The Mexico Equity and Income Fund, Inc.

Semi-Annual Report

January 31, 2006

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 Auditor:
Tait, Weller & Baker
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
2 North La Salle Street
Chicago, IL 60602

Custodian:
U.S. Bank, N.A.
425 Walnut Street
Cincinnati, OH 45202

The Mexico Equity and Income Fund, Inc.

March 27, 2006

Dear Fellow Shareholders,

We are pleased to present you with the unaudited financial statements of the Mexico Equity and Income Fund, Inc. (the “Fund”) for the six-month period ending January 31, 2006. The Fund offers investors an opportunity to invest in Mexican securities. Its objective is to achieve superior long-term performance.

On January 7, 2006, pursuant to a rights offering, the Fund issued 1,429,336 shares of preferred stock at $17.97 per share to shareholders that exercised their rights, for a total of $25.7 million. Our objective was to permit the Fund to pay a $4.57 per share distribution without having to sell portfolio securities. Affiliates of the directors exercised their rights and oversubscribed, thereby purchasing 110,748 shares of preferred stock.

We have recently been informed that the staff of the SEC’s Division of Investment Management finally intends to provide comments on our innovative Put Warrant proposal. We initially floated this proposal to the staff more than five years ago. Who says the SEC moves too slowly on innovation? If implemented, Put Warrants will be issued to shareholders and would enable them to receive NAV from time to time by delivering an equal number of shares of common stock and Put Warrants. In the event the Put Warrant Program is approved by the SEC, all issued and outstanding shares of our preferred stock will automatically convert to common stock on a one-to-one basis.

On behalf of the Board of Directors, we thank you for investing in the Fund. If you have any questions, please call our toll-fee number (866) 700-6104.

Sincerely yours,

Phillip Goldstein
Chairman of the Board of Directors

(This page intentionally left blank.)

Report of the Investment Adviser

FOR THE SIX MONTHS ENDED JANUARY 31, 2006

Dear Fund Shareholder,

We are pleased to provide you with the report of the Investment Adviser of The Mexico Equity and Income Fund, Inc. ("The Fund"), for the semi-annual period ended January 31, 2006.

MEXICO'S ECONOMIC REVIEW

During 2005, Mexico's economy grew 3.0%, with several indicators demonstrating unprecedented economic solidity. For the fourth consecutive year, the current administration was able to meet its key economic targets, both in terms of economic growth and inflation control, with the latter falling to 3.28% (Core Inflation of 3.08%), the lowest annual rate of inflation since this variable began being recorded in 1968, while the peso/dollar exchange rate closed the year at $10.63, gaining 4.6% to the US dollar.

Wholesale and retail figures rose steadily in 2005 and the consumer confidence index remained high. Meanwhile, the nation's international reserves reached 68.7 billion dollars, an all-time record achieved in part by buoyant exports and high oil prices, which accounted for 35% of extraordinary income. Total direct foreign investment last year was between 17 and 18 billion dollars, according to preliminary figures. Business leaders say this figure could reach 25 billion in 2006, as the rate of economic growth picks up. Key interest rates remain low and the economy generated more than 750,000 new permanent jobs in 2005.

The budget for 2006 contains no surprises and sets goals of 3.4% growth in GDP with 3.6% inflation and an $11.30 exchange rate by year end, figures that most of the analysts surveyed by Bloomberg find feasible.

The major factors influencing the economy this year will be: (i) federal elections in July, (ii) US economic growth, (iii) the effect that higher external rates (US, Europe and Japan) might have on domestic interest rates which for the first time in Mexico's modern economic history have been below 10% for more than four consecutive years, and (iv) oil prices.

Fund Updates
The Fund's toll-free phone number is (866) 700-6104.
Tracking the Fund's NAV
The Fund's net asset value (NAV) is calculated daily and published in *The Wall Street Journal* every Monday under the heading "Closed End Funds." The Fund's common stock and preferred stock are listed on the New York Stock Exchange under the ticker symbols MXE and MXEPR, respectively.

THE MEXICAN STOCK EXCHANGE

For the six months ended January 31, 2006, the Mexican Bolsa's IPC Index, ''The Mexbol'', gained 33% in dollar terms and its performance was mostly attributable to:

(i) A benign global economic environment along with healthy contained inflation that supported capital inflows to emerging markets;

(ii) Mexico's solid macro and financial variables which helped to attract US$6.7 billion to the Mexican Stock Exchange Market, ''The Mexbol'', with US$3.3 billion going into the domestic debt market and US$3.4 billion to the stock market. (source, Banco de Mèxico, Mexico's central bank); and

(iii) Mexican companies' 4Q05 sales, EBITDA (earnings before interest, taxes, depreciation and amortization) and net income grew 22%, 25% and 55% respectively, in dollar terms, (source, Santander Investments universe).

