The Mexico Equity and Income Fund Inc. Report of Pichardo Asset Management, The Investment Adviser.

Dear Fund Shareholder,

We are pleased to present you with the Mexico Equity and Income Fund, Inc. "MXE" annual report for the **Fund's fiscal year ended July 31, 2007.**

I. INTRODUCTION

President Felipe Calderon presented a broad series of initiatives comprising the 2007-2012 National Development Plan (NDP) early in 2007. The main axis of President Calderon's NDP is sustainable human development, which is defined as an ongoing and sustained process that broadens the capacities, opportunities and freedom of all Mexicans. In order to progress in that direction President Calderon included a Fiscal Reform in the NDP. It is an in-depth reform that covers all aspects of Public Finances and establishes a modern platform for meeting challenges associated with the sustainable course of Mexico's development in the coming decades.

By September 2007, the 18-year-long-awaited fiscal reform was finally approved by Congress. The proposal does not change the current Value Added Tax regime or rates. It assumes the difficult challenge of broadening the tax base by establishing, among others, a flat business contribution tax of 16.5% in 2008, 17% in 2009 and 17.5% starting the year 2010, aimed at reducing tax evasion, elusion and fiscal privileges.

Fiscal reform will contribute US$10.4 billion per annum in additional revenue for the government, or around 1.1% of GDP, which will be on top of the US$217 billion already approved in the 2008 budget.

By the end of the 2012 year, fiscal reform is expected to boost the country's tax intake to 2.5% of annual GDP, according to Mexico's Finance Minister, Agustin Carstens. Tax revenue currently accounts for 10.2% of GDP and is the lowest in Latin America.

The National Development Plan also states the need for Mexico's Public Finance Ministry to reduce its dependence on oil revenue. Over a 20-year period, Mexico must replace oil revenue equivalent to 10% of GDP and reduce government's 33% oil revenue dependence.

This NDP also proposes the initiative of a National Infrastructure Program spanning several years to be approved within the Federal Budget. President Calderon's National Infrastructure Program envisions a US$270 billion investment in infrastructure, including private and public investment for the period 2007-2012. The Calderon government sees investing in infrastructure as tantamount to building a better Mexico and the program includes: (i) US$76 bn in hydrocarbon production, (ii) US$35 bn in electricity, (iii) US$35 bn in refining, gas and petrochemicals, (iv) US$26 bn in highways, (v) US$26 bn in communications, (vi) US$14 bn in drinking water and conveyance rehabilitation, (vii) US$7 bn in ports, (viii) US$5 bn in airports, (vix) US$5 bn in railroads and multimodal transport, and (ix) US$5 bn in hydro agriculture and flood control.

Over the long term, fiscal reform, as part of the NDP, is set to have a positive impact on the Mexican economy which President Calderon's government estimates will grow at an average rate of 5% during the period 2007-2012 (2.5% for the period 2001-2006 and 3.0% for the period 1995-2000).

The Mexican Stock Exchange, the "Mexbol"'s 35.5% average per annum dollar return for the five-year period ended July 31, 2007, is the result of a positive cycle of globally low interest rates and robust world economic growth as well as company EBITDA (earnings before interest, taxes, depreciation and amortization) growth of more than 15% on average. Mexico's US$ 80 bn pension fund system has also become a solid institutional player in the Mexican Stock Exchange (US$10 bn in 1996).

The MXE registered a 91.13% dollar return for the Fund's fiscal year ended July 31, 2007, as reported by Bloomberg and an average per annum net asset value per share return of 18.82% (with dividends reinvested) for shareholders over the seventeen years since inception through July 31, 2007, as reported by Thomson.

The MXE's investment criteria and stock picking during the Fund's fiscal year, ended July 31, 2007 was consistent with its investment strategy and four main policies set up in 2006 for the following two-year period. The Fund continues to be highly diversified in value and growth stocks with a sector overweight in infrastructure, communications and industrial conglomerates.

II. MEXICO'S ECONOMIC REVIEW

Mexico registered a 2.8% year-over-year economic growth during the second quarter 2007 compared to 4.9% for the same period in 2006 due to a sharp decrease in government spending and exports.

During the first half of the Fund's fiscal year, economic growth was underpinned by high credit growth rates in housing and consumption while the second half saw growth soften, due to a slowdown in manufacturing activity and consumer spending.

External and internal demand followed a decelerating pattern during the second half of the Fund's period where total exports amounted to US$67.6 bn at the second quarter 2007, or a 3.6% growth rate; and, imports grew 7.5% to US$70 bn compared to 10.7% and 12.9% growth, respectively, for the same period in 2006. Mexico's US$ trade deficit stood at US$5.8 bn since the beginning of the year compared to a US$ 223 million surplus for the same period in 2006. For the 2Q'07, private consumption grew 4.6%, while consumer credit registered a 28.7% growth rate at the end of May 2007. Gross fixed investment increased by 6.9% in 2Q'07, mostly stemming from spending on machinery and equipment.

For the period January to August 614,607 new jobs were created. A total of 745,000 new jobs are expected to be created in 2007, or 15% below the 880,000 jobs that were created in the 2006 calendar year. Likewise, the 6.9% same-store-sales 2Q'06 growth registered by Walmex Mexico (majority-owned Walmart US subsidiary) compared to the +0.9% 2Q'07 growth reflects the slowdown in domestic consumption. Walmex has a 50% share of total retail sales in Mexico.

The solid macro context registers a 4.03% consumer price index for the last twelve months ended August 2007, compared to 4.1% same period last year.

In congruence with its tightening stance, Mexico's Central Bank kept the overnight rate at 7.20% for the fund's fiscal year contributing to a strong currency during the period (a -0.20% depreciation vs. the US dollar).

Inflows of remittances from Mexican workers abroad amounted to US$ 13.6 bn for the period January-July 2007, oil exports US$ 22.6 bn, while non-oil exports amounted to US$127.9 bn. Tourism flows amounted to US$7.9 bn which translated into accumulated international reserves of around US$ 78.2 bn at the end of August compared to US$71.5 bn at the end of December 2006.

III. THE MEXICAN STOCK EXCHANGE

For the Fund's fiscal year period ending July 31, 2007, the Mexbol Index gained 52.72% in dollar terms and it seems fairly valued given sales, operating income and EBITDA growth of 10.9%, 13.5% and 12.9% year-over-year, respectively, as of the second quarter of 2007.

At the beginning of the second half of 2007 volatility in global markets increased due to serious problems in the U.S. sub-prime mortgage market.

In terms of valuation, the Mexbol Index's EV/EBITDA multiple ended August at 9.3 times, or 1% and 18% above its one and four-year averages, respectively.

IV. THE FUND'S PERFORMANCE

For the Fund's fiscal year July 31 2007, the MXE's net asset value per share gained 91.13% in dollar terms, out performing the Mexbol Index's 52.72% gain by 3,841 basis points and the Mexico Fund's 47.85% net asset value per share gain by 4,333 basis points (Bloomberg figures). The main contributors to the Fund's superior return were its investment in infrastructure, petrochemical, wireless telephony and materials-related securities.

The MXE's one-year market value common stock return was 152.78% and one-year market value return for the preferred shares was 110.66% (source: US Bancorp). The Fund's market price registered a 15.8% premium to its net asset value at the end of the Fund's fiscal year ended July 31, 2007, according to Bloomberg.

The MXE's net asset value per share registered a $40.75 high and $ 32.80 low during the months of July and August 2007 owing to the demise of the U.S. sub-mortgage sector.

