuarial (gain) loss		-	(42,733)
Deferred tax effects of net actuarial (gain) loss from employee benefits		-	(4,297)
Other comprenhensive loss		(10,619,700)	(2,930,001)
Total consolidated comprehensive income (loss)		$ 125,158	$ (1,313,584)
Profit for the year attributable to:			
Owners of the Entity		$ 10,675,134	$ 1,519,432
Non-controlling interests		69,724	96,985
		$ 10,744,858	$ 1,616,417

Total consolidated comprehensive income (loss) for the year attributable to:

Owners of the Entity	$ 3,296,731	$ (1,409,974)
Non-controlling interests	(3,171,573)	96,390
	$ 125,158	$ (1,313,584)
Basic and diluted profit per share	$ 0.1729	$ 0.0003

See accompanying notes to unaudited condensed consolidated interim financial statements.

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries

Unaudited Condensed Consolidated Interim Statements of Changes in Stockholders' Equity

For the three months ended March 31, 2013 and 2012

(In Mexican pesos)

	Note	Capital stock	Additional paid-in capital	Retained earnings	Actuarial gain (loss)	Exchange differences on translating foreign operations	Equity attributable to owners of the parent	Non-controlling interests	Total
Balance at January 1, 2012		$ 716,942,825	$ 1,074,219,173	$ 644,867,447	$ 221,772	$ 2,989,667	$ 2,439,240,884	$ 730,275,934	$ 3,169,516,818
Contributions of non-controlling interests		-	-	-	-	-	-	53,404,077	53,404,077
Profit and other comprehensive income for the year		-	-	1,519,432	(46,435)	(2,882,971)	(1,409,974)	96,390	(1,313,584)
Balance at March 31, 2012		$ 716,942,825	$ 1,074,219,173	$ 646,386,879	$ 175,337	$ 106,696	$ 2,437,830,910	$ 783,776,401	$ 3,221,607,311
Balance at January 1, 2013		$ 716,942,825	$ 1,074,219,173	$ 651,702,837	$ 80,351	$ 1,106,867	$ 2,444,052,053	$ 812,909,243	$ 3,256,961,296
Acquisitions of non-controlling interests, net	2	-	-	(28,390,169)	-	-	(28,390,169)	(43,109,831)	(71,500,000)
Contributions of non-controlling interests		-	-	-	-	-	-	123,806,418	123,806,418
Profit and other comprehensive income for the year		-	-	10,675,134	-	(7,378,403)	3,296,731	(3,171,573)	125,158
Balance at March 31, 2013		$ 716,942,825	$ 1,074,219,173	$ 633,987,802	$ 80,351	$ (6,271,536)	$ 2,418,958,615	$ 890,434,257	$ 3,309,392,872

See accompanying notes to unaudited condensed consolidated interim financial statements.

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries

Unaudited Condensed Consolidated Interim Statements of Cash Flows

As of March 31, 2013 and for the three months period ended March 31, 2013 and 2012
(In Mexican pesos)

	For the three months ended	
	March 31, 2013	**March 31, 2012**
Cash flows from operating activities		
Profit before tax	$ 13,431,073	$ 1,369,845
Adjustments for:		
Depreciation	36,933,851	33,092,964
Loss (gain) on disposal of equipment	618,244	369,549
Finance income	(2,847,232)	(3,351,450)
Finance cost	23,216,445	16,385,393
Unrealized foreign currency fluctuations	5,218,963	-
(Gain) / loss on valuation of financial instruments	(470,618)	374,566
	76,100,726	48,240,867
Movements in working capital		
Trade receivables and recoverable taxes, net	6,538,888	(18,909,427)
Prepaid expenses	(3,819,953)	5,984,495
Guarantee deposits	-	(2,801,365)
Trade and other payables	413,854	7,849,724
Other taxes, accrued expenses and other liabilities	(11,053,100)	20,633,483
Employee benefits	(5,635,475)	710,503
Income tax and business flat tax paid	(5,646,859)	(1,236,230)
Net cash flows from operating activities	56,898,081	60,472,050
Investing activities:		
Payments for property, equipment and leasehold improvements	(190,120,132)	(222,262,611)
Other assets	11,819,249	6,663,479
Finance income received	2,847,232	3,351,450
Net cash flow used in investing activities	(175,453,651)	(212,247,682)
Financing activities:		
Proceeds from contributions received from non-controlling interests	123,806,417	53,404,077
Finance costs paid	(21,307,418)	(24,054,253)
Proceeds from short and long-term borrowings	19,156,708	221,819,923
Repayment of borrowings	(21,773,488)	(87,855,411)
Payments to acquire non-controlling interests	(71,500,000)	-
Net cash flows from financing activities	28,382,219	163,314,336
Net increase (decrease) in cash, cash equivalents and restricted cash	(90,173,351)	11,538,704
Cash, cash equivalents and restricted cash at the beginning of the period	555,008,607	571,182,858
Effects of exchange rate changes on the balance of cash held in foreign currencies and effects of balances of foreign operations	(11,052,656)	(2,178,636)
Cash, cash equivalents and restricted cash at the end of the period	$ 453,782,600	$ 580,542,926

See accompanying notes to unaudited condensed consolidated interim financial statements.

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial statements

For the three months ended March 31, 2013 and 2012

(In Mexican pesos)

1. General information and basis of presentation

General information

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries (the "Entity") are primarily engaged in the ownership, operation and management of hotels using the brand names Hoteles City Express, City Suites and City Junior.

The business address is Montes Urales #715, second floor, Delegación Miguel Hidalgo, México, Distrito Federal, Mexico, 11000.

Basis of presentation

Explanation for translation into English - The accompanying unaudited condensed consolidated interim financial statements have been translated from Spanish into English for use outside of Mexico. Certain accounting practices applied by the Company in the accompanying unaudited condensed consolidated interim financial statements may not conform with accounting principles generally accepted in the country of use.

Basis of presentation - The accompanying unaudited condensed consolidated interim financial statements as of March 31, 2013 and for the three months ended March 31, 2013 and 2012 have not been audited. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS or IFRS when referring to the comprehensive set of International Financial Reporting Standards) 34, *Interim Financial Reporting*. The Entity has included all adjustments (consisting mainly of ordinary, recurring adjustments) considered necessary for the fair presentation of the accompanying unaudited condensed consolidated interim financial statements according to IAS 34. The results of operations for the periods presented are not necessarily indicative of results for the full year.

These unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with Company's financial statements as of and for the year ended December 31, 2012.

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

Much of the hotel industry is inherently seasonal in nature. However, the Entity's primary focus on the business traveler and its predominantly urban or suburban geographic footprint means that most of its business is not affected by seasonality. The Entity estimates that less than 10% of its business relies on tourist travel. Instead, its business more closely tracks Mexican GDP and macroeconomic conditions. Despite this, the occupancy levels of the hotels of the Entity tend to fluctuate during the holiday season, from mid-December to mid-January.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Hoteles City Express, S.A.P.I. de C.V. and the entities it controls (its subsidiaries). Control is achieved where the Entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The shareholding in the share capital of those entities is as follows:

Entity	Shareholding percentage	Activity
Inmobiliaria Hotelera City Express, S.A. de C.V.	100	Holding of entities located in Mexico.
Operadora de Hoteles City Express, S.A. de C.V.	100	Provides management, development, marketing and franchise services.
Operadora de Hoteles City Internacional, S.A. de C.V.	100	Provides management, development, marketing and franchise services, mainly in hotels located overseas.
Servicios Comerciales y Promoción de Hoteles, S.A. de C.V.	100	Provides corporate services
Promotora Hotelera City Express, S.A. de C.V.	69.48	Holding of entities located overseas, with a 50% investment in Sac Be Ventures, LLC and a 100% investment in Hoteles City Express Chile, L.T.D.A., which holds a 50% investment in Inversiones HCP, S.A.

All intra-group transactions, balances, income and expenses are eliminated in full in consolidation.

The results of subsidiaries acquired or disposed during the period are included in the unaudited condensed consolidated statements of profit and other comprehensive income (loss) from the date of acquisition or up to the date of sale, as applicable.

Changes in the Entity's ownership interests in existing subsidiaries

Changes in the Entity's ownership interests in subsidiaries that do not result in the Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Entity.

2. Significant events in the three months ended March 31, 2013

a. On January 14, 2013 the Entity completed the acquisition of the non-controlling interest of Impulsora Plaza Baja Norte, S.A. for $71,500,000.

b. On March 15, 2013 the Entity entered into an investment agreement in which the subsidiary Promotora Hotelera City Express, S.A. de C.V, increased its variable capital stock for $386,772,104 due to the incorporation of new shareholders, thereby diluting the participation of the Entity.

3. Application of new and revised IFRS

Amendments issued but not yet effective:

- IFRS 9 *Financial Instruments*
- Amendments to IFRS 9 and IFRS 7 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*
- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities and the Related Disclosures*

New standards adopted on January 1, 2013:

a. *IFRS 13 Fair Value Measurement* - IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS 13 defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required by the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* were extended by IFRS 13 to cover all assets and liabilities within its scope.

b. Amendments to IFRS 7 and IAS 32 *Offsetting Financial Assets and Financial Liabilities and the Related Disclosures* -The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

   The *Annual Improvements to IFRSs 2009 – 2011 Cycle* include a number of amendments to various IFRSs. Amendments to IFRS include:

   - Amendments to IAS 16 - The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

   - Amendments to IAS 32 - The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*.

   - Amendments to IAS 34 – The amendments clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in interim financial reporting only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

   At the date of these interim condensed consolidated financial statements, the Entity has not fully evaluated the impact of these new standards on its financial position; however, the management believes that its adoption will not have a material impact on its financial position or in the results of its operations.

4. Significant accounting policies

The Entity has applied the same accounting policies in the preparation of these unaudited condensed consolidated interim financial statements as those applied in the consolidated financial statements for the year ended December 31, 2012, except as otherwise disclosed in Note 3.

5. Cash, cash equivalents and restricted cash

	March 31, 2013	December 31, 2012
Cash and bank deposits	$ 131,687,443	$ 93,963,678
Cash equivalents - Investments available on demand	298,305,349	435,889,962
Restricted cash (1)	23,789,808	25,154,967
	$ 453,782,600	$ 555,008,607

(1) Restricted cash represents funds held in a trust, as required by the Entity's loan agreements, in amounts equal to the principal and interest payments as established in these agreements. The payments are generally related to the following month or quarter, for which reason, restricted cash is classified as current.

6. Trade receivables

	March 31, 2013	December 31, 2012
Customers	$ 47,424,590	$ 39,259,217
Allowance for doubtful accounts	(803,199)	(724,959)
Sundry debtors	5,139,666	4,790,760
	$ 51,761,057	$ 43,325,018

7. Property, equipment and leasehold improvements

	December 31, 2012	Additions	Disposals	Capitalization of construction in progress	Effects of foreign exchange rates	March 31, 2013
Land	$ 1,228,553,112	$ 67,344,327	$ -	$ -	$ (7,168,035)	$ 1,288,729,404
Buildings	2,654,653,914	8,088,062	-	-	(2,276,777)	2,660,465,199
Operating equipment	499,462,428	11,648,685	7,933,245	7,767,316	(379,429)	510,565,755
Minor equipment	46,657,300	91,163	6,442	-	-	46,742,021
Computers	61,900,449	5,873,595	20,261	-	(56,796)	67,696,987
Furniture and equipment	16,833,814	451,398	319,993	-	-	16,965,219
Leasehold improvements	8,044,901	-	-	-	-	8,044,901
Vehicles	24,663,027	723,922	-	-	(30,611)	25,356,338
Remodeling and replacements	26,014,050	2,454,813	-	-	(28,714)	28,440,149
Construction in-progress	360,200,301	87,869,136	-	(7,767,316)	(1,592,477)	438,709,644
Total	4,926,983,296	184,545,101	8,279,941	-	(11,532,839)	5,091,715,617
Accumulated depreciation:						
Buildings	(63,532,308)	(5,984,070)	-	-	-	(69,516,378)
Operating equipment	(267,477,009)	(21,960,464)	7,661,698	-	-	(281,775,775)
Minor equipment	(30,508,729)	(1,479,414)	-	-	-	(31,988,143)
Computers	(30,930,293)	(4,426,538)	-	-	-	(35,356,831)
Furniture and equipment	(23,827,131)	(124,838)	-	-	-	(23,951,969)
Leasehold improvements	(4,838,924)	-	-	-	-	(4,838,924)
Vehicles	(11,083,065)	(1,055,070)	-	-	-	(12,138,135)
Accumulated depreciation	(432,197,459)	(35,030,394)	7,661,698	-	-	(459,566,155)
Total	$ 4,494,785,837	$ 149,514,707	$ 618,243	$ -	$ (11,532,839)	$ 4,632,149,462

8. Other assets

The balance as of March 31, 2013 is primarily composed of:

i. Payments for the acquisition of the "El Dorado Bogotá" land, through a purchase- sale and trust agreement executed by the subsidiary Sac BeVentures Colombia, .S. A.S.; the land will be used for the planning, design, and construction of buildings owned by Sac Be Ventures Colombia, S.A.S. As of the issuance date of the accompanying unaudited condensed consolidated interim financial statements, the total acquisition value of the land has been paid.

ii. Payments to obtain bank loans which as of March 31, 2013, are in the process of being finalized.