V. PORTFOLIO STRATEGY

The MXE's portfolio investment strategy set up in 2006 for a two-year period, based on Pichardo Asset Management's asset category classification remained unchanged and it was used to monitor the Fund's investment criteria with a discipline and consistency in accordance with the Fund's main policies.

As at the end of July 31, 2007, infrastructure remained the Fund's largest asset category followed by communications and industrial conglomerates.

The MXE will continue to adhere to its investment strategy, which includes a diversified portfolio comprising both value and growth stocks with an emphasis on those promising business sectors PAM believes will grow at rates above those of Mexican GDP.

We will also remain disciplined in terms of the Fund's main investment principles for the benefit of long-term stockholders.

ECONOMIC INFORMATION

Real Activity	1999	2000	2001	2002	2003	2004	2005	2006
Real GDP Growth (y-o-y)	3.70%	6.60%	(0.30)%	0.90%	1.30%	4.40%	3.00%	4.80%
Industrial Production (y-o-y)	4.20%	6.00%	(3.50)%	0.00%	(0.75)%	3.80%	1.60%	1.60%
Trade Balance (US Billions)	($ 5.60)	($ 8.00)	$ 10.00	($ 8.00)	($ 5.60)	$ (8.10)	$ (7.60)	$ (6.10)
Exports (US Billions)	$136.40	$166.50	$158.40	$160.70	$164.80	$189.10	$213.70	$253.90
Exports Growth (y-o-y)	16.10%	22.10%	(4.90)%	1.50%	2.50%	14.70%	14.00%	10.30%
Imports (US Billions)	$142.00	$174.50	$168.40	$168.70	$170.50	$197.20	$221.30	$260.00
Imports Growth (y-o-y)	13.20%	22.90%	(3.50)%	0.20%	1.10%	15.70%	12.00%	13.10%

Financial Variables and Prices	1999	2000	2001	2002	2003	2004	2005	2006
28-Day CETES (T-bills)/ Average	31.40%	15.30%	11.20%	7.10%	6.24%	8.60%	8.02%	7.10%
Exchange rate (Pesos/US$) Average	9.56	9.46	9.34	9.66	10.79	11.15	10.64	10.9
Inflation IPC, 12 month trailing	12.30%	9.00%	4.40%	5.70%	4.00%	5.20%	3.30%	3.80%

Mexbol Index	1999	2000	2001	2002	2003	2004	2005	2006
USD Returns	90.39%	(20.81)%	20.88%	(14.43)%	33.61%	50.49%	44.90%	45.77%
Market Cap. (US Billions)	$129.60	$111.70	$112.40	$103.80	$124.70	$169.50	$283.80	$343.48
EV/EBITDA	10.5x	7.9x	8.1x	6.6x	7.8x	8.3x	8.9x	10.6x

Fund's NAV & Common Share Market Price Performance

(USD Return)	1999	2000	2001	2002	2003	2004	2005	2006
NAV's per share	59.20%	(14.20)%	10.00%	(13.50)%	40.00%	55.60%	38.70%	59.29%
Share Price	74.70%	(5.60)%	18.70%	(18.50)%	36.00%	66.60%	8.10%	75.54%

On behalf of the Board of Directors, we thank you for your continued support,

Sincerely yours,

Eugenia Pichardo
Portfolio Manager
PICHARDO ASSET MANAGEMENT

The discussion above reflects the opinions of the Portfolio Manager. These opinions are subject to change and any forecasts made cannot be guaranteed.

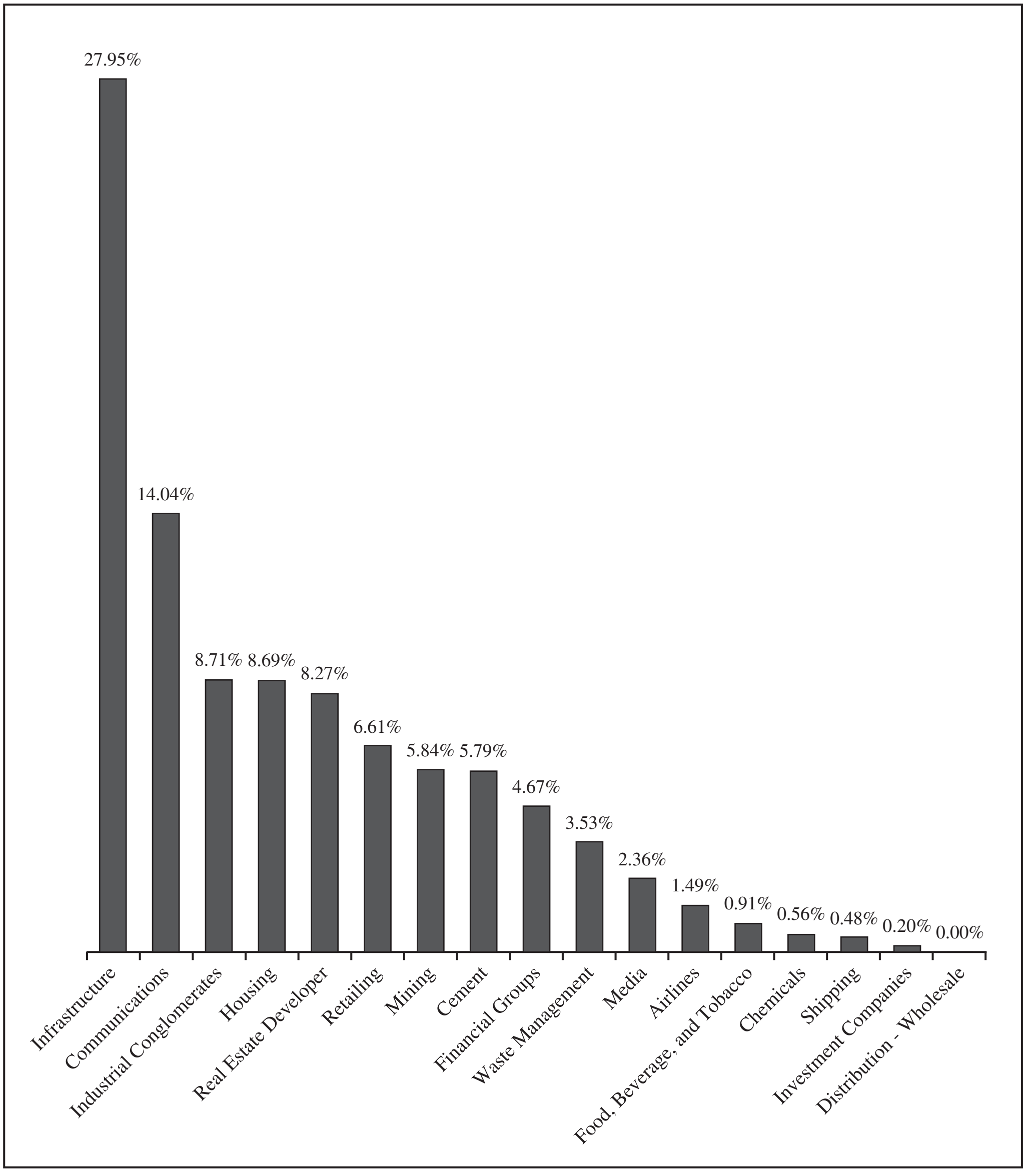
Past performance does not guarantee future results. Sector allocations and fund holdings are subject to change and are not recommendations to buy or sell any security. Please reference the following annual report for more complete fund information.

The information concerning the Fund included in the report of the investment adviser contain certain forward-looking statements about the factors that may affect the performance of the Fund in the future. These statements are based on Fund management's predictions and expectations concerning certain future events and their expected impact on the Fund, such as performance of the economy as a whole and of specific industry sectors, changes in the levels of interest rates, the impact of developing world events, and other factors that may influence the future performance of the Fund. Management believes these forward-looking statements to be reasonable, although they are inherently uncertain and difficult to predict. Actual events may cause adjustments in portfolio management strategies from those currently expected to be employed.

Allocation of Portfolio Assets

July 31, 2007

(Calculated as a percentage of Net Assets)



The accompanying notes are an integral part of these financial statements.

Schedule of Investments

July 31, 2007

MEXICO – 100.03%

	Shares	Value
COMMON STOCKS – 99.90%		
Airlines – 1.49%		
Grupo Aeroportuario del Centro Norte, S.A. de C.V.	256,500	$ 848,133
Grupo Aeroportuario del Pacifico, S.A. de C.V. – Class B	174,500	847,456
Grupo Aeroportuario del Sureste, S.A. de C.V. – Class B	116,900	613,498
		2,309,087
Cement – 5.79%		
Cemex, S.A. de C.V. CPO	1,301,900	4,205,223
Corporacion Moctezuma, S.A. de C.V.	500,000	1,638,255
Grupo Cementos de Chihuahua, S.A. de C.V.	415,600	3,125,743
		8,969,221
Chemicals – 0.56%		
Cydsa, S.A. de. C.V.[(a)]	1,303,900	872,734
Communications – 14.04%		
America Movil, S.A. de C.V. – Class L	4,680,644	13,942,362
America Movil, S.A. de C.V. – Class L ADR	60,070	3,596,992
Axtel, S.A. de C.V. CPO[(a)]	575,203	4,191,504
		21,730,858
Distribution – Wholesale – 0.00%		
Dermet de Mexico, S.A.[(a)]	278,629	—
Financial Groups – 4.67%		
GBM Grupo Bursatil Mexicano, S.A. de C.V. Casa de Bolsa[(a)]	1,457,200	2,387,264
Grupo Financiero Banorte, S.A. de C.V. – Class O	1,069,500	4,834,625
		7,221,889
Food, Beverage, and Tobacco – 0.91%		
Fomento Economico Mexicano, S.A. de C.V.	381,900	1,412,319
Housing – 8.69%		
Desarrolladora Homex, S.A. de C.V.[(a)]	374,000	3,540,691
Desarrolladora Homex, S.A. de C.V. – ADR[(a)]	40,500	2,289,060
SARE Holding, S.A. de C.V.[(a)]	3,430,106	5,934,872
Urbi Desarrollos Urbanos, S.A. de C.V.[(a)]	401,100	1,695,540
		13,460,163

The accompanying notes are an integral part of these financial statements.

Schedule of Investments (continued)

July 31, 2007

COMMON STOCKS (continued)	Shares	Value
Industrial Conglomerates – 8.71%		
Alfa, S.A. – Class A	362,800	$ 2,494,390
Grupo Carso, S.A. de C.V.	701,000	2,850,294
Industrias CH, S.A. – Class B[(a)]	756,700	3,342,760
Mexichem, S.A. de C.V.	1,414,360	4,793,873
		13,481,317
Infrastructure – 27.95%		
Carso Infraestructura y Construccion, S.A. de C.V.[(a)]	3,776,500	4,377,923
Empresas ICA Sociedad Conroladora, S.A. de C.V.[(a)]	1,980,750	12,550,594
Grupo Mexicano de Desarrollo, S.A.[(a)]	1,867,600	8,163,479
Impulsora del Desarrollo y el Empleo en America Latina, S.A. de C.V.[(a)]	2,706,900	4,624,398
Promotora y Operadora de Infraestructura, S.A. de C.V.[(a)]	3,634,500	13,550,107
		43,266,501
Media – 2.36%		
Grupo Televisa, S.A. CPO	344,200	1,741,499
Grupo Televisa, S.A. – ADR	75,500	1,906,375
		3,647,874
Mining – 5.84%		
Grupo Mexico, S.A. – Series B	891,700	6,275,323
Industrias Penoles, S.A.	211,300	2,771,614
		9,046,937
Real Estate Developer – 8.27%		
DINE, S.A. de C.V.[(a)]	1,496,400	1,586,174
Grupe, S.A. de C.V.[(a)(b)]	4,071,300	11,215,243
		12,801,417
Retailing – 6.61%		
Wal-Mart de Mexico, S.A. de C.V. – Class V	2,812,190	10,225,726
Shipping – 0.48%		
Grupo TMM, S.A. – ADR[(a)]	216,800	741,456
Waste Management – 3.53%		
Promotora Ambiental, S.A. de C.V.[(a)]	1,937,300	5,467,246
TOTAL COMMON STOCKS (Cost $97,912,370)		$154,654,745

The accompanying notes are an integral part of these financial statements.

Schedule of Investments (concluded)

July 31, 2007

INVESTMENT COMPANIES – 0.13%	Shares	Value
GBM Fondo de Mercado de Dinero S.A. de C.V., SIID para Personas Fisicas[(a)]	86,303	$ 205,450
TOTAL INVESTMENT COMPANIES (Cost $208,036)		205,450
TOTAL MEXICO (Cost $98,120,406)		$154,860,195
UNITED STATES – 0.07%		
INVESTMENT COMPANIES – 0.07%		
First American Treasury Obligation – Class A, 4.5338%	109,072	109,072
TOTAL INVESTMENT COMPANIES (Cost $109,072)		109,072
TOTAL UNITED STATES (Cost $109,072)		109,072
TOTAL INVESTMENTS – 100.10% (Cost $98,229,478)		**154,969,267**
LIABILITIES IN EXCESS OF OTHER ASSETS – (0.10)%		(150,999)
TOTAL NET ASSETS – 100.00%		**$154,818,268**

Footnotes and Abbreviations

ADR – American Depository Receipts.

(a) Non-income producing security.

(b) Affiliated company. See Note F in Notes to the Financial Statements.

The accompanying notes are an integral part of these financial statements.

Statement of Assets & Liabilities

July 31, 2007

ASSETS:	
Investments, at value	
Unaffiliated issuers (Cost $92,680,890)	$143,754,024
Affiliated issuers (Cost $5,548,588)	11,215,243
Total investments, at value (Cost $98,229,478)	154,969,267
Foreign currencies (Cost $100,513)	100,281
Receivables:	
Dividends and Interest	22,736
Prepaid expenses	16,306
Total Assets	155,108,590
LIABILITIES:	
Payable to custodian	13,083
Investment Advisory fees	108,232
Legal fees	34,294
Administration fees	30,854
Directors' fees	22,175
Custody fees	13,947
Fund accounting fees	6,235
CCO's fee	2,000
Accrued expenses	59,502
Total Liabilities	290,322
Net Assets	$154,818,268
Net Asset Value Per Preferred Share ($54,566,696/1,429,336)	$ 38.18
Net Asset Value Per Common Share ($100,251,572/2,626,019)	$ 38.18
NET ASSETS CONSIST OF:	
Preferred stock, $0.001 par value; 1,429,336 shares outstanding (1,855,128 shares authorized)	$ 1,429
Common stock, $0.001 par value; 2,626,019 shares outstanding (100,000,000 shares authorized)	2,626
Paid-in capital	64,501,705
Accumulated net realized gain on investments and foreign currency	33,572,951
Net unrealized appreciation on investments and foreign currency:	56,739,557
Net Assets	$154,818,268

The accompanying notes are an integral part of these financial statements.