9. Bank loans

At March 31, 2013 and December 31, 2012, the long-term bank loans are summarized as follows:

Collateralized loans (hotels as collateral), carried at amortized cost:	March 31, 2012	December 31, 2012
Line of credit with HSBC for $770,874,057, at TIIE (28 days) plus 1.90%, maturing in 2019	$ 749,449,057	$ 759,388,095
HSBC loan for $19,000,000, at TIIE (28 days) plus 2.60%, maturing in 2014 (ii)	4,295,927	4,963,049
Banorte loan for $20,000,000, at TIIE (28 days) plus 2.85%, maturing in 2014 (i)	5,482,890	6,186,852
HSBC loan for $20,423,000, at TIIE (28 days) plus 2.60%, maturing in 2015 (i)	9,026,606	9,609,715
BANCOMEXT loan for $22,027,560, at TIIE (28 days) plus 2.75%, maturing in 2016 (i)	9,914,669	10,599,044
BANCOMEXT loan for $24,122,484, at TIIE (28 days) plus 2.75%, maturing in 2016 (i)	12,483,486	13,995,754
BANCOMEXT loan for $21,452,643, at TIIE (28 days) plus 4.00%, maturing in 2018 (iii)	17,500,255	17,443,344
BANCOMEXT loan for $33,109,427, at TIIE (28 days) plus 3.25%, maturing in 2020 (iii)	28,974,545	28,582,319
Santander loan for $27,000,000, at TIIE (28 days) plus 2.75%, maturing in 2017 (i)	16,457,781	17,136,673
Loan with MetLife for $85,000,000, fixed rate of 8.88%, maturing in 2019 (ii)	82,339,305	82,522,855
BBVA loan for $25,380,000, at TIIE (28 days) plus 1.95%, maturing in 2017 (iii)	14,791,486	14,713,785
BBVA loan for $28,762,000, at TIIE (28 days) plus 3.25%, maturing in 2020 (iii)	21,922,021	27,255,998
Banorte loan for $29,300,000, at TIIE (28 days) plus 1.96%, maturing in 2018 (iii)	16,787,208	17,615,151
BANCOMEXT loan for $43,404,133, at TIIE (28 days) plus 3.25%, maturing in 2020 (i)	35,348,207	35,249,554
BANCOMEXT loan up to $ 28,601,446, at TIIE (28 days) plus 3.25%, maturing in 2020 (i)	26,392,812	26,354,375
Santander loan with for $26,039,905, at TIIE (28 days) plus 4.00%, maturing in 2018 (i)	20,707,619	20,661,327
Scotiabank loan for $30,000,000, at TIIE (28 days) plus 3.50%, maturing in 2015 (i)	24,760,925	25,235,383
BANCOMEXT loan for $35,331,922, at TIIE (28 days) plus 2.25%, maturing in 2021 (iii)	31,882,859	31,726,689
BANCOMEXT loan for $42,405,101, at TIIE (28 days) plus 3.25% maturing in 2021 (i)	38,510,825	38,441,011
BANCOMEXT loan for $39,305,629, at TIIE (28 days) plus 3.25%, maturing in 2021 (ii)	38,518,882	38,479,813
BANCOMEXT loan for $30,000,000, at TIIE (28 days) plus 2.25%, maturing in 2021 (i)	28,578,070	28,824,297
Scotiabank loan for $28,880,000, at TIIE (28 days) plus 3.30%, maturing in 2016 (i)	25,778,765	26,269,401
Loan from International Finance Corporation for $191,000,000, at TIIE (28 days) plus 2.665% maturing in 2022 (i)	183,020,992	182,781,923
BANCOMEXT loan for $35,133,148, at TIIE (28 days) plus 3.3%, maturing in 2022 (i)	34,206,874	35,045,315
Line of credit with International Finance Corporation and	54,337,907	60,118,216

Collateralized loans (hotels as collateral), carried at amortized cost:	March 31, 2012	December 31, 2012
Deutsche Investitions-und Entwicklungsgesellshaft mbH up to USD$30,000,000, at LIBOR plus 4.70%, maturing in 2023 (iii)		
BANCOMEXT loan for $35,925,492, at TIIE (28 days) plus 2.33%, maturing in 2022 (i)	35,296,444	35,264,616
Corp Banca loan for 1,070,364,637 Chilean pesos, at a rate of 8.05%, maturing in 2014 (iv)	27,932,271	28,920,957
Corp Banca loan for 950,357,926 Chilean pesos, at a rate of 5.20%, maturing in 2014 (iv)	24,806,957	25,723,716
Corp Banca loan for 529,311,540, Chilean pesos at a rate of 5.20%, maturing in 2014 (iv)	13,621,307	14,327,086
Corp Banca loan for 734,064,826 Chilean pesos, at a rate of 5.20%,.	19,390,347	
Actinver loan for $40,000,000, at TIIE (28 days) plus 2.5%, maturing in 2015 (i)	39,788,286	39,782,134
Interest payable	10,115,067	9,021,096
Total	1,702,420,652	1,712,239,543
Less: current portion	(95,153,582)	(86,688,414)
Long-term debt	$ 1,607,267,070	$ 1,625,551,129
TIIE at period end	4.3512%	4.8475%

(i) Quarterly amortization
(ii) Monthly amortization
(iii) Bi-annual amortization
(iv) Principal due at the term of the loan
LIBOR = London Interbank Offered Rate
TIIE = Mexican Interbank Equilibrium Interest Rate

10. Income taxes

Current taxes payable are based on taxable income (for regular income tax) and cash flows (for the business flat tax) for each year. Taxable income differs from the profit reported in the unaudited condensed consolidated interim statement of profit and other comprehensive income (loss) because of items of income or expenses taxable or deductible in other years and items that are never taxable or deductible. Deferred income taxes are calculated using tax rates enacted or substantially enacted at the end of the reporting period.

Foreign subsidiaries calculate income tax based on their individual results and according to the regulations established for each country.

Pricom Cariari, S. A. - Costa Rica: this company is subject to the payment of income tax at a 30% rate, as established by the tax laws of Costa Rica.

Sac Be Ventures Colombia, S. A. S. – Colombia is subject to the payment of income tax at a 25% rate as of January 1, 2013. During the years ended December 31, 2012 and 2011, the company did not generate taxable income; the income tax rate was 33%. According to the provisions of paragraphs 3 and 4 of Article 207-2 of the Tax Code, income from hotel services is exempt (i) for new hotels built within 15 years from the effectiveness of Act 788 of 2002, that is, until December 31, 2017, and (ii) for hotels that are remodeled and / or expanded, for a term of 30 years. On January 1, 2013, the Colombian tax authorities established a new equity tax. This tax is calculated based on gross income less non-taxable income, expenses, deductions, and

windfall profits, at a rate of 8%. For the years 2013, 2014 and 2015, the applicable rate will be 9%. This tax may not be offset by tax losses or excess presumptive income of prior periods.

Mexican legal entities are subject to the payment of income tax (ISR) and business flat tax (IETU).

The ISR rate during 2013 and 2012 was 30%. Pursuant to changes to the Mexican Income Tax Law for 2013, the ISR rate will change to 29% for 2014 and 28% for 2015 and thereafter.

IETU - Revenues, as well as deductions and certain tax credits, are determined based on cash flows of each fiscal year. The IETU rate is 17.5%.

Income tax incurred will be the higher of ISR and IETU.

Based on its financial projections, the Entity identified that subsidiaries with significant investments in property and equipment essentially pay ISR. Accordingly, those entities recognize deferred tax based on ISR; other subsidiaries that are service providers expect to incur principally IETU and have thus calculated deferred income taxes based on IETU.

Income taxes for the three months ended March 31, are as follows

	March 31, 2013	March 31, 2012
ISR:		
Current tax	$ 2,863,936	$ 2,594,939
Deferred tax	(2,908,473)	(5,320,049)
	(44,537)	(2,725,110)
IETU:		
Current tax	2,651,869	2,402,790
Deferred tax	78,883	75,748
	2,730,752	2,478,538
	$ 2,686,215	$ (246,572)

11. Fair value of financial instruments carried at amortized cost

Except as detailed in the following table, Management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

	March 31, 2013		December 31, 2012	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Banking loans and interest	$ 1,702,420,652	$ 1,703,046,587	$ 1,712,239,543	$ 1,695,708,362

12. Capital

Common stock as of March 31, 2013 and December 31, 2012 is as follows:

Series	Number of shares
Series A	100
Series B	61,751,337
Total	61,751,437

The historical capital amounted to $716,942,825, which consisted of Series "A" common shares, without par value, corresponding to fixed capital without right of withdrawal and Series "B" shares corresponding to variable capital, which subscription is unlimited.

Stockholders' equity, except for restated paid-in capital and tax retained earnings will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.

13. Earnings per share

The Entity does not have any potentially dilutive instruments, for which reason basic and diluted earnings per share are equal.

	March 31, 2013 Pesos per share	March 31, 2012 Pesos per share
Basic and diluted earnings per share	0.1729	0.0003

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	March 31, 2013	March 31, 2012
Profit for the year attributable to owners of the Entity	$ 10,675,134	$ 19,224
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	61,751,437	61,751,437

14. Transactions and balances with related parties

Balances and transactions between the Entity and its subsidiaries, which are related parties of the Entity, have been eliminated in consolidation and are not disclosed in this note.

There were no relevant transactions with related parties during the three months ended March 31, 2013.

15. Operating leases – the Entity as a lessee

The Entity has entered into a new operating lease over one of its hotel properties, which incurs a fixed monthly rent based on the total project investment, adjusted annually for inflation plus, in some cases, contingent rental payments determined as a percentage of the total revenue generated by the hotel. Rental payments are denominated in local currency. The lease has a term of 15 years from the opening date of the hotel, renewable for a period of five years.

16. Segments

The operating segment information is presented based on the manner in which the Chief Executive Officer and the Board of Directors assess economic performance and operating results of the Entity as well as the manner in which they assign resources to each segment. As a result of consolidation of the subsidiaries controlled by the Entity, intercompany transactions between the operating segment of the Entity are eliminated, which are shown in a separate column within the segment information below.

An operating segment is a component of an Entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the Management and the Board of Directors with respect to both performance evaluation and resource allocation, and for which discrete financial information is available. The Entity's reportable segments below are based on its operating segments.

For the three months ended March 31, 2013

Statement of profit and other comprehensive income (loss) data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
Total revenues	$ 234,305,262	$ 54,089,588	$ 288,394,850	$ (47,993,884)	$ 240,400,966
Costs and expenses (excluding depreciation)	(166,307,511)	(47,787,619)	(214,095,130)	47,993,884	(166,101,246)
Profit before other non-recurring operating expenses and depreciation:	67,997,751	6,301,969	74,299,720	-	74,299,720
Other expenses and expenses associated with opening of new hotels	(1,819,674)	-	(1,819,674)	-	(1,819,674)
Profit before depreciation:	66,178,077	6,301,969	72,480,046	-	72,480,046
Depreciation	(36,933,851)	-	(36,933,851)	-	(36,933,851)
Operating profit	$ 29,244,226	$ 6,301,969	$ 35,546,195	$ -	$ 35,546,195

For the three months ended March 31, 2012

Statement of profit and other comprehensive income (loss) data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
Total revenues	$ 200,025,010	$ 49,077,316	$ 249,102,326	$ (44,951,144)	$ 204,151,182
Costs and expenses (excluding depreciation)	(147,016,841)	(41,197,925)	(188,214,766)	44,951,144	(143,263,622)
Profit before other non-recurring operating expenses and depreciation:	53,008,169	7,879,391	60,887,560	-	60,887,560
Other expenses and expenses associated with opening of new hotels	(581,406)	-	(581,406)	-	(581,406)
Profit before depreciation:	52,426,763	7,879,391	60,306,154	-	60,306,154
Depreciation	(33,092,964)	-	(33,092,964)	-	(33,092,964)
Operating profit	$ 19,333,799	$ 7,879,391	$ 27,213,190	$ -	$ 27,213,190

17. Contingencies

Neither the Entity nor its assets are subject to any legal action outside of the normal course of business.

18. Events after the reporting period

a. In a shareholders’ meeting held on April 10, 2013, the shareholders approved, among other matters, the issuance of 40,989,509 Series “B” common shares, without par value, which will be distributed as follows:

- 38,817,145 to be deposited in the treasury of the Entity which will be designated as a capital increase at a subsequent date, at which time the shareholders will define the terms and conditions of such issuance in a future shareholders’ meeting.

- 2,172,364 to be subscribed and paid in installments by certain executives of the Entity based on a future agreement that will be executed between the Entity and those certain executives. The subscription of the shares will depend on the fulfillment of certain performance metrics to be met by the Entity during each of the years to be set forth in the agreement.

b. In May 2013, the Entity acquired a hotel property in Zona Rosa, Mexico City that was previously managed for $71,000,000. Additionally, the Entity expressed its intent to acquire the non-controlling interest of Rivera del Mar, S.A. de C.V. for $33,971,999.

19. Authorization to issue the consolidated financial statements

The issuance of the accompanying unaudited condensed consolidated interim financial statements was authorized by Ing. Luis Eduardo Barrios Sánchez, CEO, Lic. Roberto Palacios Prieto, CFO and C.P. Juan Carlos Pioquinto Vázquez, Director of Administration, on April 26, 2013 and consequently do not reflect events after this date.

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Independent Auditors' Report to the Board of Directors and Stockholders of Hoteles City Express, S.A.P.I. de C.V.

We have audited the accompanying consolidated financial statements of Hoteles City Express, S. A. P. I. de C. V. and its subsidiaries (the Entity), which comprise the consolidated statements of financial position as of December 31, 2012, 2011 and 2010 and January 1, 2010 (transition date), and the consolidated statements of profit and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2012, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hoteles City Express, S. A. P. I. de C. V. and its subsidiaries as of December 31, 2012, 2011 and 2010 and January 1, 2010 (transition date), and their financial performance and cash flows for the years ended December 31, 2012, 2011 and 2010, in accordance with International Financial Reporting Standards.

Other Matter

We draw attention to Note 2 to the consolidated financial statements, indicating that the Entity adopted International Financial Reporting Standards on December 31, 2012. The effects of the transition to International Financial Reporting Standards, and the differences on amounts previously reported under Mexican Financial Reporting Standards are presented in Note 29.

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

/s/ Juan Antonio Rodríguez Espínola

C. P. C. Juan Antonio Rodríguez Espínola

April 5th, 2013

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries

Consolidated statements of financial position

As of December 31, 2012, 2011 and 2010 and January 1, 2010 (transition date)
(In Mexican pesos)

Assets	**Note**	**2012**	**2011**	**2010**	**January 1, 2010**
Current assets:					
Cash, cash equivalents and restricted cash	**6**	$ 555,008,607	$ 571,182,858	$ 896,108,215	$ 227,174,000
Trade receivables, net	**7**	43,325,018	32,198,982	22,298,564	22,944,329
Recoverable taxes – mainly value-added tax		121,930,128	85,093,736	37,964,171	35,961,121
Prepaid expenses	**8**	36,689,818	37,915,713	26,116,745	22,003,872
Total current assets		756,953,571	726,391,289	982,487,695	308,083,322
Investment in a Trust	**10**	-	-	19,987,453	18,522,688
Property, equipment and leasehold improvements	**11**	4,494,785,837	3,881,235,844	3,097,394,210	2,821,248,127
Guarantee deposits		2,897,807	2,396,708	1,734,778	1,703,079
Other assets	**12**	108,122,729	8,681,919	-	1,570,227
Derivative financial instruments	**9**	344,011	2,700,072	2,195,695	1,698,120
Total assets		$ 5,363,103,955	$ 4,621,405,832	$ 4,103,799,831	$ 3,152,825,563
Liabilities and equity					
Current liabilities:					
Bank loans and current portion of long-term debt	**13**	$ 86,688,414	$ 55,844,496	$ 55,893,714	$ 42,032,479
Trade accounts payable		47,750,622	38,410,803	25,770,082	27,793,879
Other taxes, accrued expenses and other liabilities		85,836,786	31,828,242	27,263,005	18,579,899
Derivative financial instruments	**9**	262,888	1,183,610	2,380,360	3,353,946
Income tax and business flat tax		10,387,418	8,349,738	7,159,340	4,250,527
Direct employee benefits	**14**	6,067,292	4,871,098	992,085	6,226,474
Total current liabilities		236,993,420	140,487,987	119,458,586	102,237,204
Long-term debt	**13**	1,625,551,129	1,049,320,446	684,333,322	606,920,182
Deferred revenue	**15**	17,851,159	13,234,170	9,056,951	9,578,542
Employee benefits	**14**	1,033,442	465,376	300,346	347,995
Deferred income tax	**16**	224,713,509	248,381,035	260,846,596	293,152,219
Total liabilities		2,106,142,659	1,451,889,014	1,073,995,801	1,012,236,142
Equity	**19**				
Equity attributable to owners of the Entity:					
Issued capital		716,942,825	716,942,825	716,942,825	542,400,676
Additional paid-in capital		1,074,219,173	1,074,219,173	1,074,219,173	400,254,944
Retained earnings		651,702,837	644,867,447	623,370,133	658,484,008
Accumulated other comprehensive income		1,187,218	3,211,439	138,981	-
Total equity attributable to owners of the Entity		2,444,052,053	2,439,240,884	2,414,671,112	1,601,139,628
Non-controlling interests		812,909,243	730,275,934	615,132,918	539,449,793
Total equity		3,256,961,296	3,169,516,818	3,029,804,030	2,140,589,421
Total liabilities and equity		$ 5,363,103,955	$ 4,621,405,832	$ 4,103,799,831	$ 3,152,825,563

See accompanying notes to consolidated financial statements.