Statement of Operations

		For the Year Ended July 31, 2007
INVESTMENT INCOME		
Dividends — Unaffiliated issuers		$ 1,052,300
Interest		87,979
Total Investment Income		1,140,279
EXPENSES		
Investment Advisory fees (Note B)	$958,616	
Legal fees	195,333	
Administration fees (Note B)	147,048	
Directors' fees and expenses (Note B)	92,515	
Custodian fees (Note B)	67,338	
Reports to shareholders	54,201	
Fund accounting fees (Note B)	49,033	
Insurance expense	42,269	
NYSE fees	37,317	
Audit fees	25,468	
CCO's fee (Note B)	24,369	
Transfer agent fees	12,628	
Miscellaneous fees	144	
Total expenses		1,706,279
NET INVESTMENT LOSS		(566,000)
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized gain from investments and foreign currency transactions		34,194,338
Net change in unrealized appreciation from investments and foreign currency transactions		42,191,964
Net gain from investments and foreign currency transactions		76,386,302
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		$75,820,302

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Net Assets

	For the Year Ended July 31, 2007	For the Year Ended July 31, 2006
INCREASE (DECREASE) IN NET ASSETS		
Operations:		
Net investment gain (loss)	$ (566,000)	$ 192,161
Net realized gain on investments and foreign currency transactions	34,194,338	12,702,285
Net change in unrealized appreciation in value of investments and foreign currency transactions	42,191,964	6,684,413
Net increase in net assets resulting from operations	75,820,302	19,578,859
Distributions to Shareholders from:		
Net investment income		
Common stock	(326,181)	(395,538)
Preferred stock	(188,487)	—
Net realized gains		
Common stock	(7,176,105)	(10,909,315)
Preferred stock	(4,146,775)	—
Decrease in net assets from distributions	(11,837,548)	(11,304,853)
Capital Share Transactions		
Purchase of common stock for dividend	—	(4,514,583)
Issuance of common stock for dividend	4,255,191	4,514,583
Proceeds from preferred stock sold	—	25,685,167
Increase in net assets from capital share transactions	4,255,191	25,685,167
Total increase in net assets	68,237,945	33,959,173
Net Assets:		
Beginning of year	86,580,323	52,621,150
End of year*	$154,818,268	$ 86,580,323
*Including undistributed net investment income (loss) of:	$ —	$ 514,649

The accompanying notes are an integral part of these financial statements.

Financial Highlights

For a Common Share Outstanding Throughout Each Year

	For the Year Ended July 31, 2007	For the Year Ended July 31, 2006	For the Year Ended July 31, 2005	For the Year Ended July 31, 2004	For the Year Ended July 31, 2003
Per Share Operating Performance					
Net asset value, beginning of year	$ 22.18	$ 21.27	$ 13.66	$ 10.15	$ 8.74
Net investment income (loss)	(0.14)	0.14	0.01	(0.02)	0.00[2]
Net realized and unrealized gains on investments and foreign currency transactions	19.17	6.54	7.60	3.55	1.41
Net increase from investment operations	19.03	6.68	7.61	3.53	1.41
Less: Distributions					
Dividends from net investment income	(0.13)	(0.16)	—	(0.02)	—
Distributions from net realized gains	(2.90)	(4.41)	—	—	—
Total dividends and distributions	(3.03)	(4.57)	—	(0.02)	—
Capital Share Transactions					
Anti-dilutive effect of Share Repurchase	—	0.18	—	—	—
Dilutive effect of Share Issuance	—	(0.18)	—	—	—
Dilutive effect of Preferred Share Issuance	—	(1.20)	—	—	—
Total capital share transactions	—	(1.20)	—	—	—
Net Asset Value, end of year	$ 38.18	$ 22.18	$ 21.27	$ 13.66	$ 10.15
Per share market value, end of year	$ 44.23	$ 19.40	$ 18.82	$ 11.73	$ 9.10
Total Investment Return Based on Market Value, end of year[1]	152.78%	37.62%	60.44%	29.10%	14.47%

The accompanying notes are an integral part of these financial statements.

Financial Highlights (continued)

For a Common Share Outstanding Throughout Each Year

	For the Year Ended July 31, 2007	For the Year Ended July 31, 2006	For the Year Ended July 31, 2005	For the Year Ended July 31, 2004	For the Year Ended July 31, 2003
Ratios/Supplemental Data					
Net assets, end of year (000's)	$100,251	$54,872	$52,621	$33,779	$25,104
Ratios of expenses to average net assets:					
Before expense reimbursement	1.42%	1.90%	1.77%	2.09%	2.64%
After expense reimbursement	1.42%	1.90%	1.77%	2.08%	2.62%
Ratios of net investment income (loss) to average net assets:					
Before expense reimbursement	(0.47)%	0.24%	0.03%	(0.15)%	0.02%
After expense reimbursement	(0.47)%	0.24%	0.03%	(0.15)%	0.04%
Portfolio turnover rate	135.49%(3)	179.85%(3)	259.60%	234.42%	180.67%

(1) Total investment return is calculated assuming a purchase of common stock at the current market price on the first day and a sale at the current market price on the last day of each period reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Fund's dividend reinvestment plan or at the price determined by the stock dividend distribution. Total investment does not reflect brokerage commissions.

(2) The amount listed is less than $0.005 per share.

(3) Calculated on the basis of the Fund as a whole without distinguishing between shares issued.

The accompanying notes are an integral part of these financial statements.

Financial Highlights

For a Preferred Share Outstanding Throughout the Period

	For the Year Ended July 31, 2007	For the Period January 7, 2006 through July 31, 2006
Per Share Operating Performance		
Net asset value, beginning of period	$ 22.18	$ 21.25
Net investment income	(0.14)	0.13
Net realized and unrealized gains on investments and foreign currency transactions	19.17	0.80
Net increase from investment operations	19.03	0.93
Less: Distributions		
Dividends from net investment income	(0.13)	—
Distributions from net realized gains	(2.90)	—
Total dividends and distributions	(3.03)	—
Net Asset Value, end of period	$ 38.18	$ 22.18
Per share market value, end of period	$ 36.10	$ 19.00
Total Investment Return Based on Market Value, end of period(1)	110.66%	2.70%(2)
Ratios/Supplemental Data		
Net assets, end of period (000's)	$ 54,567	$ 31,708
Ratios of expenses to average net assets:	1.42%	1.97%(3)
Ratios of net investment income (loss) to average net assets:	(0.47)%	0.37%(3)
Portfolio turnover rate	135.49%(4)	179.85%

(1) Total investment return is calculated assuming a purchase of common stock at the current market price on the first day and a sale at the current market price on the last day of each period reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Fund's dividend reinvestment plan or at the price determined by the stock dividend distribution. Total investment does not reflect brokerage commissions.

(2) Not Annualized.

(3) Annualized.

(4) Calculated on the basis of the Fund as a whole without distinguishing between shares issued.

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

July 31, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Mexico Equity and Income Fund, Inc. (the "Fund") was incorporated in Maryland on May 24, 1990, and commenced operations on August 21, 1990. The Fund is registered under the Investment Company Act of 1940, as amended, as a closed-end, non-diversified management investment company.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Significant accounting policies are as follows:

Portfolio Valuation. Investments are stated at value in the accompanying financial statements. All securities for which market quotations are readily available are valued at the last sales price prior to the time of determination of net asset value, or, if no sales price is available at that time, at the closing price last quoted for the securities (but if bid and asked quotations are available, at the mean between the current bid and asked prices, rather than the quoted closing price). Securities that are traded over-the-counter are valued, if bid and asked quotations are available, at the mean between the current bid and asked prices. Investments in short-term debt securities having a maturity of 60 days or less are valued at amortized cost if their term to maturity from the date of purchase was less than 60 days, or by amortizing their value on the 61st day prior to maturity if their term to maturity from the date of purchase when acquired by the Fund was more than 60 days. Other assets and securities for which no quotations are readily available will be valued in good faith at fair value using methods determined by the Board of Directors. These methods include, but are not limited to, the fundamental analytical data relating to the investment; the nature and duration of restrictions in the market in which they are traded (including the time needed to dispose of the security, methods of soliciting offers and mechanics of transfer); the evaluation of the forces which influence the market in which these securities may be purchased or sold, including the economic outlook and the condition of the industry in which the issuer participates.