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries

Consolidated statements of profit and other comprehensive income

For the years ended December 31, 2012, 2011 and 2010
(In Mexican pesos, except per share data)

	Note	2012	2011	2010
Revenues from hotel operation		$ 890,715,698	$ 686,767,112	$ 573,913,926
Revenues from hotel management		41,487,594	28,280,860	29,440,874
Total	26	932,203,292	715,047,972	603,354,800
Hotel operating costs and expenses	21	502,353,336	409,821,040	325,682,257
Selling and administrative expenses	22	147,540,835	113,155,007	103,070,435
Depreciation		144,498,459	107,750,834	89,248,232
Cost and expenses		794,392,630	630,726,881	518,000,924
Expenses associated with opening of new hotels		12,277,585	13,527,351	6,506,276
Other expenses	23	2,594,087	2,380,120	9,809
Consolidated operating profit		122,938,990	68,413,620	78,837,791
Finance costs		(97,480,643)	(81,348,615)	(68,050,430)
Finance income		17,264,610	13,185,974	6,218,879
Exchange result, net		(10,137,482)	14,794,682	(4,936,131)
Effects of valuation of financial instruments		(1,435,339)	1,701,127	1,471,161
		(91,788,854)	(51,666,832)	(65,296,521)
Profit before tax		31,150,136	16,746,788	13,541,270
Income tax expense	16	5,557,847	6,743,846	1,203,438
Consolidated net profit		25,592,289	10,002,942	12,337,832
Other comprehensive income, net of income tax:				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations		(3,765,600)	5,979,335	-
Items that may not be reclassified subsequently to profit or loss:				
Net actuarial (gain) loss		(170,932)	113,634	222,194
Deferred tax effects of net actuarial (gain) loss from employee benefits		(17,189)	32,568	(66,658)
Total other comprehensive income		(3,953,721)	6,125,537	155,536
Total consolidated comprehensive income		$ 21,638,568	$ 16,128,479	$ 12,493,368
Profit for the year attributable to:				
Owners of the Entity		$ 23,990,746	$ 21,497,314	$ 9,744,255
Non-controlling interests		1,601,543	(11,494,372)	2,593,577
		$ 25,592,289	$ 10,002,942	$ 12,337,832
Total consolidated comprehensive income for the year attributable to:				
Owners of the Entity		$ 21,966,525	$ 24,569,772	$ 9,883,236
Non-controlling interests		(327,957)	(8,441,293)	2,610,132
		$ 21,638,568	$ 16,128,479	$ 12,493,368
Basic and diluted profit per share	20	$ 0.3885	$ 0.3481	$ 0.1926

See accompanying notes to consolidated financial statements.

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries

Consolidated statements of changes in equity

For the years ended December 31, 2012, 2011 and 2010
(In Mexican pesos)

	Note	Capital stock	Additional paid-in capital	Retained earnings	Net actuarial gain (loss)	Exchange differences on translating foreign operations	Equity attributable to owners of the parent	Non-controlling interests	Total
Balance at January 1, 2010		$ 542,400,676	$ 400,254,944	$ 658,484,008	$ -	$ -	$ 1,601,139,628	$ 539,449,793	$ 2,140,589,421
Issuance of ordinary shares		174,542,149	673,964,229	-	-	-	848,506,378	-	848,506,378
Acquisitions of non-controlling interests	17	-	-	(44,858,130)	-	-	(44,858,130)	(43,946,124)	(88,804,254)
Contributions of non-controlling interests								117,019,117	117,019,117
Profit and other comprehensive income for the year		-	-	9,744,255	138,981	-	9,883,236	2,610,132	12,493,368
Balance at December 31, 2010		716,942,825	1,074,219,173	623,370,133	138,981	-	2,414,671,112	615,132,918	3,029,804,030
Increase in non-controlling interests from exchange of assets	17	-	-	-	-	-	-	10,964,330	10,964,330
Contributions of non-controlling interests		-	-	-	-	-	-	112,619,979	112,619,979
Profit and other comprehensive income for the year		-	-	21,497,314	82,791	2,989,667	24,569,772	(8,441,293)	16,128,479
Balance at December 31, 2011		716,942,825	1,074,219,173	644,867,447	221,772	2,989,667	2,439,240,884	730,275,934	3,169,516,818
Acquisitions of non-controlling interests	17	-	-	(17,155,356)	-	-	(17,155,356)	(14,844,644)	(32,000,000)
Contributions of non-controlling interests		-	-	-	-	-	-	104,668,512	104,668,512
Equity reductions		-	-	-	-	-	-	(4,511,348)	(4,511,348)
Payment of dividends		-	-	-	-	-	-	(2,351,254)	(2,351,254)
Profit and other comprehensive income for the year		-	-	23,990,746	(141,421)	(1,882,800)	21,966,525	(327,957)	21,638,568
Balance at December 31, 2012		$ 716,942,825	$ 1,074,219,173	$ 651,702,837	$ 80,351	$ 1,106,867	$ 2,444,052,053	$ 812,909,243	$ 3,256,961,296

See accompanying notes to consolidated financial statements.

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries

Consolidated statements of cash flows

For the years ended December 31, 2012, 2011 and 2010
(In Mexican pesos)

	2012	2011	2010
Cash flows from operating activities			
Profit before tax	$ 31,150,136	$ 16,746,788	$ 13,541,270
Adjustments for:			
Depreciation	144,498,459	107,750,834	89,248,232
Loss (gain) on disposal of equipment	23,673,031	4,632,316	(4,984,361)
Finance income	(17,264,610)	(13,185,974)	(6,218,879)
Purchase gain on business acquisition		(3,184,753)	
Gain on exchange of assets		(11,478,977)	
Finance costs	97,480,643	81,348,615	68,050,430
(Gain) / loss on valuation of financial instruments	1,435,339	(1,701,127)	(1,471,161)
Unrealized foreign currency fluctuations	(1,105,600)	9,628,998	(3,991,484)
	279,867,398	190,556,720	154,174,047
Trade receivables and recoverable tax	(47,962,428)	(57,029,983)	(1,357,285)
Prepaid expenses	1,225,895	(11,798,968)	(4,112,873)
Guarantee deposits	(501,099)	(661,930)	(31,699)
Trade and other payables	9,339,819	12,640,721	(2,023,797)
Other taxes, deferred revenue, accrued expenses and other liabilities	52,751,786	13,804,316	11,169,241
Employee benefits	1,764,260	4,044,043	(5,282,038)
Income tax and Business Flat Tax paid	(27,187,692)	(17,986,442)	(19,394,937)
Net cash flows from operating activities	269,297,939	133,568,477	133,140,659
Investing activities:			
Payments for property, equipment and leasehold improvements	(776,146,453)	(766,671,796)	(380,441,641)
Proceeds from sale of property, equipment and leasehold improvements			33,272,434
Net cash outflow on acquisition of subsidiaries	-	(27,915,262)	-
Net cash outflow on exchange of assets		(71,957,181)	
Net cash outflow on acquisition of investment in trust	-	-	(1,464,765)
Other assets	(99,440,810)	(8,681,919)	1,570,227
Finance income received	17,264,610	13,185,974	6,218,879
Net cash flow used in investing activities	(858,322,653)	(862,040,184)	(340,844,866)
Financing activities:			
Proceeds from issuance of equity instruments of the Company	-	-	848,506,378
Proceeds from contributions received from non-controlling interests	104,668,512	123,584,309	103,526,117
Reductions in contributions received from non-controlling interests	(4,511,348)	-	-
Payment of dividends of non-controlling interests	(2,351,254)	-	-
Finance costs paid	(93,011,311)	(80,807,236)	(64,259,685)

	2012	2011	2010
Proceeds from long-term borrowings	1,329,881,048	528,311,849	130,177,605
Repayment of borrowings	(726,108,864)	(173,521,907)	(38,331,532)
Payments to acquire non-controlling interests	(32,000,000)	-	(108,720,000)
Net cash flows from financing activities	576,566,783	397,567,015	870,898,883
Net increase (decrease) in cash, cash equivalents and restricted cash	(12,457,931)	(330,904,692)	663,194,676
Cash, cash equivalents and restricted cash at the beginning of the year	571,182,858	896,108,215	227,174,000
Effects of exchange rate changes on the balance of cash held in foreign currencies and effects of balances of foreign operations	(3,716,320)	5,979,335	5,739,539
Cash, cash equivalents and restricted cash at the end of the year	$ 555,008,607	$ 571,182,858	$ 896,108,215
Transactions that did not require cash flow			
Exchange of assets involving Investment in trust	$ -	$ 19,987,453	$ -
Non-cash contributions from non-controlling interests	-	-	13,493,000
Acquisition of property, equipment and leasehold improvements on account	5,575,031	15,016,815	-

See accompanying notes to consolidated financial statements.

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries

Notes to the consolidated financial statements

For the years ended December 31, 2012, 2011, 2010 and January 1, 2010 (transition date)
(In Mexican pesos)

1. General information

Hoteles City Express, S.A.P.I. de C.V. and Subsidiaries (the "Entity") are primarily engaged in the ownership, operation and management of hotels using the brand names Hoteles City Express, City Suites and City Junior.
Its activities include structuring hotel projects, overseeing the development of hotels and real estate, management, marketing, franchising, maintenance, organization of properties in the hotel industry, as well as providing hotel construction and technical, administrative and /or specialized services either directly or through third parties.

At December 31, 2012, 2011 and 2010 rooms operated, under the trade names of the Entity, amounted to 8,095, 6,973 and 5,562, of which 1,715, 1,470 and 1,371, were for administered hotels and hotels operated as a franchise.

One of the subsidiaries of the Entity has entered into various executive management services agreements for development projects and for supervision, administration and franchise services, with all subsidiaries of the Entity that act as hotel operators. As consideration, the subsidiary receives both a fixed fee and a variable fee, based on the amount of investment associated with the development and commencement of operation of hotel units and the related hotel revenues, as well as an incentive fee relating to operating income for the use of the hotel brand name and reservation system.

During 2012, 2011 and 2010, new hotels were developed and completed, the number of rooms available increased, land was acquired, new projects with other partners were started and new strategies to continue to increase market penetration and occupancy of hotels were developed. During 2012 the Entity began operating 9 hotels, of which 2 are operated under our managed hotels model. During 2011, the Entity began operating 12 hotels, of which 2 are operated under our managed hotels model; likewise, in 2010, the Entity began operations in 5 hotels.

The business address is Montes Urales #715, second floor, Delegación Miguel Hidalgo, México, Distrito Federal Mexico, 11000.

2. Adoption of International Financial Reporting Standards

On January 1, 2012, the Entity adopted International Financial Reporting Standards ("IFRS"), based on the standards and interpretations issued by the International Accounting Standards Board ("IASB"), in effect at December 31, 2012. The Entity's date of transition is January 1, 2010. As part of its adoption, the Entity applied IFRS 1, *First-time Adoption of International Financial Reporting Standards*.

Transition to IFRS

The consolidated financial statements at December 31, 2011 and 2010 and for the years the ended were previously prepared in accordance with Mexican Financial Reporting Standards ("MFRS"), which differ in certain respects from IFRS. Such financial statements have been modified to reflect the adoption of IFRS as of the date of transition.

Reconciliations and descriptions of the effects of the transition from MFRS to IFRS on the consolidated statements of financial position and comprehensive income are explained in Note 29.

3. Application of new and revised International Financial Reporting Standards (IFRSs)

i. *Amendments issued but not yet effective and applied in advance of the effective date*

The following amendments to IFRSs have been applied in advance in the current year and have affected the amounts reported in the accompanying consolidated financial statements.

IAS 1 *Presentation of financial statements* - The Entity has applied the amendments to International Accounting Standard ("IAS") 1, *Presentation of Items of Other Comprehensive Income*, in advance of the effective date (annual periods beginning on or after 1 July 2012). The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively to all periods presented.

Additionally, the Entity has applied the amendments to IAS 1 as part of the 2009 – 2011 Annual Improvements to IFRS cycle.

IAS 1 requires an entity that changes accounting policies, corrects an error or reclassifies items, to do so retrospectively and present a third statement of financial position as of the beginning of the earliest period presented. The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position; the amendments also clarify that the related notes are not required to accompany the third statement of financial position. There were no changes in the Entity's accounting policies for the periods presented in the accompanying consolidated financial statements.

IAS 19 (revised 2011), *Employee Benefits* - the Entity has applied, in advance, the modifications to IAS 19. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net – interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

IFRS 10 replaces the parts of IAS 27, *Consolidated and Separate Financial Statements*, that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31, *Interests in Joint Ventures*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*, will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

ii. ***New and revised IFRSs in issue but not yet effective***

The Entity has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9, *Financial Instruments* (3)
IFRS 13, *Fair Value Measurement* (1)
Amendments to IFRS 7 Disclosures – *Offsetting Financial Assets and Financial Liabilities* (1)
Amendments to IFRS 9 and IFRS 7 *Mandatory Effective Date of IFRS 9 and Transition Disclosures* (3)
Amendments to IFRS 10, IFRS 11, *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (1)
Amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilities* (2)
Amendments to IFRSs Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 1 (1)

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.

4. Significant accounting policies

The accompanying consolidated financial statements comply with IFRS issued by the IASB. The significant accounting policies followed by the Entity are as follows:

a. ***Basis of measurement***

The consolidated financial statements have generally been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value, as explained in the accounting policies below.

i. Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

ii. Fair value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date.

Additionally, as part of the transition to IFRS, certain of the Entity's fixed assets were measured at their revalued amount under MFRS, while others were measured at fair value as of the date of transition to IFRS, both measurements representing the assets initial "deemed cost", as permitted by IFRS 1.

b. ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of Hoteles City Express, S.A.P.I. de C.V. and the entities it controls (its subsidiaries). Control is achieved where the Entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The shareholding in the share capital of those entities is as follows:

Company	Shareholding percentage	Activity
Inmobiliaria Hotelera City Express, S.A. de C.V.	100	Holding of companies located in Mexico.
Operadora de Hoteles City Express, S.A. de C.V.	100	Provides management, development, marketing and franchise services.
Operadora de Hoteles City Internacional, S.A. de C.V.	100	Provides management, development, marketing and franchise services, mainly in hotels located overseas.
Servicios Comerciales y Promoción de Hoteles, S.A. de C.V.	100	Provides corporate services
Promotora Hotelera City Express, S.A. de C.V.	100	Holding of companies located overseas, with a 50% investment in Sac Be Ventures, LLC and a 100% investment in Hoteles City Express Chile, L.T.D.A., which holds a 50% investment in Inversiones HCP, S.A.

Certain of the entities above consolidate their full or partial interests in other subholdings. The table below presents detail of total comprehensive income attributable to the non-controlling interests in those subholdings as well as their cumulative balances as of the dates thereon:

	Total comprehensive income attributable to non-controlling interests			Accumulated balances of non-controlling interests		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Inmobiliaria Hotelera City Express, S.A. de C.V.	$ 6,832,683	$ (6,657,162)	$ 2,610,132	$ 692,558,728	$ 683,941,086	$ 615,132,918
Promotora Hotelera City Express, S.A. de C.V.	(7,160,640)	(1,784,131)	-	120,350,515	46,334,848	-
Total	$ (327,957)	$ (8,441,293)	$ 2,610,132	$ 812,909,243	$ 730,275,934	$ 615,132,918

All intra-group transactions, balances, income and expenses are eliminated in full in consolidation.

Certain investments in entities in which the Entity has a 50% shareholding are consolidated in these financial statements, as the Entity has concluded that it exercises control over the relevant activities of those entities that generate the variable returns of such investments (see Note 5). Certain detail of the non-controlling interests of those entities is detailed in the table above.

Income and expenses of subsidiaries acquired or disposed during the period are included in the consolidated interim statement of profit and other comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The accounting policies of subsidiaries are modified, where necessary, to align them to the Entity's accounting policies.

Changes in the Entity's ownership interests in existing subsidiaries

Changes in the Entity's ownership interests in subsidiaries that do not result in the Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Entity.

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, *Financial Instruments: Recognition and Measurement*, or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

c. ***Cash and cash equivalents***

Cash comprises cash on hand and demand deposits. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, generally, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents. Cash is stated at nominal value and cash equivalents are stated at fair value with fluctuations in value recognized through finance income or expense.

d. ***Financial assets***

Financial assets are recognized when the Entity becomes a party to the contractual provisions of the instrument.

Financial assets are recorded initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of a financial asset (other than financial assets measured at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial asset or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. During these periods in the accompanying consolidated financial statements, the Entity only had financial assets classified as FVTPL and loans and accounts receivable.

- Financial assets at FVTPL

  Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. The Entity has not designated any assets as at FVTPL but does hold financial assets for trading purposes. These assets are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'effects of valuation of financials instruments' line item in the statement of profit and other comprehensive income.

- Loans and receivables

  Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. However, as the Entity's receivables mainly consist of short-term receivables, interest income is not recognized as it is considered immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Entity's past experience of collecting payments or an increase in the number of delayed payments in the portfolio past the maximum credit period.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Derecognition of financial assets

The Entity derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirely, the difference between the asset´s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

e. ***Other assets***

Other assets principally represent cash disbursements made to acquire assets that will meet the definition of property and equipment, but are presented as other assets as title to the property has not been transferred to the Entity. Once the Entity settles the acquisition of the asset, it is probable that the economic benefits associated with the asset will flow to the entity, the cost can be measured reliably and legal title has been transferred to the Entity, the amount will be reclassified from other assets.

f. ***Property, equipment and leasehold improvements***

As of January 1, 2010, certain property, equipment and leasehold improvements of the Entity were measured at their revalued amount under MFRS, while others were measured at fair value as of the date of transition to IFRS, both measurements representing the assets initial "deemed cost", as permitted by IFRS 1. Acquisitions subsequent to that date are initially recorded at acquisition cost. All assets are subsequently carried at their cost less accumulated depreciation and impairment losses, if any. Depreciation is computed using the straight-line method based on the useful life of assets, based on their significant components and considering the residual value of each component. The only component in which the Entity determined that there is a residual value is with respect to building structures, represented by 56.32% of the total value of the component. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, and the effect of any changes in the estimate recorded is recognized on a prospective basis.

The average depreciation rates of property, equipment and leasehold improvements are as follows:

Buildings	1.43-1.60%
Operating equipment	16.7%
Minor equipment	12.0%
Computers	33.3%
Furniture and equipment	10.0%
Leaseholds improvements	20.0%
Vehicles	20.0%

Leasehold improvements are amortized over the shorter of their useful lives and the lease term.

g. ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

The Entity capitalizes borrowing costs during construction of new hotels, as well as during major remodeling of existing hotels.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

h. ***Impairment of long-lived assets in use***

In the presence of any indicators of impairment (operating losses, negative cash flows, projected losses, among others), which indicate that the carrying value of a long-lived asset may not be recoverable, the Entity reviews such carrying value against the recoverable value of the asset. Recoverable value is the greater of the present value of future net cash flows or fair value less costs to sell the asset. The asset is reduced to its recoverable value when that value is less than the asset's carrying value.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

i. ***Financial liabilities and equity instruments***

Financial liabilities are recognized when the Entity becomes a party to the contractual provisions of the instruments.

Financial liabilities are initially valued at fair value. Transaction costs that are directly attributable to the issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are deducted from the fair value of financial liabilities at initial recognition. Transaction costs directly attributable to the issue of financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

- Classification as debt or equity

  Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

- Equity instruments

  An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Entity are recognized at the proceeds received, net of direct issue costs.

- Financial liabilities

  Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

- Financial liabilities at FVTPL

  A financial liability at fair value through profit or loss is classified as held for trading or is designated as fair value through profit or loss. The Entity has not designated any liabilities as at FVTPL but does hold financial liabilities for trading purposes.

  Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'effects of valuation of financial instruments' line item in the statement of profit and other comprehensive income.

- Other financial liabilities

  Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortized cost using the effective interest method.

  The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

- Derecognition of financial liabilities

  The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

j. ***Income tax***

Income tax expense represents the sum of the current income tax and deferred income tax.

- Current income tax

  The tax currently payable is generally based on taxable profit for the year or and cash flows with respect to the Mexican Business Flat Tax, or "IETU" for certain Mexican entities (see below). Taxable profit differs from profit as reported in the consolidated statement of profit and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

  The foreign subsidiaries calculate income tax on their individual results, according to the regulations of each country.

  Pricom Cariari, S. A. - Costa Rica: is subject to an income tax of 30% according to the tax laws of Costa Rica.

Sac Be Ventures Colombia, S. A. S. - Colombia: is subject to income tax of 25% beginning January 1, 2013. During the years ended December 31, 2012 and 2011, the Colombian operations did not generate income tax, but were subject to statutory rate of 33%. According to the provisions of paragraphs 3 and 4 of Article 207-2 of the Tax Code, income from hotel services is exempt (i) for new hotels built within 15 years from the effectiveness of Act 788 of 2002, that is, until December 31, 2017, and (ii) for hotels that are remodeled and / or expanded, for a term of 30 years. On January 1, 2013, the Colombian tax authorities established a new equity tax. This tax is calculated based on gross income less non-taxable income, expenses, deductions, and windfall profits, at a rate of 8%. For the years 2013, 2014 and 2015, the applicable rate will be 9%. This tax may not be offset by tax losses or excess presumptive income of prior periods.

The Mexican legal entities are subject to Mexican income tax ("ISR") and the Business Flat Tax ("IETU").

- ISR - Changes to the Mexican Income Tax Law in 2013 amended the statutory income tax rates for Mexican companies. For 2012 and 2011, the rate was 30%, where it will remain for 2013, and will decrease to 29% for 2014 and 28% in 2015 and thereafter.
- IETU - IETU is a tax based on income less certain deductions and certain tax credits, determined based on cash flows each year. The rate is 17.5%.

- Deferred income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset when there is a legal right to offset assets with liabilities and when they relate to income taxes relating to the same taxing authority and the Entity intends to liquidate its assets and liabilities on a net basis.

- Current and deferred tax for the year

  Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

k. ***Provisions***

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the resources required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties associated with the obligation. When a provision is valued using the estimated cash flows to settle the present obligation, its carrying amount represents the present value of the cash flow.

When it is expected that some or all of the economic benefits required to settle a provision are recovered from a third party, an asset is recognized when it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are classified as current or noncurrent based on the period of time estimated to meet the obligations covered.

l. ***Revenue recognition***

The Entity recognizes revenue at the time services are rendered, as follows:

i. Revenues from hotel operations, including room rentals are recognized based on the hotel services rendered (rooms, food and beverage sales);
ii. Revenues from hotel management are recognized as they are earned as established in the operating contracts;
iii. Revenues from loyalty programs with third parties are recognized when the service is provided and are included as part of revenues from hotel operations; the fair value of the award is initially recognized as a reduction to revenues and recognized as deferred income until the benefits are rendered or delivered to the client. The liability is presented under the heading of "deferred revenue" in the consolidated statement of financial position.

m. ***Foreign currencies***

In preparing the financial statements of each individual subsidiary of the Entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

i. Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
ii. Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
iii. Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into Mexican pesos using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Entity's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Entity are reclassified to profit or loss.

The functional currencies of registration of foreign operations are as follows:

Country	Functional Currency
Pricom Cariari, S.A.	Colon (Costa Rica)
Sac Be Ventures Colombia, S.A.S.	Colombian Peso
Hoteles City Express Chile, LTDA y subsidiarias (HCE Chile)	Chilean Peso

n. ***Employee benefits***

Short-term employee benefits are calculated based on the services provided, considering current salaries, and a liability is recognized as it accrues. Short-term employee benefits mainly include salaries, holiday pay, vacation pay, bonuses and profit sharing.

Post-employment benefits from seniority premiums are recognized as they accrue and are calculated by independent actuaries based on the projected unit credit method using nominal interest rates.

The Entity recognizes the effects of financial income and expense from the calculation of post-employment benefits as part of interest income or expense in the consolidated statement of profit and other comprehensive income.

The Entity recognizes the costs for past services in the period they are generated. Additionally all actuarial gains and losses are recognized immediately through other comprehensive income.

Profit sharing (PTU for its acronym in Spanish) is a benefit payable to employees established in the Mexican Federal Labor Law and is determined based on taxable income under Article 16 of the Mexican Income Tax Law. PTU payable is recorded in the results of the year in which it is incurred and presented under hotel operating costs and expenses and selling and administrative expenses in the accompanying consolidated statements of profit and other comprehensive income.

o. ***Cash flow statement***

The Entity reports cash flows from operating activities using the indirect method, whereby profit or loss before tax is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Interest and dividends paid are classified as financing cash flows while interest and dividends received are classified as investing activities.

p. ***Business combinations***

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Entity, liabilities incurred by the Entity to the former owners of the acquire and the equity interests issued by the Entity in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 *Financial Instruments - Measurement and Valuation*, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss recognized in profit or loss.

When a business combination is achieved in stages, the Entity's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Entity obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

q. ***Leasing***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. During the periods presented, the Entity only had operating leases.

- The Entity as lessee

  Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

  In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

r. ***Derivative financial instruments***

The Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and interest rate caps. Further details of derivative financial instruments are disclosed in Note 9.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately.

The Entity does not designate these derivatives as accounting hedges, even if they are economic hedges.

s. ***Earnings per share for controlling interest***

Basic earnings per share are calculated by dividing the net income attributable to the controlling interest by the weighted average shares outstanding during the period.

For the periods reported, the Entity has not issued any potential dilutive instruments, for which reason diluted earnings per share approximates basic earnings per share.

5. Critical accounting judgments and key sources of estimation uncertainty

In applying the accounting policies of the Entity, which are described in Note 4, the Entity's management makes judgments, estimates and assumptions about certain amounts of assets and liabilities included in the financial statements and their related disclosures. The estimates and associated assumptions are based on historical experience and other factors deemed relevant. Actual results could differ from those estimates.

a. ***Critical judgments in applying accounting policies***

- <u>Consolidation of subsidiaries</u>

Certain investments in entities in which the Entity has a 50% shareholding are consolidated in these financial statements, as the Entity has concluded that it exercises control over the relevant activities. In management's judgment, it controls the subsidiaries relevant activities through agreements with the shareholders and operating contracts executed. These contracts contain potential voting rights whereby the Entity may acquire shares owned by third parties, which could be executed under certain circumstances.

b. ***Accounting estimates***

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period of the revision and future periods if the revision affects both current period and subsequent periods.

- <u>Revenue recognition for customer loyalty programs</u>

  In applying judgment, management considers the detailed criteria for the recognition of revenue set out in IFRIC 13 *Customer Loyalty Programs* and, in particular, whether the Entity has rendered the related service. Its impact is in the line of deferred revenue, in the consolidated statement of financial position.

- <u>Valuation of employee benefits</u>

  The liability for employee benefits includes estimates of wage growth and employee turnover, mortality rates, future inflation rates, and discount rates that are determined by the external actuary utilized by the Entity, in accordance with financial projections and the historical behaviors. Impacts of changes in these variables will affect the employee benefit liability and the related period costs.

- <u>Valuation of income taxes</u>

  In the determination of deferred tax, the Entity estimates the certainty of generating taxable income in future periods in order to be able to benefit from its deferred tax assets, using projections of future taxable income to assist in this analysis. Impacts of changes in those projections could affect the realizability of the deferred tax assets in the consolidated statement of financial position and any related deferred tax benefit or expense for the period.

Additionally, in Mexico, the Entity is subject to a dual tax system of Income Tax (ISR, for its acronym in Spanish) and Business Flat Tax (IETU, for its acronym in Spanish), whereby it is required to pay the greater of the two taxes in any given year. Accordingly, the Entity projects future taxable profits to determine whether it will pay ISR or IETU, in order to determine under which regime to recognize its deferred tax assets and liabilities. The Entity has estimated that it will principally be subject to ISR in subsidiaries that hold property, equipment and leasehold improvements, and IETU in those entities that principally provide services. Accordingly, the Entity has recognized its deferred taxes based on both rates. Impacts of changes in those projections could affect the recognition of deferred taxes in the consolidated statement of financial position and the related expense for the period.

- Estimated useful lives and residual values of fixed assets

  The Entity, through its internal experts opinion within its development area, evaluates, at the end of each reporting period, the useful life and the residual values of fixed assets, considering their operational experience and characteristics of the assets. Impacts to changes in those estimates could affect the value of property, equipment and leasehold improvements and the related depreciation expense for the period.

6. Cash, cash equivalents and restricted cash

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	2012	2011	2010	January 1, 2010
Cash and bank deposits	$ 93,963,678	$ 61,202,171	$ 66,830,254	$ 34,325,695
Cash equivalents - Investments available on demand	435,889,962	484,020,657	810,347,271	176,785,458
Restricted cash [(1)]	25,154,967	25,960,030	18,930,690	16,062,847
	$ 555,008,607	$ 571,182,858	$ 896,108,215	$ 227,174,000

(1) Restricted cash represents funds held in a trust, as required by the Entity's loan agreements, in amounts equal to the principal and interest payments as established in these agreements. The payments are generally related to the following month or quarter, for which reason, restricted cash is classified as current.