Investment Transactions and Investment Income. The cost of investments sold is determined by use of the specific identification method for both financial reporting and income tax purposes. Interest income, including the accretion of discount and amortization of premium on investments, is recorded on an accrual basis; dividend income is recorded on the ex-dividend date or, using reasonable diligence, when known to the Fund. The collectibility of income receivable from foreign securities is evaluated periodically, and any resulting allowances for uncollectible amounts are reflected currently in the determination of investment income.

Notes to Financial Statements (continued)

July 31, 2007

Tax Status. No provision is made for U.S. Federal income or excise taxes as it is the Fund's intention to continue to qualify as a regulated investment company and to make the requisite distributions to its shareholders that will be sufficient to relieve it from all or substantially all U.S. Federal income and excise taxes.

The Fund is subject to the following withholding taxes on income from Mexican sources:

> Dividends distributed by Mexican companies are subject to withholding tax at an effective rate of 0.00%. Prior to January 1, 2002, the effective rate was 7.69%.
>
> Interest income on debt issued by the Mexican federal government is generally not subject to withholding. Withholding tax on interest from other debt obligations such as publicly traded bonds and loans by banks or insurance companies is at a rate of 4.9% under the tax treaty between Mexico and the United States.
>
> Gains realized from the sale or disposition of debt securities may be subject to a 4.9% withholding tax. Gains realized by the Fund from the sale or disposition of equity securities that are listed and traded on the Mexican Stock Exchange ("MSE") are exempt from Mexican withholding tax if sold through the stock exchange. Gains realized on transactions outside of the MSE may be subject to withholding at a rate of 25% (20% rate prior to January 1, 2002) of the value of the shares sold or, upon the election of the Fund, at 35% (40% rate prior to January 1, 2002) of the gain. If the Fund has owned less than 25% of the outstanding stock of the issuer of the equity securities within the 12 month period preceding the disposition, then such disposition will not be subject to capital gains taxes as provided for in the treaty to avoid double taxation between Mexico and the United States.

Accounting Pronouncements. On July 13, 2006, the Financial Accounting Standards Board ("FASB") released FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. At this time, management is evaluating the implications of FIN 48 and its impact in the financial statements has not yet been determined.

Notes to Financial Statements (continued)

July 31, 2007

In September, 2006, FASB issued FASB Statement No. 157, "Fair Value Measurement" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Fund believes the adoption of SFAS 157 will have no material impact on its financial statements.

Reclassification of Capital Accounts. The Fund accounts and reports for distributions to shareholders in accordance with the American Institute of Certified Public Accountants' Statement of Position 93-2; Determination, Disclosure and Financial Statement Presentation of Income, Capital, and Return of Capital Distributions by Investment Companies. For the year ended July 31, 2007, the Fund decreased undistributed net investment loss by $566,019 and decreased accumulated net realized gain on investments by $566,019 due to the tax treatment of foreign currency gains (losses) and net operating losses.

Foreign Currency Translation. The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars on the following basis:

(i) market value of investment securities, assets and liabilities at the current Mexican peso exchange rate on the valuation date, and

(ii) purchases and sales of investment securities, income and expenses at the Mexican peso exchange rate prevailing on the respective dates of such transactions.

The Fund does not generally isolate the effect of fluctuations in foreign exchange rates from the effect of fluctuations in the market prices of securities. The Fund does isolate the effect of fluctuations in foreign currency rates, however, when determining the gain or loss upon the sale of foreign currency denominated debt obligations pursuant to U.S. Federal income tax regulations; such amounts are categorized as foreign exchange gain or loss for income tax reporting purposes.

The Fund reports realized foreign exchange gains and losses on all other foreign currency related transactions as components of realized gains and losses for financial reporting purposes, whereas such gains and losses are treated as ordinary income or loss for Federal income tax purposes.

Securities denominated in currencies other than U.S. dollars are subject to changes in value due to fluctuations in the foreign exchange rate. Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of domestic origin as a result of, among other factors, the level of governmental supervision and regulation of foreign securities markets and the possibilities of political or economic instability.

Notes to Financial Statements (continued)

July 31, 2007

Distribution of Income and Gains. The Fund intends to distribute to shareholders, at least annually, substantially all of its net investment income, including foreign currency gains. The Fund also intends to normally distribute annually any net realized capital gains in excess of net realized capital losses (including any capital loss carryovers), except in circumstances where the Directors of the Fund determine that the decrease in the size of the Fund's assets resulting from the distribution of the gains would generally not be in the interest of the Fund's shareholders. An additional distribution may be made to the extent necessary to avoid payment of a 4% U.S. Federal excise tax.

Distributions to shareholders are recorded on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized gains are determined in accordance with U.S. Federal income tax regulations, which may differ from accounting principles generally accepted in the United States of America. These "book/tax" differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their Federal tax-basis treatment; temporary differences do not require reclassification. Dividends and distributions which exceed net investment income and net realized capital gains for financial reporting purposes but not for tax purposes are reported as dividends in excess of net investment income and net realized capital gains, respectively. To the extent they exceed net investment income and net realized gains for tax purposes, they are reported as distributions of additional paid-in capital.

Distributions to Shareholders. The tax character of distributions paid to shareholders during the years ended July 31, 2007 and July 31, 2006 were as follows:

Distributions paid from:	7/31/07	7/31/06
Ordinary Income	$ 7,190,007	$ 6,722,440
Long-Term Capital Gain	4,647,541	4,582,413
Total	$11,837,548	$11,304,853

The Fund has designated as long-term capital gain dividend, pursuant to Internal Revenue Code section 852(b)(3), the amount necessary to reduce the earnings & profits of the Fund related to net capital gain to zero for the tax year ended July 31, 2007.

Notes to Financial Statements (continued)

July 31, 2007

As of July 31, 2007, the components of distributable earnings on a tax basis were as follows:

Cost of Investments for tax purposes	$98,352,983
Gross tax unrealized appreciation on investments	57,881,586
Gross tax unrealized depreciation on investments	(1,265,302)
Net tax unrealized appreciation (depreciation) on investments	56,616,284
Net unrealized depreciation on foreign currency transactions	(232)
Net tax unrealized appreciation (depreciation) on investments and foreign currency	$56,616,052
Undistributed ordinary income	$14,703,113
Undistributed long-term capital gains	18,993,343
Total Distributable earnings	$33,696,456
Other accumulated gains (losses)	$ —
Total accumulated earnings (losses)	$90,312,508

(a) Represents cost for federal income tax purposes. Differences between the Fund's cost basis of investments and foreign currency at July 31, 2007, for book and tax purposes, relate primarily to the deferral of losses related to wash sales.

The Mexico Equity and Income Fund designates 16% of dividends declared for the fiscal year July 31, 2007 from net investment income as qualified dividend income under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (unaudited).