7. Accounts receivable

	2012	2011	2010	January 1, 2010
Customers	$ 39,259,217	$ 29,636,491	$ 18,230,242	$ 20,016,073
Allowance for doubtful accounts	(724,959)	(404,902)	(73,130)	(206,060)
Sundry debtors	4,790,760	2,967,393	4,141,452	3,134,316
	$ 43,325,018	$ 32,198,982	$ 22,298,564	$ 22,944,329

The Entity has customers pursuant to agreements with certain companies, to whom it provides preferred rates and credit terms of 15 to 30 days. The Entity investigates the behavior of potential clients with other hotels, requesting letters of recommendation, in order to negotiate the same preferred rates and terms with such clients.

The Entity has an allowance for doubtful accounts, which is determined by reserving 100% of accounts receivable deemed to be uncollectible. To determine that an account receivable is uncollectible, the Entity is required to have exhausted all negotiations possible with the customer. The Entity also monitors the global deterioration of its receivable portfolio and only recognizes an allowance when there are indicators of impairment that exceed 2% of the total portfolio value.

Accounts receivable described above include amounts in arrears at the end of the period and for which the Entity has not recognized an allowance for doubtful accounts, because there has not been a significant change in credit quality and the amounts still are considered recoverable.

As of December 31, 2012, 53% of the past due portfolio is 30 days past due, 30% of the past due portfolio is 31 to 90 days past due and 17% of the past due portfolio is more than 90 days past due (days past due begin one day subsequent to the payment term date). Past due receivables maintained a similar behavior during the three periods presented in the accompanying consolidated financial statements.

Movement in the allowance for doubtful accounts

	2012	2011	2010
Balance at beginning of the year	$ (404,902)	$ (73,130)	$ (206,060)
Impairment losses recognized on receivables	(407,690)	(588,018)	(1,142,736)
Amounts written off during the year as uncollectible	87,633	256,246	1,275,666
Balance at end of the year	$ (724,959)	$ (404,902)	$ (73,130)

In determining the recoverability of a trade receivable, the Entity considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. Four major customers accounted for 24%, 19% and 32% of the accounts receivable as of December 31, 2012, 2011, and 2010, respectively.

The Entity does not hold any collateral over the balances considered uncollectible.

Age of impaired trade receivables

Impaired receivables have an average age of 164, 159 and 113 days for the years ended December 31, 2012, 2011 and 2010, respectively.

8. Prepaid expenses

	2012	2011	2010	January 1 2010
Insurance	$ 8,102,786	$ 2,567,169	$ 4,116,010	$ 2,022,244
Rentals	-	983,913	-	959,673
Advances to suppliers	15,910,423	26,210,829	19,221,225	14,884,040
Services	6,847,840	4,532,110	2,779,510	4,137,915
Prepaid expenses	5,828,769	3,621,692	-	-
	$ 36,689,818	$ 37,915,713	$ 26,116,745	$ 22,003,872

9. Derivative financial instruments

In order to manage interest rate risk with respect to loans, certain subsidiaries have entered into interest rate swaps and interest rate caps. All derivative financial instruments have been classified as held for trading and hedge accounting has not been applied.

	Beginning date	Ending date	Notional	Fair value at 2012	Fair value at 2011	Fair value at 2010	Fair Value at January 1, 2010
Cap TIIE (28 days) 8.5% Santander	25-March-2009	18-March-2014	$ 20,919,000	$ 514	$ 44,161	$ 61,696	$ 61,008
Cap TIIE (28 days) 8.5% Santander	16-February-2009	15-February-2014	27,365,814	624	51,441	75,925	75,078
Cap TIIE (28 days) 9% BBVA Bancomer	22-June-2006	26-June-2014	23,023,000	-	-	8,754	8,640
Cap TIIE (28 days) 8% Santander	17-April-2009	15-April-2014	33,728,532	2,304	104,588	160,438	158,358
Cap TIIE (28 days) 7.50% Santander	09-April-2010	08-April-2015	29,537,000	63,161	364,387	477,854	-
Cap TIIE (28 days) 8% Santander	20-July-2009	15-July-2014	18,918,000	3,525	77,811	108,958	107,545
Cap TIIE (28 days) 6% Credit Suisse	18-August-2011	15-August-2014	56,277,000	50,194	52,064	-	-
Cap TIIE (28 days) 6% Credit Suisse	18-August-2011	15-August-2014	32,877,000	29,403	30,475	-	-
Cap TIIE (28 days) 6% Credit Suisse	18-August-2011	15-August-2014	31,590,000	28,252	29,282	-	-
Cap TIIE (91 days) 8.5% BBVA Bancomer	15-August-2007	15-November-2016	55,000,000	23,625	10,017	11,408	11,281
Cap TIIE (91 days) 8.5% BBVA Bancomer	16-February-2009	15-November-2013	10,697,500	-	320,778	291,402	288,151
Cap TIIE (28 days) 9% BBVA Bancomer	05-June-2006	04-November-2014	19,000,000	13	12,615	10,690	10,585
Cap TIIE (28 days) 9% BBVA Bancomer	14-August-2006	19-November-2014	20,000,000	29	18,810	15,468	15,317
Cap TIIE (28 days) 8.5% Santander	17-May-2007	17-May-2017	27,000,000	80,005	237,115	239,597	236,924
Cap TIIE (91 days) 8.5% BBVA BANCOMER	28-September-2007	28-June-2017	25,638,500	35,055	384,786	426,578	421,818
Cap TIIE (91 days) 7.5% BBVA BANCOMER	28-June-2010	30-April-2015	28,762,000	14,286	297,184	259,284	256,390
Cap TIIE (91 days) 8.0% Santander	20-January-2011	31-December-2012	25,538,637	-	1,042	-	-
Cap TIIE (91 days) 8.0% Santander	17-April-2009	27-March-2014	22,027,560	316	26,416	47,643	47,025
Cap TIIE (28 days) 6.5% HSBC	14-April-2011	26-December-2013	28,601,446	489	96,478	-	-
Cap TIIE (28 days) 6.5% HSBC	25-April-2011	16-December-2013	38,404,133	713	133,010	-	-
Cap TIIE (28 days) 6.5% HSBC	04-April-2011	03-December-2013	28,880,000	380	82,426	-	-
Cap TIIE (28 days) 6% HSBC	03-June-2011	12-May-2014	39,305,629	11,123	325,186	-	-
				$ 344,011	$ 2,700,072	$ 2,195,695	$ 1,698,120

*TIIE = Mexican Interbank Equilibrium Interest Rate

	Beginning date	Ending date	Notional	Fair Value 2012	Fair Value 2011	Fair Value 2010	Fair Value January 1, 2010
Swap TIIE (28 days) 9.89% IXE	31-may-2004	29-november-2013	$ 18,000,000	$ 45,529	$ 294,325	$ 591,945	$ 702,333
Swap USD Libor 6M 5.26% IXE	18-august-2004	18-march-2013	1,386,847	41,196	238,733	480,137	794,919
Swap TIIE (28 days) 9.91% IXE	11-june-2004	11-dec-2013	9,150,000	64,134	145,958	293,549	355,742
Swap TIIE (28 days) 9.86% IXE	04-june-2004	04-december-2013	17,300,000	69,069	238,014	478,692	580,014
Swap USD Libor 6M 5.41% IXE	27-september-2004	26-march-2013	1,765,000	42,960	266,580	536,037	920,938
				$ 262,888	$ 1,183,610	$ 2,380,360	$ 3,353,946

10. Investment in Trust

In March 2007, the Entity established, as Trustor and secondary beneficiary, jointly with other investors, a trust (the "Trust") to jointly construct a hotel, to operate under one of the trademarks owned by the Entity, as well as offices. On such date, the Entity acquired 22% of the Trust. The principal asset of the Trust is represented by land and works related to the stabilization of the slope of the land, as well as preliminary construction. In February 2011, the Entity acquired 66% of the rights to the Trust. Under IFRS 3 *Business Combination* (IFRS 3), this additional acquisition is not a business combination. Under IAS 16 *Property, Plant and Equipment* (IAS 16) this transaction was considered an exchange of assets with economic substance, whereby the Entity exchanged its beneficiary rights over the Trust for land, generating a gain on the exchange, recognized in the statement of profit and other comprehensive income and the recognition of the non-controlling interest beginning on the date of the purchase of the rights over the Trust.

11. Property, equipment and leasehold improvements

	2011	Additions	Disposals	Capitalization of construction in progress	Effects of foreign exchange rates	2012
Land	$ 1,094,835,294	$ 130,122,918	$ -	$ -	$ 3,594,900	$ 1,228,553,112
Buildings	2,205,825,170	-	5,529,943	454,455,732	(97,045)	2,654,653,914
Operating equipment	414,025,502	114,584,537	29,130,454	-	(17,157)	499,462,428
Minor equipment	46,590,285	75,407	4,689	-	(3,703)	46,657,300
Computers	55,208,073	22,482,552	15,790,176	-	-	61,900,449
Furniture and equipment	16,314,371	1,962,668	1,443,225	-	-	16,833,814
Leasehold improvements	8,044,901	-	-	-	-	8,044,901
Vehicles	20,420,339	7,638,708	3,396,020	-	-	24,663,027
Remodeling and replacements	12,793,206	13,220,844	-	-	-	26,014,050
Construction in-progress	327,591,818	491,633,850	-	(454,455,732)	(4,569,635)	360,200,301
Total	4,201,648,959	781,721,484	55,294,507	-	(1,092,640)	4,926,983,296
Accumulated depreciation						
Buildings	(38,142,814)	(29,449,130)	4,059,636	-	-	(63,532,308)
Operating equipment	(193,138,853)	(88,592,541)	14,254,385	-	-	(267,477,009)
Minor equipment	(29,493,536)	(1,785,226)	770,033	-	-	(30,508,729)
Computers	(28,984,968)	(18,586,199)	16,640,874	-	-	(30,930,293)
Furniture and equipment	(17,431,832)	(7,772,841)	1,377,542	-	-	(23,827,131)
Leasehold improvements	(4,838,924)	-	-	-	-	(4,838,924)
Vehicles	(8,382,188)	(6,248,024)	3,547,147	-	-	(11,083,065)
Accumulated depreciation	(320,413,115)	(152,433,961)	40,649,617	-	-	(432,197,459)
Total	$ 3,881,235,844	$ 629,287,523	$ (14,644,890)	$ -	$ (1,092,640)	$ 4,494,785,837

	2010	Additions	Disposals	Capitalization of construction in progress	Effects of foreign exchange rates (i)	2011
Land	$ 881,739,648	$ 213,095,646	$ -	$ -	$ -	$ 1,094,835,294
Buildings	1,774,828,812	338,747,051	-	92,249,307	-	2,205,825,170
Operating equipment	307,986,231	150,024,760	43,985,489	-	-	414,025,502
Minor equipment	46,401,197	277,837	88,749	-	-	46,590,285
Computers	40,741,606	28,937,295	14,470,828	-	-	55,208,073
Furniture and equipment	14,381,341	2,689,226	756,196	-	-	16,314,371
Leasehold improvements	12,830,576	-	4,785,675	-	-	8,044,901
Vehicles	15,308,459	9,366,368	4,254,488	-	-	20,420,339
Remodeling and replacements	-	12,793,206	-	-	-	12,793,206
Construction in-progress	239,519,515	180,321,610	-	(92,249,307)	-	327,591,818
Total	3,333,737,385	936,252,999	68,341,425	-	-	4,201,648,959
Accumulated depreciation						
Buildings	(16,271,456)	(30,669,233)	8,797,875	-	-	(38,142,814)
Operating equipment	(145,501,783)	(69,444,268)	21,807,198	-	-	(193,138,853)
Minor equipment	(27,983,437)	(1,854,769)	344,670	-	-	(29,493,536)
Computers	(23,769,408)	(17,781,495)	12,565,935	-	-	(28,984,968)
Furniture and equipment	(10,483,873)	(6,966,994)	19,035	-	-	(17,431,832)
Leasehold improvements	(4,838,924)	-	-	-	-	(4,838,924)
Vehicles	(7,494,294)	(4,213,319)	3,325,425	-	-	(8,382,188)
Accumulated depreciation	(236,343,175)	(130,930,078)	46,860,138	-	-	(320,413,115)
Total	$ 3,097,394,210	$ 805,322,921	$ (21,481,287)	$ -	$ -	$ 3,881,235,844

	January 1, 2010	Additions	Disposals	Capitalization of construction in progress	Effects of foreign exchange rates (i)	2010
Land	$ 785,602,395	$ 96,137,253	$ -	$ -	$ -	$ 881,739,648
Buildings	1,549,743,153	144,552,749	-	80,532,910	-	1,774,828,812
Operating equipment	255,595,802	65,592,899	13,202,470	-	-	307,986,231
Minor equipment	45,163,437	3,073,604	1,835,844	-	-	46,401,197
Computers	32,325,972	13,408,456	4,992,822	-	-	40,741,606
Furniture and equipment	12,951,316	2,000,025	570,000	-	-	14,381,341
Leasehold improvements	12,722,881	107,695	-	-	-	12,830,576
Vehicles	11,256,593	5,983,403	1,931,537	-	-	15,308,459
Remodeling and replacements	269,839,576	50,212,849	-	(80,532,910)	-	239,519,515
	2,975,201,125	381,068,933	22,532,673	-	-	3,333,737,385
Accumulated depreciation						
Buildings	-	(20,797,629)	4,526,173	-	-	(16,271,456)
Operating equipment	(98,808,025)	(61,897,362)	15,203,604	-	-	(145,501,783)
Minor equipment	(26,442,170)	(566,688)	(974,579)	-	-	(27,983,437)
Computers	(15,427,550)	(13,327,413)	4,985,555	-	-	(23,769,408)
Furniture and equipment	(3,586,115)	(11,101,956)	4,204,198	-	-	(10,483,873)
Leasehold improvements	(4,838,924)	-	-	-	-	(4,838,924)
Vehicles	(4,850,214)	(4,467,847)	1,823,767	-	-	(7,494,294)
Accumulated depreciation	(153,952,998)	(112,158,895)	29,768,718	-	-	(236,343,175)
Total	$ 2,821,248,127	$ 268,910,038	$ 7,236,045	$ -	$ -	$ 3,097,394,210

(i) During 2010 there were no investments in foreign operations and during 2011, foreign operations did not have fixed assets. Accordingly, no translation effects are shown during those periods.

Assets pledged as collateral

Certain of the Entity's land and buildings are pledged as collateral on its bank loans (see Note 13). The Entity is not authorized to grant such land as collateral for other loans or sell such land to another entity.

Cost of capitalized interest

Capitalized interest at December 31, 2012, 2011 and 2010 totaled $14,954,701, $10,492,888 and $1,691,704, respectively.

12. Other assets

The balance as of December 31, 2012 is primarily composed of:

i. Payments for the acquisition of the “El Dorado Bogotá” land, through a purchase- sale and trust agreement executed by the subsidiary Sac Be Ventures Colombia, S.A.S.; the land will be used for the planning, design, and construction of buildings owned by Sac Be Ventures Colombia, S.A.S. As of the issuance date of the accompanying consolidated financial statements, the total acquisition value of the land has been paid.

ii. Deposits for the purchase of land by the Chilean subsidiary, Inversiones HCP, S.A.

iii. Debt issuance costs related to bank loans that, as of December 31, 2012, are in the process of being finalized.