ADDITIONAL INFORMATION APPLICABLE TO FOREIGN SHAREHOLDERS ONLY

The percent of ordinary income distributions designated as interest related dividends for the fiscal year ended July 31, 2007 was 2%. (Unaudited)

The percent of ordinary income distributions designated as short-term capital gain distributions for the fiscal year ended July 31, 2007 was 100%. (Unaudited)

NOTE B: MANAGEMENT, INVESTMENT ADVISORY AND ADMINISTRATIVE SERVICES

Pichardo Asset Management, S.A. de C.V. serves as the Fund's Investment Adviser (the "Investment Adviser") under the terms of the Investment Advisory Agreement (the "Advisory Agreement") effective July 1, 2003. Pursuant to the Advisory Agreement, the Investment Adviser makes investment decisions for the Fund and supervises the acquisition and disposition of securities by the Fund. For its services, the Investment Adviser receives a monthly fee at an annual rate of 0.80% of the Fund's average daily net assets. For the year ended July 31, 2007, these fees amounted to $958,616. The Investment Adviser has voluntarily agreed to reimburse the Fund for certain fees and

Notes to Financial Statements (continued)

July 31, 2007

expenses on an annual basis. These expense reimbursements may be terminated at any time. For the year ended July 31, 2007, there were no expense reimbursements made by the Investment Adviser.

Effective November 1, 2005, the Fund pays each of its directors who is not a director, officer or employee of the Investment Adviser, the Administrator or any affiliate thereof an annual fee of $12,000 plus $1,000 for each Board of Directors meeting attended and $250 for each Audit Committee meeting attended. For serving the Fund as Chief Compliance Officer, in addition to the aforementioned Directors' fees, Mr. Hellerman receives annual compensation in the amount of $24,000. In addition, the Fund reimburses the directors for travel and out-of-pocket expenses incurred in connection with Board of Directors' meetings.

U.S. Bancorp Fund Services, LLC ("USBFS"), an indirect wholly-owned subsidiary of U.S. Bancorp, serves as the Fund's Administrator and, in that capacity, performs various administrative and accounting services for the Fund. USBFS also serves as the Fund's Fund Accountant (the "Fund Accountant"). U.S. Bank, N.A. serves as the Fund's custodian (the "Custodian"). The Custodian is an affiliate of the Administrator. The Administrator prepares various federal and state regulatory filings, reports and returns for the Funds; prepares reports and materials to be supplied to the directors; monitors the activities of the Fund's Custodian and Fund Accountant; coordinates the preparation and payment of the Fund's expenses and reviews the Fund's expense accruals.

For its services, the Administrator receives a monthly fee at the following annual rate:

0.12% of average daily net assets up to $200 million, plus
0.10% of average daily net assets from $200 million to $700 million, plus
0.05% of average daily net assets on the remaining balance above $700 million

For its services, the Fund Accountant receives a monthly fee at the following annual rate:

$42,000 minimum annual fee on average daily net assets up to $100 million, plus
0.030% of average daily net assets from $100 million to $300 million, plus
0.015% of average daily net assets on the remaining balance above $300 million

For its services, the Custodian receives a monthly fee at the following annual rate:

$12,000 minimum base fee, plus 0.03% of average daily custody balance

For the year ended July 31, 2007, the Mexico Equity and Income Fund, Inc. incurred Administration fees of $147,048, Fund Accounting fees of $49,033 and Custody fees of $67,338.

Notes to Financial Statements (continued)

July 31, 2007

NOTE C: PORTFOLIO ACTIVITY

Purchases and sales of securities other than short-term obligations, aggregated $161,106,649 and $161,946,989 respectively, for the year ended July 31, 2007.

At July 31, 2007 substantially all of the Fund's assets were invested in Mexican securities. The Mexican securities markets are substantially smaller, less liquid, and more volatile than the major securities markets in the United States. Consequently, acquisitions and dispositions of securities by the Fund may be limited.

NOTE D: CAPITAL STOCK

The Board of Directors approved rights offering (the "Offering") on October 12, 2005. In connection with the Offering by the Fund, the Fund issued to stockholders of record as of November 30, 2005 (the "Record Date") 0.75 nontransferable rights to purchase one share of preferred stock for each share of common stock owned as of the Record Date. The rights entitled the holders to purchase three shares of preferred stock for every four shares held as of the Record Date at a subscription price calculated as the greater of (i) 90% of the Fund's asset value per share ("NAV") as determined on the Expiration Date (December 28, 2005) or (ii) the average closing price of the Fund's common stock over the four consecutive trading days ending on the Expiration Date. On January 6, 2006, the Fund issued 1,429,336 shares of preferred stock at $17.97 per share, which raised $25,685,167. The net asset value per share of the Fund's common stockholders was reduced by approximately $1.20 per share as a result of this issuance (see Note E).

On December 6, 2006, the Board of Directors declared a stock dividend of $3.03306 per share. This dividend was paid in shares of common stock of the Fund, or in cash by specific election of the shareholder. Shareholders that did not select the cash option were issued 152,515 shares, which amount to $4,253,635.

During the year ended July 31, 2006, the Fund purchased 242,594 shares of capital stock in the open market at a total cost of $4,514,583. The weighted average discount of these purchases comparing the purchase price to the net asset value at the time of purchase was 8.60%. On December 13, 2005, the Board of Directors declared a stock dividend of $4.57038 per common share. This dividend was paid in shares of common stock of the Fund, and in cash by specific election. Some shareholders selected the stock dividend; therefore on January 31, 2006 the Fund issued 242,594 shares, which amounted to $4,514,583.

During the years ended July 31, 2007, July 31, 2005, July 31, 2004 and July 31, 2003, the Fund made no repurchases pursuant to the program.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase, from time to time, shares of its common stock in the open market.

Notes to Financial Statements (concluded)

July 31, 2007

NOTE E: PREFERRED STOCK

Shares of the Preferred Stock have identical rights, voting powers, restrictions, and qualifications of the common stock of the Fund except for repurchase and conversion preference features.

The Fund intends to conduct a series of tender offers for Preferred Stock only (each, a "Tender Offer") on a semi-annual basis, on dates to be determined by the Board of Directors, in which 25% of the issued and outstanding Preferred Stock may be tendered to the Fund and repurchased in kind for the Fund's portfolio securities. The Board of Directors currently knows of no reason why the Tender Offers would not be conducted. The consideration for the Preferred Stock to be repurchased by the Fund shall be that value of portfolio securities equal to 99% of NAV as determined, with respect to each Tender Offer, on a date designated by the Board of Directors. The Fund may pay cash for fractional shares; or round off (up or down) fractional shares so as to eliminate them prior to distribution.

In the event the Put Warrant Program is approved by the SEC and upon the anticipated issuance of put warrants by the Fund, all issued and outstanding shares of Preferred Stock will automatically convert to our common stock on a one-for-one basis upon the anticipated issuance of put warrants by the Fund and, shortly thereafter, stockholders will receive put warrants.

NOTE F. TRANSACTIONS WITH AFFILIATES

The following issuer is affiliated with the Fund; that is, the Fund held 5% or more of the outstanding voting shares during the period from August 1, 2006 through July 31, 2007. As defined in Section (2)(a)(3) of the Investment Company Act of 1940, such issuers are:

Issuer Name	Share Balance At Aug. 1, 2006	Additions	Reductions	Share Balance At July 31, 2007	Dividend Income	Value At July 31, 2007
Grupe, S.A. de C.V.	—	4,071,300	—	4,071,300	$—	$11,215,243

NOTE G: SUBSEQUENT EVENT

In September 2007, pursuant to a non-transferable rights offering to all common and preferred stockholders of the Fund, the Fund issued 848,150 shares of common stock. Each share of common stock was issued at a subscription price of $36.24, which is equal to the Fund's net asset value per share on August 31, 2007 and raised $30,736,956.