13. Bank loans

To finance the development and construction of buildings, the Entity has issued long-term bank loans in Mexican pesos, U.S. dollars, and-Chilean pesos with domestic and international financial institutions. These financings were issued directly by the subsidiary companies that own each of the hotels, with the hotels as collateral or other guarantees set up through unit trust unit on each property, generally providing a joint obligation with related companies.

At 31 December 2012, 2011 and 2010, the long-term bank loans are summarized as follows:

	2012	2011	2010	January 1, 2010
Collateralized loans (hotels as collateral), carried at amortized cost:				
Lines of credit with HSBC for $225,000,000, the first withdrawal at TIIE (28 days) plus 2.60%, the second withdrawal at TIIE (28 days) plus 3.75%, with maturity in 2018. Prepaid in 2012 (i).	$ -	$ 526,942,378	$ 217,792,020	$ 189,830,265
BBVA loan for $66,800,000, at TIIE (28 days) plus 2.35%, maturing in 2012. Prepaid in 2011.	-	-	49,965,699	56,841,623
Line of credit with HSBC for $770,874,057, at TIIE (28 days) plus 1.90%, maturing in 2019.	759,388,095	-	-	-
HSBC loan for $19,000,000, at TIIE (28 days) plus 2.60%, maturing in 2014 (ii).	4,963,049	7,276,704	9,529,346	11,568,426
Banorte loan for $20,000,000, at TIIE (28 days) plus 2.85%, maturing in 2014.	6,186,852	8,746,582	10,998,745	13,054,814
HSBC loan for $20,423,000, at TIIE (28 days) plus 2.60%, maturing in 2015 (i).	9,609,715	12,609,163	12,548,392	13,653,080

	2012	2011	2010	January 1, 2010
Banorte loan for $35,000,000, at TIIE (28 days) plus 2.7%, maturing in 2016. Prepaid in 2011 (i).	-	-	24,549,659	28,297,329
BANCOMEXT loan for $22,027,560, at TIIE (28 days) plus 2.75%, maturing in 2016 (i).	10,599,044	13,300,137	16,020,084	18,713,360
BANCOMEXT loan for $24,122,484, at TIIE (28 days) plus 2.75%, maturing in 2016 (i).	13,995,754	16,472,106	19,653,729	22,822,597
BANCOMEXT loan for $21,452,643, at TIIE (28 days) plus 4.00%, maturing in 2018 (iii).	17,443,344	19,219,329	20,823,837	20,751,752
BANCOMEXT loan for $33,109,427, at TIIE (28 days) plus 3.25%, maturing in 2020 (i).	28,582,319	32,519,457	32,412,456	-
Scotiabank loan for $65,000,000, at TIIE (28 days) plus 3.50%, maturing in 2014 prepaid in 2011 (i).	-	-	56,921,363	61,558,638
Santander loan for $27,000,000, at TIIE (28 days) plus 2.75%, maturing in 2017 (i).	17,136,673	20,339,246	22,213,659	24,171,869
Loan with MetLife for $85,000,000, fixed rate of 8.88%, maturing in 2019 (ii).	82,522,855	-	-	-
CAIXA NOVA loan for $USD 6,500,000, at LIBOR (3 months) (v) plus 3%, maturing in 2019 (i).	-	78,821,215	73,667,147	78,832,110
BBVA loan for $25,380,000, at TIIE (28 days) plus 1.95%, maturing in 2017 (iii).	14,713,785	17,328,206	20,093,050	22,822,773
BBVA loan for $28,762,000, at TIIE (28 days) plus 3.25%, maturing in 2020 (iii).	27,255,998	28,401,280	28,376,431	-
Banorte loan for $29,300,000, secured with a property, at TIIE (28 days) plus 1.96%, maturing in 2018 (i).	17,615,151	25,235,031	29,356,414	24,753,895

	2012	2011	2010	January 1, 2010
BANCOMEXT loan for $43,404,133, at TIIE (28 days) plus 3.25%, maturing in 2020 (i).	35,249,554	42,838,440	21,287,228	-
BANCOMEXT loan up to $ 28,601,446, at TIIE (28 days) plus 3.25%, maturing in 2020 (i).	26,354,375	28,094,217	16,564,008	-
Santander loan with for $26,039,905, at TIIE (28 days) plus 4.00%, maturing in 2018 (iii).	20,661,327	22,804,270	24,786,469	28,177,922
Scotiabank loan for $30,000,000, at TIIE (28 days) plus 3.50%, maturing in 2015 (i).	25,235,383	27,115,163	29,048,541	29,483,559
BANCOMEXT loan for $35,331,922, at TIIE (28 days) plus 2.25%, maturing in 2021 (i).	31,726,689	34,502,854	-	-
BANCOMEXT loan for $42,405,101, at TIIE (28 days) plus 3.25% maturing in 2021 (i).	38,441,011	41,367,272	-	-
BANCOMEXT loan for $39,305,629, at TIIE (28 days) plus 3.25%, maturing in 2021 (i).	38,479,813	38,349,378	-	-
BANCOMEXT loan for $30,000,000, at TIIE (28 days) plus 2.25%, maturing in 2021 (i).	28,824,297	29,330,282	-	-
Scotiabank loan for $28,880,000, at TIIE (28 days) plus 3.30%, maturing in 2016 (i).	26,269,401	28,164,723	-	-
Loan from International Finance Corporation for $191,000,000, net rate equivalent to over TIIE (28 days) plus 2.665% maturing in 2022 (i).	182,781,923	-	-	-
BANCOMEXT loan for $35,133,148, at TIIE (28 days) plus 3.3%, maturing in 2022 (i).	35,045,315	-	-	-

	2012	2011	2010	January 1, 2010
Line of credit with International Finance Corporation and Deutsche Investitions-und Entwicklungsgesellshaft GmbH up to USD$30,000,000, respectively, at LIBOR (v) plus 4.70%, maturing in 2023 (iii).	60,118,216	-	-	-
BANCOMEXT loan for $35,925,492, at TIIE (28 days) plus 2.33%, maturing in 2022 (i).	35,264,616	-	-	-
Corp Banca loan for 1,070,364,637 in Ch P, at a rate of 8.05%, maturing in 2014 (iv).	28,920,957	-	-	-
Corp Banca loan for 950,357,926 in Ch P, at a rate of 5.20%, maturing in 2014 (iv).	25,723,716	-	-	-
Corp Banca loan for 529,311,540, at a rate of 5.20%, maturing in 2014 (iv).	14,327,086	-	-	-
Actinver loan for $40,000,000, collateralized, at TIIE (28 days) plus 2.5%, maturing in 2015 (i).	39,782,134	-	-	-
Interest payable	9,021,096	5,387,509	3,618,759	3,618,649
Total	1,712,239,543	1,105,164,942	740,227,036	648,952,661
Less: current portion	(86,688,414)	(55,844,496)	(55,893,714)	(42,032,479)
Long-term debt	$ 1,625,551,129	$ 1,049,320,446	$ 684,333,322	$ 606,920,182
TIIE at period end	4.8475%	4.8035%	4.8750%	4.9231%

(v) Quarterly amortization
(vi) Monthly amortization
(vii) Bi-annual amortization
(viii) Principal due at the term of the loan
(ix) LIBOR = London Interbank Offered Rate

Each bank credit agreement provides for certain restrictions, which must be met individually by the subsidiary company that has signed the bank loan. Such restrictions include limiting or generally prohibiting the issuance of interest-bearing liabilities, prohibiting the merger or spin-off with other affiliates (even though they may form part of the same socioeconomic group), prohibiting the granting of loans, collateral, or other fiduciary activities with third parties or its subsidiaries, reducing its share capital, paying dividends, increasing capital in subsidiaries, maintaining minimum amounts of equity and meeting tax obligations.

In addition, each subsidiary that issues debt is generally required to maintain certain financial ratios at specified levels, during the term of the loans. The most significant ratios include: (i) operating income before taxes plus depreciation plus interest expense, divided by interest expense, and (ii) financial leverage, defined as the division of financial liability between equity, among others.

Covenants and financial ratios have been complied with as of December 31, 2012, 2011 and 2010.

Where appropriate, the Entity has the opportunity to request changes or waivers, with the prior authorization of the relevant financial institution, in order to permit certain operational objectives of the Entity, when necessary.

The value of assets pledged as collateral for loans is $3,379,044,195, $3,255,508,846 and $2,229,773,250 as of December 31, 2012, 2011 and 2010, respectively.

At December 31, 2012, the Entity has available lines of credit, for which amounts had not yet been withdrawn, amounting to $171,127,755 and USD $25,400,000.

At December 31, 2011, the Company has available lines of credit, for which amounts had not yet been withdrawn, amounting to $303,000,000 from which in March 2012 $ 95.5 million were used.

At December 31, 2010, the Company has available lines of credit, for which amounts had not yet been withdrawn, amounting to $27,372,296.

14. Employee benefits

Short-term employee benefits

	2012	2011	2010	January 1, 2010
Profit sharing (i)	$ 1,095,672	$ 887,485	$ 992,085	$ 973,619
Bonus (ii)	4,971,620	3,983,613	-	5,252,855
	$ 6,067,292	$ 4,871,098	$ 992,085	$ 6,226,474

(i) Profit sharing is a benefit provided to employees as required by the Mexican Federal Labor Law and is determined as a percentage of the Entity's fiscal performance.
(ii) A bonus is provided to top management based on the operational/financial performance of the Entity, and is authorized by the Compensation Committee of the Entity.

Post-employment benefits

The Entity manages defined benefit plans for employees of its subsidiaries in Mexico called "seniority premiums". Under these plans, employees are entitled to retirement benefits under Article 162 of the Mexican Federal Labor Act in case of death, disability, redundancy or voluntary retirement. The seniority premium is equivalent to twelve days of salary per year of service worked; the wage considered for the calculation cannot be less than the minimum wage in the relevant geographic area, or more than twice the minimum wage. Seniority takes into account all the years of service provided by the employee. In case of voluntary retirement, seniority premiums are granted only if the employee has worked at least fifteen years for the Entity. The Entity does not grant other post-retirement benefits.

The Entity obtains actuarial calculations at each reporting date from an external actuary. The present value of the defined benefit obligation and the current service cost and past service costs were calculated using the projected unit credit method.

The main assumptions used for purposes of the actuarial valuations are as follows:

	Valuation at			
	2012 %	2011 %	2010 %	January 1, 2010 %
Discount rate	6.50	7.62	7.62	7.62
Expected wage increase rate	5.50	5.55	5.55	5.55

Period cost related to seniority premiums are as follows, as well as a rollforward of the liability at each reporting date are as follows:

	2012	2011	2010	January 1, 2010
Current service cost	$ 362,410	$ 256,251	$ 148,610	$ 194,302
Interest expense (i)	34,724	22,413	25,935	22,343
Actuarial gains and losses (ii)	170,932	(113,634)	(222,194)	(161,864)
	568,066	165,030	(47,649)	54,781
Balance at the beginning of the year	465,376	300,346	347,995	293,214
Balance at the end of the year	$ 1,033,442	$ 465,376	$ 300,346	$ 347,995

The plans are not funded.

(i) Interest is presented within financial cost in the statement of profit and comprehensive income.
(ii) Actuarial gains and losses are recognized in within other comprehensive income.

Defined contribution plans

Under Mexican legislation, the Entity must make payments equivalent to 2% of its workers' daily integrated salary (ceiling) to a defined contribution plan that is part of the retirement savings system established by Mexican law. The expense was $7,694,860, $6,117,808 and $4,451,946 in 2012, 2011 and 2010, respectively.

15. Deferred revenue

Deferred revenues from the customer loyalty program "City Premios", provides guests a certain number of points for each night stay, redeemable for hotel nights, point cards, movie tickets and other products. The Entity applies IFRIC 13 *Customer Loyalty Programs* (IFRIC 13) to account for the program; as such, the Entity values the points at fair value and recognizes the revenues related to the points when related services are provided to customers. The points have an average maturity of two years.

16. Income taxes

The income tax incurred will be the higher of ISR and IETU.

Based on its financial projections, the Entity identified that subsidiaries with significant investments in property and equipment essentially pay ISR. Accordingly, those entities recognize deferred tax based on ISR; other subsidiaries that are service providers expect to incur principally IETU and have thus calculated deferred income taxes based on IETU.

a. Income taxes are as follows:

	2012	2011	2010
ISR:			
Current	$ 19,653,970	$ 8,449,371	$ 7,086,239
Deferred	(23,596,495)	(12,612,574)	(21,069,029)
	(3,942,525)	(4,163,203)	(13,982,790)
IETU:	8,860,390	10,727,469	15,217,511
Current	639,982	179,580	(31,283)
Deferred			
	9,500,372	10,907,049	15,186,228
Total	$ 5,557,847	$ 6,743,846	$ 1,203,438

b. Reconciliation of the statutory and effective income tax rate, expressed as a percentage of the profit before taxes, is as follows:

	2012 %	2011 %	2010 %
Statutory rate	30	30	30
Effects of inflation	(43)	(58)	(52)
Non-deductible expenses	1	3	2
Others	-	-	(83)
Business flat tax	30	65	112
Effective rate	18	40	9

c. Main concepts that originate the deferred income taxes balances are:

	2012	2011	2010	January 1, 2010
Deferred income tax asset:				
Income tax loss	$ 71,974,604	$ 69,982,040	$ 53,412,700	$ 35,271,640
Allowance for doubtful accounts	211,410	37,097	208,548	61,818
Accrued expenses and other liabilities	9,524,625	7,761,211	5,833,695	6,972,148
Derivative financial instruments	(2,420)	1,200,125	1,151,362	-
Other, net	240,588	355,083	328,844	-
Deferred income tax asset	81,948,807	79,335,556	60,935,149	42,305,606

	2012	2011	2010	January 1, 2010
Deferred income tax liability:				
Property, equipment and leasehold improvements	(303,473,577)	(325,575,467)	(320,898,537)	(336,783,657)
Prepaid expenses	(3,862,012)	(3,459,090)	(2,380,755)	(111,733)
Deferred income tax liability	(307,335,589)	(329,034,557)	(323,279,292)	(336,895,390)
Total liability	$ 225,386,782	$ 249,699,001	$ 262,344,143	$ 294,589,784

d. Main concepts that originate the deferred IETU balances are:

	2012	2011	2010	January 1, 2010
Deferred IETU asset:				
Accounts payable	$ 1,428,818	$ 1,173,240	$ 1,419,491	$ 1,161,799
Payroll and related taxes	1,408,662	471,526	270,828	221,662
Employee benefits	2,452,723	1,385,569	1,214,375	993,919
Deferred IETU asset	5,290,203	3,030,335	2,904,694	2,377,380
Deferred IETU liability:				
Accounts receivable	(4,418,509)	(1,686,765)	(1,317,906)	(939,815)
Prepaid expenses	(198,421)	(25,604)	(89,241)	-
Deferred IETU liability	(4,616,930)	(1,712,369)	(1,407,147)	(939,815)
Total asset	$ 673,273	$ 1,317,966	$ 1,497,547	$ 1,437,565

e. The benefits of restated tax loss carryforwards for which the deferred ISR asset has been partially recognized, can be recovered subject to certain conditions. Expiration dates and restated amounts as of December 31, 2012, are:

Year	Amount
2013	$ 1,679,945
2015	99,512
2016	3,451,103
2017	12,289,755
2018	29,914,515
2019	46,980,980
2020	62,971,366
2021	54,046,563
2022	53,926,787
	$ 265,360,526

The benefits generated by credits for IETU tax losses which have not been recognized given that their recovery is not probable. The amount of the unrecognized benefit for 2012, 2011 and 2010 is $259,838,998, $243,617,101and $161,922,205, respectively.

17. Acquisitions of investments

a. ***Non-controlling interests acquired***

- In October 2010, the Entity acquired the remaining 50% of the subsidiary Impulsora Plaza Guadalajara, S.A. de C.V. The acquisition was made for an amount in excess of the carrying value of the non-controlling interest of $21,374,458.
- In November 2010, the Entity acquired the remaining 50% of the subsidiary Impulsora Plaza Lerma, S.A. de C.V. The acquisition was made for an amount in excess of the carrying value of the non-controlling interest of $20,134,417.
- In 2010, the Entity made additional contributions of capital to Grupo Inmobiliario Rosetta, S. A. de C. V. which diluted the non-controlling interests by $3,349,255.
- In December, 2012 the Entity acquired the remaining 50% of the subsidiary Administradora de Hoteles Business Class, S. A. de C. V. The acquisition was made for an amount in excess of the carrying value of the non-controlling interest of $17,031,016.
- In December, 2012 the Entity acquired the remaining 50% of the subsidiary Impulsora Plaza Villa Hermosa, S. A. de C. V. The acquisition was made for an amount in excess of the carrying value of the non-controlling interest of $124,340.

b. **Business combinations**

- In April 2011, the Entity acquired 50% of the shares of Rivera del Mar, S.A. de C.V., obtaining control over such entity. As shown in the table below, the excess of the fair value of the net assets acquired assets over the consideration paid, of $3,184,753, was recognized as gain on the income statement.

The fair value of the net assets acquired is detailed below:

	Rivera del Mar, S.A. de C.V. Balances at March 31, 2011
Current assets	$ 2,400,460
Fixed assets	63,496,894
Total assets	65,897,354
Current liabilities	$ (1,470,252)
Net assets acquired	$ 64,427,102

Fair value of consideration paid and non-controlling interest

	2011
Consideration paid in cash	$ 28,818,745
Fair value of the non-controlling interest	32,423,604
	$ 61,242,349

The results for the year ended December 31, 2011 included a loss of $134,776 generated by the acquired business from the acquisition date.

18. Financial instruments

a. *Capital management*

The Entity manages its capital to ensure that all subsidiaries will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balances. The overall strategy of the Entity has not been modified during the reporting periods.

The capital structure of the Entity consists of net debt (loans as detailed in Note 13 offset by cash and bank balances) and equity securities (consisting of capital subscribed and paid, legal reserve, additional paid-in capital subscription and comprehensive income as disclosed in Note 19).

The Entity is not subject to any externally imposed requirement for managing its capital at a consolidated entity level, but at the level of certain subsidiaries, capital requirements exist for loans directly issued by subsidiaries and in which in most cases, Inmobiliara Hotelera City Express, S. A. de C. V. and/or Hoteles City Express, S. A. de C. V. are joint guarantors.

The Finance Committee is responsible for monitoring and recommending policies, as often as necessary, on risk management of the Entity, primarily through analysis of income and net operating income and interest coverage and debt service rates, as well as its exposure to currency risk and interest rate risk.

Ratios monitored by the Finance Committee are as follows:

	2012	2011	2010
Current portion of long-term debt	$ 86,688,414	$ 55,844,496	$ 55,893,714
Bank loans	1,625,551,129	1,049,320,446	684,333,322
(-) Cash, cash equivalents and restricted cash	(555,008,607)	(571,182,858)	(896,108,215)
Net debt	1,157,230,936	533,982,084	(155,881,179)
Equity	3,256,961,296	3,169,516,818	3,029,804,030
Consolidated operating profit	122,938,990	68,413,620	78,837,791
Depreciation	144,498,459	107,750,834	89,248,232
Finance costs	97,480,643	81,348,615	68,050,430
Net operating cash flows (consolidated operating profit plus depreciation)	267,437,449	176,164,454	168,086,023
Ratios:			
Net operating cash flows /Finance costs (i)	2.7	2.2	2.5
Net debt / Net operating cash flows (ii)	4.3	3.0	(0.9)
Leverage	0.5	0.4	0.2

(i) This indicator demonstrates the ability of the entity to meet its payment obligations or commitments.
(ii) This indicator demonstrates the borrowing capacity of the entity.

b. ***Financial instruments categories***

	2012	2011	2010	January 1, 2010
Financial assets				
Cash, cash equivalents and restricted cash	$ 555,008,607	$ 571,182,858	$ 896,108,215	$ 227,174,000
FVTPL (held for trading) (derivative financial instruments)	344,011	2,700,072	2,195,695	1,698,120
Loans and receivables (accounts receivables)	43,325,018	32,198,982	22,298,564	22,944,329
Financial liabilities				
FVTPL				
(held for trading) (derivative financial instruments)	262,888	1,183,610	2,380,360	3,353,496
Others (accounts payables to suppliers)	47,750,622	38,410,803	25,770,082	27,793,879
Long-term debt (including current portion)	1,712,239,543	1,105,164,942	740,227,036	648,952,661

c. ***Financial risk management objectives***

The Entity's Corporate Treasury function provides services to the subsidiaries, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Entity through internal risk reports, which analyzes exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Entity seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the recommendations and policies approved by the Finance Committee, which provide guidelines on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Management reports compliance with policies and exposure limits to the Finance Committee on a continuous basis. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

d. ***Market Risk***

The Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate risk, including:

- Interest rate swaps and caps to mitigate the risk of variable interest rates

The market risk exposures are measured on a net basis, given that before entering into derivative financial instruments as a financial hedging strategy, the Entity seeks to naturally hedge its risks through the netting of its exposures from its financial assets and liabilities.

As a result of entering into markets other than Mexico, the Entity´s exposure to exchange rate risk has changed and consequently, the way it manages this risk.

e. ***Foreign currency risk management***

Accounts that generate foreign exchange rate risk are cash, receivables and bank loans, which are in different currencies (mainly USD) from the functional currency of each subsidiary.

These currencies undergo periodic fluctuations relative to the Mexican peso. Therefore, any fluctuation in the value of these currencies against the Mexican peso affects the results, financial position and cash flows of the entities that transact in these currencies.

Below is a breakdown of the foreign currency exposure:

	2012	2011	2010	January 1, 2010
Financial assets in U.S. dollars	3,624,233	14,671,217	47,370,088	11,638,331
Financial liabilities in U.S. dollars	(4,686,583)	(5,790,113)	(6,173,070)	(6,363,275)
Net exposure	US$ (1,062,350)	US$ 8,881,104	US$ 41,197,018	US$ 5,275,056

Mexican peso exchange rates in effect at the dates of the consolidated statements of financial position and at the date of issuance of the accompanying consolidated financial statements were as follows:

	December 31,				
	2012	**2011**	**2010**	**January 1, 2010**	**April 5, 2013**
U. S. Dollar	12.9880	13.9787	12.3817	13.0437	12.3197
Chilean peso	36.7341	37.0817	37.2882	38.0163	38.1543
Costa Rican colon	39.1284	36.6157	39.8894	41.7482	39.6710
Colombian peso	136.1433	138.9757	157.429	154.702	148.248

Additionally, the Entity is exposed to fluctuations in the Costa Rican colon, the Colombian peso and the Chilean peso with respect to the translation of Promotora Hotelera City Express, S. A. de C. V., Pricom Cariari, S. A., Sac Be Ventures Colombia, Hoteles City Express Chile. LTA,, and Sac Be, LLC, in the consolidated financial statements.

- ***Foreign currency sensitivity analysis***

  At the level of the consolidated financial statements, the Entity is exposed to fluctuations of the U. S. dollar against the Mexican peso with respect to transactions denominated in that currency and to fluctuations in the Costa Rica colons, Colombian peso and the Chilean peso against the Mexican peso with respect to foreign currency translation. With respect to the U.S. dollar, the Entity considers that a reasonable variation between these currencies would be 1.21, 1.82, and 1.02 Mexican pesos per U. S. dollar in 2012, 2011 and 2010, respectively. The above mentioned changes would have increased or decreased the effect on net income of + / - $1,285,445, + / - $16,163,609 and + / - $42,020,958 pesos for 2012, 2011 and 2010, respectively.

  On a consolidated financial statement level, exchange rate risk also includes the effect of investments in subsidiaries with functional currencies in Costa Rica colons, Chilean pesos and Colombian pesos and is reflected in the cumulative translation adjustment as part of other comprehensive income item.

  A fluctuation of the Mexican peso against the colón, the Colombian peso and the Chilean peso, would result in total combined changes in stockholders' equity as follows: + / - $157.794 for 2012 and + / - $403.598 for 2011. In 2010, the Entity had no investments in foreign operations are therefore sensitivity is not presented.

f. ***Interest rate risk management***

The Entity is exposed to interest rate risk because subsidiaries borrow funds at both fixed and floating interest rates. The risk is managed by the Entity by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap and interest rate caps contracts.

- ***Interest rate sensitivity analysis***

The sensitivity analyses have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

Year	Sensitivity +/-	Variation on interest expense
2012	0.50%	$ 4,065,032
2011	0.25%	4,305,443
2010	0.25%	3,667,218

- ***Interest rate swap contracts***

Under interest rate swap contracts, the Entity agrees to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the Entity to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract.

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is TIIE. The Entity will settle the difference between the fixed and floating interest rate on a net basis.

None of the interest rate swap contracts are designated as hedges.

g. ***Liquidity risk management***

The CFO reports to the CEO and to the Finance Committee, but has the ultimate responsibility for liquidity risk management and has established a framework for the management of the Entity's short-, medium- and long-term funding and liquidity management requirements. The Entity manages liquidity risk by maintaining adequate reserves and borrowing facilities, and by continuously monitoring forecast and actual cash flows to match the maturity profiles of financial assets and liabilities. Note 13 below sets out details of additional undrawn facilities that the Entity has at its disposal to further reduce liquidity risk.

- ***Liquidity and interest risk tables***

The following tables detail the Entity's remaining contractual maturities for its financial liabilities with agreed repayment periods. The tables have been presented based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Entity can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

	1 to 365 days	1 to 5 years	More than 5 years	Total
December 31, 2012				
Non-interest bearing debt	$ 47,750,622	$ -	$ -	$ 47,750,622
Variable and fixed interest rate debt - Weighted average interest rate 7.42%.	200,101,438	967,219,018	1,122,888,179	2,290,208,635
Derivative financial instruments	262,888	-	-	262,888
	$ 248,114,948	$ 967,219,018	$ 1,122,888,179	$ 2,338,222,145
December 31, 2011				
Non-interest bearing debt	$ 38,410,803	$ -	$ -	$ 38,410,803
Variable and fixed interest rate debt - Weighted average interest rate 7.57%.	142,443,015	794,408,333	696,612,532	1,633,463,880
Derivative financial instruments	1,183,610	-	-	1,183,610
	$ 182,037,428	$ 794,408,333	$ 696,612,532	$ 1,673,058,293
December 31, 2010				
Non-interest bearing	$ 25,770,082	$ -	$ -	$ 25,770,082
Variable and fixed interest rate. Weighted average interest rate 7.63%.	111,562,861	622,424,263	376,483,396	1,110,470,520
Derivative financial instruments	2,380,360	-	-	2,380,360
	$ 139,713,303	$ 622,424,263	$ 376,483,396	$ 1,138,620,962

h. ***Fair value of financial instruments carried at amortized cost***

Except as detailed in the following table, Management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

	2012		2011		2010	
	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value
Banking loans and interest	$1,712,239,543	$1,695,708,362	$1,105,164,942	$1,260,267,616	$740,227,036	$829,136,540

- ***Valuation techniques and assumptions applied for the purposes of measuring fair value***

The fair values of financial assets and financial liabilities (derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis. A

discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. Interest rate caps are valued using the Black Scholes formula, which uses variables including the spot value of the underlying asset, maturity date, volatility, price, domestic interest rate and foreign interest rate. Both valuations are Level 3.

- ***Fair value measurements recognized in the consolidated statement of financial position***

  Fair value of financial assets and financial liabilities is valuated subsequent to the beginning recognition at fair value and are based on the following hierarchy:

  - Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities, in this category are cash, cash equivalents and restricted cash.

  - Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

  - Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs), in this category are the derivative financial instruments.

19. Capital

Common stock at par value (historical pesos) as of December 31, 2012, 2011 and 2010 is as follows:

Series	Number of shares
Series A	100
Series B	61,751,337
Total	61,751,437

Common stock at par value (historical pesos) as of January 1, 2010 is as follows:

Series	Number of shares
Series A	100
Series B	46,845,817
Total	46,845,917

The historical capital amounted to $716,942,825, which consisted of Series “A” common shares, without par value, corresponding to fixed capital without right of withdrawal and Series “B” shares corresponding to variable capital, which subscription is unlimited.

The Series “A” and “B” shares can be purchased by individuals or corporations, domestic or foreign, in all cases in line with the provisions of the Foreign Investment Law. Both series of shares are entitled to one vote and give their holders the same rights and obligations.

Retained earnings include the statutory legal reserve. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par

value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason.

Stockholders' equity, except for restated paid-in capital and tax retained earnings will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.

The balances of the stockholders' equity tax accounts as of December 31 are:

	2012	2011	2010
Contributed capital account	$ 2,176,734,089	$ 2,101,727,029	$ 2,024,428,185
Net tax income account (CUFIN)	15,244,360	14,677,236	14,137,267
Total	$ 2,191,978,449	$ 2,116,404,265	$ 2,038,565,452

20. Earnings per share

The Entity does not have any potentially dilutive instruments, for which reason basic and diluted earnings per share are equal.

	2012 Pesos per share	2011 Pesos per share	2010 Pesos per share
Basic and diluted earnings per share	$ 0.3885	$ 0.3481	$ 0.1926

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	2012	2011	2010
Profit for the year attributable to owners of the Entity	$ 23,990,746	$ 21,497,314	$ 9,744,255
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	61,751,437	61,751,437	50,572,297

21. Hotel operating costs and expenses

	2012	2011	2010
Room expenses	$ 131,371,731	$ 110,694,158	$ 78,530,533
Payroll	86,332,663	54,169,793	45,500,354
Administrative and general expenses	82,942,020	70,639,861	61,606,229
Promotional and sales expenses	29,186,232	25,934,842	29,727,573
Utilities	55,507,612	47,772,197	32,705,982
Maintenance expenses	43,454,710	34,395,845	26,849,588
Property taxes	4,588,553	4,998,689	3,701,934
Insurance	4,117,230	3,500,374	4,265,116
Corporate expenses	16,910,405	16,597,572	7,833,625
Rent	45,256,089	38,918,510	34,961,323
Others	2,686,091	2,199,199	-
Total	$ 502,353,336	$ 409,821,040	$ 325,682,257

22. Selling and administrative expenses

	2012	2011	2010
Payroll	$ 87,972,065	$ 70,205,339	$ 62,923,455
Agents' commissions	5,006,731	3,360,007	2,569,186
Legal and professional fees	6,444,937	2,547,606	3,827,587
Travel expenses	2,417,761	2,061,653	2,061,739
Advertising	20,054,178	16,124,136	14,288,659
Equipment rental	5,333,238	4,431,027	4,093,495
Phones and communication	1,765,727	2,322,996	2,195,308
Maintenance	1,538,871	2,278,533	2,837,744
Rental of corporate office	6,495,467	5,738,961	5,590,169
Others	10,511,869	4,084,749	2,683,093
Total	$ 147,540,835	$ 113,155,007	$ 103,070,435

23. Other expenses

In 2011, this caption included the creation of a reserve related to an advance payment of $6,921,135 for 898 tons of steel that were purchased in previous years, but have not been delivered by the supplier, offset by a purchase gain of $3,184,753 on the acquisition of a business and a gain on the exchange of assets of $11,478,977. In 2012 and 2011 the remainder of the account is comprised of insurance recoveries, payment of fines and penalties related to tax payments and gains and losses on the disposal of fixed assets, among others.