Report Of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Mexico Equity and Income Fund, Inc.

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Mexico Equity and Income Fund, Inc. (the "Fund") as of July 31, 2007 and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for the periods indicate thereon. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of July 31, 2007, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Mexico Equity and Income Fund, Inc. as of July 31, 2007, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for the periods indicated thereon, in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER & BAKER LLP

Philadelphia, Pennsylvania
September 14, 2007

Additional Information (unaudited)

July 31, 2007

NOTE A: INFORMATION ABOUT PROXY VOTING

Information regarding how the Fund votes proxies relating to portfolio securities is available without charge upon request by calling toll-free at 1-888-294-8217 and the SEC's website at www.sec.gov. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent twelve month period ended June 30 is available on the SEC's website at www.sec.gov or by calling the toll-free number listed above.

NOTE B: AVAILABILITY OF QUARTERLY PORTFOLIO SCHEDULE

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The filing will be available, upon request, by calling 1-866-700-6104. Furthermore, you will be able to obtain a copy of the filing on the SEC's website at http://www.sec.gov beginning with the filing for the period ended October 31, 2004. The Fund's Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

NOTE C: INFORMATION ABOUT CERTIFICATIONS

In November 2006, the Fund submitted a CEO annual certification to the NYSE in which the Fund's principal executive officer certified that she was not aware, as of the date of the certification, of any violation by the Fund of the NYSE's Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, the Fund's principal executive and principal financial officers have made quarterly certifications, included in the filing with the SEC on Forms N-CSR and N-Q, relating to, among other things, the Fund's disclosure controls and procedures and internal control over financial reporting.

Dividends and Distributions (unaudited) July 31, 2007

DIVIDEND REINVESTMENT PLAN

The Fund intends to distribute to shareholders substantially all of its net investment company taxable income at least annually. Investment company taxable income, as defined in section 852 of the Internal Revenue Service Code of 1986, includes all of the Fund's taxable income minus the excess, if any, of its net realized long-term capital gains over its net realized short-term capital losses (including any capital loss carryovers), plus or minus certain other required adjustments. The Fund also expects to distribute annually substantially all of its net realized long-term capital gains in excess of net realized short-term capital losses (including any capital loss carryovers), except in circumstances where the Fund realizes very large capital gains and where the Directors of the Fund determine that the decrease in the size of the Fund's assets resulting from the distribution of the gains would not be in the interest of the Fund's shareholders generally.

Pursuant to the Fund's Dividend Reinvestment Plan (the "Plan"), each shareholder will be deemed to have elected, unless the Plan Agent (as defined below) is otherwise instructed by the shareholder in writing, to have all distributions, net of any applicable U.S. withholding tax, automatically reinvested in additional shares of the Fund by Computershare Trust Company, Inc., the Fund's transfer agent, as the Plan Agent (the "Plan Agent"). Shareholders who do not participate in the Plan will receive all dividends and distributions in cash, net of any applicable U.S. withholding tax, paid in U.S. dollars by check mailed directly to the shareholder by the Plan Agent, as dividend-paying agent. Shareholders who do not wish to have dividends and distributions automatically reinvested should notify the Plan Agent for The Mexico Equity and Income Fund, Inc., c/o Computershare Investor Services, ATTN: Ms. Margaret Dunn, 250 Royall Street; 3B, Canton, Massachusetts 02021. Dividends and distributions with respect to shares of the Fund's Common Stock and Preferred Stock registered in the name of a broker-dealer or other nominee (i.e., in "street name") will be reinvested under the Plan unless the service is not provided by the broker or nominee or the shareholder elects to receive dividends and distributions in cash. A shareholder whose shares are held by a broker or nominee that does not provide a dividend reinvestment program may be required to have his shares registered in his own name to participate in the Plan. Investors who own shares of the Fund's Common Stock and Preferred Stock registered in street name should contact the broker or nominee for details.

The Plan Agent serves as agent for the shareholders in administering the Plan. If the Directors of the Fund declare an income dividend or a capital gains distribution payable either in the Fund's Common Stock, Preferred Stock, or in cash, as shareholders may have elected, nonparticipants in the Plan will receive cash and participants in the Plan will receive Common Stock or Preferred Stock, respectively, to be issued by the Fund. If the market price per share on the valuation date equals or exceeds net asset value per share on that date, the Fund will issue new shares to participants at net

Dividends and Distributions (unaudited) (continued) July 31, 2007

asset value; or, if the net asset value is less than 95% of the market price on the valuation date, then such shares will be issued at 95% of the market price.

If net asset value per share on the valuation date exceeds the market price per share on that date, participants in the Plan will receive shares of Common Stock or Preferred Stock from the Fund valued at market price. The valuation date is the dividend or distribution payment date or, if that date is not a New York Stock Exchange trading day, the next preceding trading day. If the Fund should declare an income dividend or capital gains distribution payable only in cash, the Plan Agent will, as agent for the participants, buy Fund shares in the open market on the New York Stock Exchange or elsewhere, for the participants' accounts on, or shortly after, the payment date.

The Plan Agent maintains all shareholder accounts in the Plan and furnishes written confirmations of all transactions in an account, including information needed by shareholders for personal and tax records. Shares in the account of each Plan participant will be held by the Plan Agent in noncertified form in the name of the participant, and each shareholder's proxy will include those shares purchased pursuant to the Plan.

In the case of shareholders such as banks, brokers or nominees that hold shares for others who are beneficial owners, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the shareholders as representing the total amount registered in the shareholder's name and held for the account of beneficial owners who participate in the Plan.

There is no charge to participants for reinvesting dividends or capital gains distributions payable in either Common Stock, Preferred Stock or cash. The Plan Agent's fees for the handling or reinvestment of such dividends and capital gains distributions will be paid by the Fund. There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in stock or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of dividends or capital gains distributions payable in cash.

Brokerage charges for purchasing small amounts of Common Stock and Preferred Stock for individual accounts through the Plan are expected to be less than usual brokerage charges for such transactions because the Plan Agent will be purchasing stock for all participants in blocks and prorating the lower commissions thus attainable. Brokerage commissions will vary based on, among other things, the broker selected to effect a particular purchase and the number of participants on whose behalf such purchase is being made.

Dividends and Distributions (unaudited) (concluded)

July 31, 2007

The receipt of dividends and distributions in Common Stock or Preferred Stock under the Plan will not relieve participants of any income tax (including withholding tax) that may be payable on such dividends or distributions.

Experience under the Plan may indicate that changes in the Plan are desirable. Accordingly, the Fund and the Plan Agent reserve the right to terminate the Plan as applied to any dividend or distribution paid subsequent to notice of the termination sent to participants at least 30 days before the record date for such dividend or distribution. The Plan also may be amended by the Fund or the Plan Agent, but (except when necessary or appropriate to comply with applicable law, or rules or policies of a regulatory authority) only upon at least 30 days' written notice to participants. All correspondence concerning the Plan should be directed to the Plan Agent at the address above.

Results of Annual Stockholders Meeting (unaudited) July 31, 2007

The Fund's Annual Stockholders meeting was held on December 6, 2006, at 405 Lexington Avenue, New York, New York 10174. As of September 25, 2006, the record date, outstanding shares of common and preferred stock were 2,473,504 and 1,429,336, respectively. Holders of 2,164,529 common shares and 1,251,468 preferred shares of the Fund were present at the meeting either in person or by proxy. These holders, as being holders of a majority of the outstanding shares of the Fund, constituted a quorum. The stockholders voted on two proposals. The stockholders elected two Directors to the Board of Directors, one by each share class, and ratified the prior issuance of shares of the Fund's preferred stock. The following table provides information concerning the matters voted on at the meeting:

I. Election of Directors

Common Shareholder Nominee	Votes For	Votes Withheld
Andrew Dakos	2,051,184	113,345
Preferred Shareholder Nominee		
Rajeev Das	1,243,296	8,172

II. Ratification of Prior Issuance of Shares of the Fund's Preferred Stock

	Votes For	Votes Against	Abstained	Non Votes
Common Shareholders	1,243,738	214,136	83,269	623,386
Preferred Shareholders	937,118	38,617	5,105	270,628

Privacy Policy (unaudited)

July 31, 2007

The Mexico Equity and Income Fund, Inc. (the "Fund") has adopted the following privacy policy in order to safeguard the personal information of its consumers and customers in accordance with SEC Regulation S-P, 17 CFR 284.30:

Commitment to Consumer Privacy. The Fund recognizes and respects the privacy expectations of each of our customers and believes that the confidentiality and protection of consumer information is one of our fundamental responsibilities. The Fund is committed to maintaining the confidentiality, integrity and security of the customers' personal information and will handle personal consumer and customer information only in accordance with Regulation S-P and any other applicable laws, rules and regulations. The Fund will ensure: (a) the security and confidentiality of customer records and information; (b) that customer records and information are protected from any anticipated threats and hazards; and (c) that unauthorized access to, or use of, customer records or information is protected against.

Collection and Disclosure of Shareholder Information. Consumer information collected by, or on behalf of, The Fund, generally consists of the following:

- Information received from consumers or customers on or in applications or other forms, correspondence, or conversations, including, but not limited to, their name, address, phone number, social security number, assets, income and date of birth; and

- Information about transactions with us, our affiliates, or others, including, but not limited to, shareholder account numbers and balance, payments history, parties to transactions, cost basis information, and other financial information.

The Fund does not disclose any nonpublic personal information about our current or former consumers or customers to nonaffiliated third parties, except as permitted by law. For example, as The Fund has no employees, it conducts its business affairs through third parties that provide services pursuant to agreements with The Fund (as well as through its officers and directors).

Security of Consumer and Customer Information. The Fund will determine whether the policies and procedures of its affiliates and service providers and reasonably designed to safeguard customer information and require only appropriate and authorized access to, and use of, customer information through the application of appropriate administrative, technical, physical, and procedural safeguards that comply with applicable federal standards and regulations. The Fund directs each of its service providers to adhere to The Fund's privacy policy and to their respective privacy policies with respect to all customer information of The Fund and to take all actions reasonably necessary so that The Fund is in compliance with the provisions of 17 CFR 248.30, including, as applicable, the development and delivery of initial and annual privacy notices and maintenance of appropriate and adequate records. The Fund will require its service providers to confirm to The Fund, in writing,that

Privacy Policy (unaudited) (continued)

July 31, 2007

they are restricting access to nonpublic personal information about customers to those employees who need to know that information to provide products or services to customers.

The Fund requires its service providers to provide periodic reports, no less frequently than annually, to the Board of Directors outlining their privacy policies and implementation and promptly report to The Fund any material changes to their privacy policy before, or promptly after, their adoption.

Management of the Fund (unaudited)

July 31, 2007

Board of Directors. The management and affairs of the Fund are supervised by the Board of Directors. The Board consists of five individuals, all of whom are not "interested persons" of the Fund as the term is defined in the Investment Company Act of 1940, as amended (the "1940 Act"). The Directors are fiduciaries for the Fund's shareholders and are governed by the laws of the State of Maryland in this regard. The Board establishes policies for the operation of the Fund and appoints the officers who conduct the daily business of the Fund. The Directors and Interested Officers of the Fund are listed below with their addresses, present position(s) with the Fund, length of time served, principal occupations over at least the last five years, and any other Directorships held. Please note that there is only one fund in the complex that is overseen by the Directors.

Name and Address	Year Born	Position(s) with the Fund	Term of Office/Length of Time Served	Principal Occupation During the Past Five Years	Other Directorships Held by Director
Gerald Hellerman ...... 10965 Eight Bells Lane Columbia, MD 21044	1937	Director, Chief Financial Officer and Chief Compliance Officer	2007 / 6 years	Managing Director, Hellerman Associates	Director, AirNet Systems, Inc.; Director, MVC Capital, Inc.; Director, Brantley Capital Corporation
Phillip Goldstein .... 60 Heritage Drive Pleasantville, NY 10570	1945	Director	2008 / 7 years	President, Kimball & Winthrop, Inc.; and general partner of Opportunity Partners, L.P.; Managing Member of the general partner of Full Value Partners, L.P.	Director, Brantley Capital Corporation; Director, Emerging Markets Telecommunications Fund; Director, First Israel Funds
Glenn Goodstein....... 2308 Camino Robledo Carlsbad, CA 92009	1963	Director	2008 / 6 years	Registered Investment Advisor; held numerous executive positions with Automatic Data Processing until 1996.	None
Rajeev Das .... 68 Lafayette Avenue Dumont, NJ 07628	1968	Director	2006 / 6 years	Senior analyst, Kimball & Winthrop, Inc.; prior Credit Manager, Muriel Siebett & Company.	None
Andrew Dakos .... 43 Waterford Drive Montville, NJ 07045	1966	Director	2006 / 6 years	President and CEO, UVitec Printing Ink, Inc.; and Managing Member of the general partner of Full Value Partners, L.P.; President of Elmhurst Capital, Inc.	None

Name and Address	Year Born	Position(s) with the Fund	Term of Office/Length of Time Served	Principal Occupation During the Past Five Years	Other Directorships Held by Director
Maria Eugenia Pichardo . . 408 Teopanzolco Avenue 3rd Floor-Reforma Cuernavaca, 62260 Morelos Mexico	1950	Interested Officer, President	Indefinite / 3 years	Portfolio Manager of the Fund since the Fund's Inception; President and General Partner, Pichardo Asset Management, S.A. de C.V. since 2003; Managing Director, Acciones y Valores de Mexico, S.A. de C.V. from 1979 to 2002.	None
Francisco Lopez . . . . 408 Teopanzolco Avenue 3rd Floor-Reforma Cuernavaca, 62260 Morelos Mexico	1971	Interested Officer, Secretary	Indefinite / 3 years	Research Director, Pichardo Asset Management, S.A. de C.V. since 2003; Assistant Portfolio Manager, Acciones y Valores de Mexico, S.A. de C.V. from 1997 to 2002.	None

THE MEXICO EQUITY AND INCOME FUND, INC.

Investment Adviser:
Pichardo Asset Management, S.A. de C.V.
408 Teopanzolco Avenue
3rd Floor – Reforma
Cuernavaca, 62260 Morelos
Mexico

Independent Registered Public Accounting Firm:
Tait, Weller & Baker LLP
1818 Market Street, Suite 2400
Philadelphia, PA 19103

Administrator and Fund Accountant:
U.S. Bancorp Fund Services, LLC
615 East Michigan Street
Milwaukee, WI 53202

Transfer Agent and Registrar:
Computershare Investor Services, LLC
250 Royall Street; 3B
Canton, MA 02021

Custodian:
U.S. Bank, N.A.
Custody Operations
1555 Rivercenter Drive, Suite 302
Milwaukee, WI 53212

Board of Directors:
Andrew Dakos
Rajeev Das
Phillip Goldstein
Glenn Goodstein
Gerald Hellerman

The Mexico Equity and Income Fund, Inc.

Annual Report

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