24. Transactions and balances with related parties

Balances and transactions between the Entity and its subsidiaries, which are related parties of the Entity, have been eliminated in consolidation and are not disclosed in this note.

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was as follows:

	2012	2011	2010
Short-term benefits	$ 43,291,692	$ 37,989,366	$ 33,959,472

The compensation of management and key executives is determined by the Compensation Committee based on the performance of individuals, levels of responsibility and decision making, considering as a reference studies made by executive compensation consultants and market trends.

25. Leases – the Entity as a lessee

The Entity has entered into an operating lease, denominated in U.S. dollars, for the building in which its corporate headquarters are housed, which had an original term that expired in 2011, with the option of two automatic renewals for a period of three years each. In 2011, the automatic renewal occurred. In addition to rental payments, the Entity is required to pay USD$3,055 as a monthly maintenance fee. Rental payments are adjusted annually based on annual inflation in the United States of America.

In January 2008, the Entity entered into another operating lease for an additional location for its headquarters. The lease term is a period of five years from April 2008, with a monthly rent in U.S. dollars, with annual increases equal to inflation in the United States of America, as well as a monthly fee for maintenance.

Additionally, the Entity has entered into operating leases over certain hotel properties, which charge a fixed monthly rent based on the total project investment, adjusted annually for inflation plus, in some cases, contingent rental payments determined as a percentage of the total revenue generated by the hotel. Rental payments are denominated in local currency. The leases have terms of 15 years from the opening date of the hotel, renewable for a period of five years.

For the years ended December 31, 2012, 2011 and 2010, total rental expense was as follows:

- Payments recognized as an expense

	2012	2011	2010
Minimum lease payments	$ 44,165,478	$ 31,980,412	$ 31,106,441
Contingent rent	7,586,078	12,677,059	9,445,051
	$ 51,751,556	$ 44,657,471	$ 40,551,492

- Non-cancellable operating lease commitments

	2012	2011	2010
1 year or less	$ 42,393,973	44,165,478	$ 31,980,412
More than 1 to 5 years	192,310,945	198,014,234	195,993,100
More than 5 years	216,414,174	260,579,652	297,020,707
	$ 451,119,092	$ 502,759,364	$ 524,994,219

26. Segments

The operating segment information is presented based on the manner in which the Chief Executive Officer and the Board of Directors assesses economic performance and operating results of the Entity as well as the manner in which they assign resources to each segment. As a result of consolidation of the subsidiaries controlled by the Entity, intercompany transactions between the operating segment of the Entity are eliminated, which are shown in a separate column within the segment information below.

An operating segment is a component of an Entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the Management and the Board of Directors with respect to both performance evaluation and resource allocation, and for which discrete financial information is available. The Entity's reportable segments below are based on its operating segments.

For the year ended December 31, 2012

Statement of profit and other comprehensive income data:	**Hotel operation**	**Hotel management**	**Total**	**Eliminations**	**Total Consolidated**
Total revenues	$ 899,353,805	$ 218,116,073	$ 1,117,469,878	$ (185,266,586)	$ 932,203,292
Costs and expenses (excluding depreciation)	(687,619,922)	(147,540,835)	(835,160,757)	185,266,586	(649,894,171)
Profit before other non-recurring operating expenses and depreciation:	211,733,883	70,575,238	282,309,121	-	282,309,121
Other expenses and expenses associated with opening of new hotels	(14,871,672)	-	(14,871,672)	-	(14,871,672)
Profit before depreciation:	196,862,211	70,575,238	267,437,449	-	267,437,449
Depreciation	(144,498,459)	-	(144,498,459)	-	(144,498,459)
Operating profit	$ 52,363,752	$ 70,575,238	$ 122,938,990	$ -	$ 122,938,990

For the year ended December 31, 2011

Statement of profit and other comprehensive income data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
Total revenues	$ 692,772,701	$ 170,501,251	$ 863,273,952	$ (148,225,980)	$ 715,047,972
Costs and expenses (excluding depreciation)	(558,047,020)	(113,155,007)	(671,202,027)	148,225,980	(522,976,047)
Profit before other non-recurring operating expenses and depreciation:	134,725,681	57,346,244	192,071,925	-	192,071,925
Other expenses and expenses associated with opening of new hotels	(15,907,471)	-	(15,907,471)	-	(15,907,471)
Profit before depreciation:	118,818,210	57,346,244	176,164,454	-	176,164,454
Depreciation	(107,750,834)	-	(107,750,834)	-	(107,750,834)
Operating profit	$ 11,067,376	$ 57,346,244	$ 68,413,620	$ -	$ 68,413,620

For the year ended December 31, 2010

Statement of profit and other comprehensive income data:	Hotel operation	Hotel management	Total	Eliminations	Total Consolidated
Total revenues	$ 579,395,630	$ 138,227,407	$ 717,623,037	$ (114,268,237)	$ 603,354,800
Costs and expenses (excluding depreciation)	(439,950,494)	(103,070,435)	(543,020,929)	114,268,237	(428,752,692)
Profit before other non-recurring operating expenses and depreciation:	139,445,136	35,156,972	174,602,108	-	174,602,108
Other expenses and expenses associated with opening of new hotels	(6,516,085)	-	(6,516,085)	-	(6,516,085)
Profit before depreciation:	132,929,051	35,156,972	168,086,023	-	168,086,023
Depreciation	(89,248,232)	-	(89,248,232)	-	(89,248,232)
Operating profit	$ 43,680,819	$ 35,156,972	$ 78,837,791	$ -	$ 78,837,791

27. Commitments

As of December 31, 2012, the Entity has commitments for the acquisition and construction of property, as follows:

a) Construction of buildings: $44,387,103.

b) Acquisition of property: US$6,698,450.

28. Contingencies

Additional taxes payable could arise on transactions carried out with related parties if the tax authority reviewing such operations considers the prices and amounts used by the Entity are not comparable to those used with or between independent parties.

29. Explanation of the transition to IFRS

The date of transition to IFRS is January 1, 2010. In the preparation of the first IFRS consolidated financial statements the Entity has applied IFRS 1, First-time Adoption of International Financial Reporting Standards. IFRS 1 generally requires the retrospective application of all standards and interpretations mandatory at the date of the first IFRS financial statements. However, IFRS 1 requires certain mandatory exceptions and

permits other voluntary exemptions to retrospective application, in order to assist the Entity in its transition process.

At the transition date, the Entity applied the following mandatory exceptions; those not included were not applicable:

1. ***Estimates*** - The estimates at the date of transition are consistent with the estimates made under MFRS unless evidence exists that such estimates were made in error.

2. ***Non-controlling interests*** - The Entity prospectively applied certain requirements of IAS 27 (2008) *Consolidated and Separate Financial Statements* as of the transition date.

The Entity has elected to apply the following optional exemptions to the retrospective application of the IFRS as permitted by IFRS 1:

1. ***Business combinations*** - The Entity applied the business combinations exemption. Therefore, it has not adjusted the accounting for any business combinations that took place before the transition date.

2. ***Deemed cost*** - The Entity applied the deemed cost exemption and use fair value at the transition date as its deemed cost for certain land and buildings. For the remaining assets, it will utilize depreciated cost under IFRS, as adjusted to reflect revaluations recorded under MFRS as deemed cost at the transition date.

3. ***Employee benefits*** -The Entity applied the employee benefits exemption. Therefore, it recognized all of the accumulated actuarial gains and losses at the transition date.

The following reconciliations provide quantification of transition effects and the impact on stockholders' equity at the transition date of January 1, 2010 and December 31, 2010 and 2011, and net comprehensive income for the years ended December 31, 2010 and 2011, as shown below:

Reconciliations of stockholders' equity

	Note	December 31, 2011	December 31, 2010	January 1, 2010
Stockholders' equity in conformity with MFRS		$ 2,435,583,866	$ 2,306,536,330	$ 1,413,802,570
Revaluation of fixed assets	a)	1,015,101,650	1,015,101,650	1,015,101,650
Depreciation by components	b)	(12,478,150)	(5,634,176)	-
Recognition of actuarial losses and gains from labor liabilities and elimination of severance obligations	c)	7,452,164	6,638,933	3,744,943
Elimination of deferred PTU	d)	(1,044,108)	(497,903)	(816,682)
Adjustment for credit risk in derivative financial instruments	e)	(4,000,416)	(3,837,872)	(4,597,385)
Recalculation of interest under the effective interest method	f)	22,932,243	21,682,345	25,184,429
Purchase gain on business combination	g)	3,184,753	-	-
Gain on exchange of assets	h)	11,478,977	-	-
Subtotal		3,478,210,979	3,339,989,307	2,442,419,525
Deferred income tax effects	i)	(308,694,161)	(310,185,277)	(311,830,104)
Stockholders' equity in conformity with IFRS		$ 3,169,516,818	$ 3,029,804,030	$ 2,140,589,421

Reconciliations of consolidated comprehensive income

		2011	2010
Consolidated net (loss) income in conformity with MFRS		$ (516,108)	$ 16,012,519
Intercompany transactions	j)	191,919	1,162,208
Depreciation by components	b)	(7,035,892)	(6,796,384)
Recognition of actuarial losses and gains from labor liabilities and elimination of severance obligation	c)	699,596	2,671,797
Elimination of deferred PTU	d)	(546,205)	318,779
Adjustment for credit risk in financial instruments	e)	(162,544)	759,513
Recalculation of interest under the effective interest method	f)	1,249,898	(3,502,086)
Purchase gain on business combination	g)	3,184,753	-
Gain on exchange of assets	h)	11,478,977	-
Subtotal		8,544,394	10,626,346
Deferred income tax effects	i)	1,458,548	1,711,486
Consolidated net profit in conformity with IFRS		10,002,942	12,337,832
Recognition of actuarial losses and gains from labor liabilities		113,634	222,194
Effect of translation of foreign operations		5,979,335	-
Deferred income tax effects		32,568	(66,658)
Consolidated comprehensive income in conformity with IFRS		$ 16,128,479	$ 12,493,368

a) The Entity valued land and buildings at fair value determined by independent values at the transition date as its deemed cost upon transition to IFRS.

b) The Entity calculated depreciation by components for its fixed assets as of the transition date. The Entity concluded that only buildings are comprised of components.

c) At the transition date, the Entity recognized all accumulated actuarial gains and losses generated by its labor liabilities that were previously unrecognized under the "corridor approach" applied in MFRS, as an increase to the liability for employee benefits. The Entity also eliminated the liability for severance benefits, as they are considered termination benefits under IFRS, for which reason their recognition is not required.

d) The Entity eliminated the deferred PTU asset previously under MFRS, as it does not comply with recognition requirements under IFRS.

e) The valuation of derivative financial instruments under MFRS did not incorporate a credit risk adjustment, as is required by IAS 39 *Financial Instruments-Recognition and Measurement*. Therefore the Entity recalculated the valuation of derivative financial instruments.

f) The Entity recalculated amortized cost of its bank loans using the effective interest method required by IAS 39*, Financial Instruments-Recognition and Measurement*.

g) The Entity acquired a business in 2011. The excess of the fair value of the net assets acquired over the consideration transferred was recognized by reducing the value of the net assets acquired under MFRS. IFRS requires such excess to be recognized in results, rather than as a reduction to the fair value of the net assets acquired.

h) The Entity purchased 66% of the rights of a trust, of which it already owned 23%. The trust's only asset was land. This transaction was accounted for as a business combination under MFRS. Under

IFRS, this transaction does not meet the characteristics of a business combination but rather is considered an exchange of assets. A gain was recognized upon the exchange under IFRS, which is recognized within the consolidated statement of income and other comprehensive income.

i) The Entity recalculated and recognized deferred taxes in accordance with IAS 12, *Income Taxes*, considering the adjusted amounts of assets and liabilities in conformity with IFRS.

j) Under MFRS, in order to present the results of the various operations of the Entity, certain intercompany transactions were not eliminated in the consolidated income statements. Under IFRS 10, *Consolidated Financial Statements*, such transactions are required to be eliminated.

In addition to the aforementioned adjustments, certain other adjustments were applied that did not impact total stockholders' equity or comprehensive income. s required under MFRS, through December 31, 2007, the Entity recognized the comprehensive effects of inflation on its assets and equity. Under IFRS, the effects of inflation are only recognized when the environment in which the Entity operates is considered hyperinflationary, which is generally when cumulative inflation for the three preceding years is close to or greater than 100%, among other factors. Mexico ceased being a hyperinflationary economy in 1997. Accordingly, the Entity eliminated the effects of inflation from 1997 through 2007 from its equity accounts, with a corresponding increase to retained earnings as of the date of transition. There was no net impact on stockholders' equity. The effects of inflation recognized on long-lived assets were not removed, as it was considered part of the cost of such assets at the date of transition, using the deemed cost exemption permitted by IFRS 1.

Under MFRS, the Entity presented the effects of other comprehensive income within the statement of changes in stockholders' equity. Under IFRS, such effects are required to be presented in one single statement with net profit, or in a stand-alone statement. The Entity elected to present other comprehensive income together in one single total comprehensive income statement.

The aforementioned adjustments did not impact the cash flows of the Entity.

Other difference in presentation

In conformity with the presentation requirements of IFRS 1, items of other income (expense) that under MFRS were classified outside of operating profit are presented within operating profit under IFRS.

30. Events after the reporting period

a. On January 14, 2013 the Entity acquired the non-controlling interest of Impulsora Plaza Baja Norte, S. A. de C. V. for $71,500,000.

b. On March 15, 2013 the Entity executed an investment agreement in which the subsidiary Promotora Hotelera City Express, S. A. de C. V. increased the variable portion of its equity by $386,772,104 due to the incorporation of new shareholders.

31. Authorization to issue the financial statements

The accompanying consolidated financial statements were authorized for issuance on April 5th, 2013, by Ing. Luis Eduardo Barrios Sánchez, CEO, Lic. Roberto Palacios Prieto, CFO and C.P. Juan Carlos Pioquinto Vázquez, Director of Administration, and consequently do not reflect events after this date.

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ISSUER

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