For the Fund's semi-annual period, five stocks in the wireless telephony, fixed-line telecommunications, cement, retail and mining sectors contributed to 80% of the Mexbol's 33% dollar return.

The Mexbol's 2005 10 times trailing last 12-month EV/EBITDA multiple, a re-rating from 6.6x in 2002, reflects the Mexbol's 183% dollar return from December 2002 to December 2005.

We remain positive on companies' 2006 earnings growth mainly as a result of job creation and credit growth.

THE FUND'S PERFORMANCE

For the six-months ended January 31, 2006, the Fund's Net Asset Value, "NAV" per share gained 28% (adjusted for the 4.6% dilutive effect of the rights offering, source: PAM)

In comparison, The Mexico Fund, "The MXF", the "Fund's" most comparable peer, gained 29% for the same period.

The Fund's common share market price gained 29.0% for the semi-annual period, ending January at a –9.1% discount to that of its "NAV". (source, Bloomberg)

Since its inception on August 30, 1990, the Fund's 15% "NAV" dollar average annual return as of January 31, 2006, continues to place "The MXE" as a leading closed-end fund. (Return calculation according to Thomson Financial.)

MXE Average Annual Returns

As of 1/31/06	Share Price	NAV
1 Year	28.73%	43.00%
3 Years	42.08%	48.37%
5 Years	17.50%	20.88%
10 Years	14.74%	16.17%
Since Inception*	13.13%	15.48%

Source: Thomson

* August 30, 1990

PORTFOLIO STRATEGY

The Fund's investment policy this year includes the elimination of the six asset classes we classified and established as a tool for investment decision making in 2001, i.e. strong market position, undervalued restructuring stories, fast growing business segments, financial groups, globally consolidated industries, and global leaders. In their stead we established four main principles for the Fund's 2006 investment policy to determine our investment decision-making discipline.

(i) The Fund will remain primarily overweight in infrastructure, housing, and wireless sectors;

(ii) The Fund will remain non-indexed to the "Mexbol Index" (beta of 1.20);

(iii) Fixed-income instruments, CETES (treasury bills) will continue to remain as one of the five largest asset allocations; and

(iv) Trading should be avoided. Extraordinary events (IPO's) or changes in corporate investment objectives may be an exception to this rule.

CONCLUSION AND OUTLOOK

Global benign synchronized growth and a cycle of low interest rates together with high international oil prices have occurred simultaneously with a successful monetary policy in Mexico as well as healthy public accounts. Mexico's macro stability and the convergence of inflation (3.3%), and interest rates on average in 2005, (8.0%) with those of the U.S. has been consolidated over the last four years.

We believe that the Fund's 2006 investment policy in infrastructure and housing, as well as value stocks will be the main driver of the Fund's capital appreciation over the next three-to-five years.

We remain optimistic about the long-term growth prospects of the ''Mexbol'', as estimated 2006 EBITDA growth for the Mexbol remains at 13% (UBS Mexico universe) and 11% (Santander Investments universe). The Mexbol's current valuation multiple of 10x has increased 51% in just three years.

Of the three major factors influencing the economy this year, the possibility of Mexico electing a left-wing president for the first time in its contemporary history will likely be the acid test for Mexico's institutional democracy.

As always, we will continue to search for value and growth stocks to the benefit of MXE's stockholders in the long-term.

RELEVANT INFORMATION

Real Activity (billion US$)	1999	2000	2001	2002	2003	2004	2005
Real GDP Growth (y-o-y)	3.7%	6.6%	(0.3)%	0.9%	1.3%	4.4%	3.0%
Industrial Production (y-o-y)	4.2%	6.0%	(3.5)%	0.0%	(0.75)%	3.8%	1.6%
Trade Balance (US billions)	$ (5.6)	$ (8.0)	$ (10.0)	$ (8.0)	$ (5.6)	$ (8.1)	$ (7.6)
Exports	$ 136.4	$ 166.5	$ 158.4	$ 160.7	$ 164.8	$ 189.1	$ 213.7
Export growth (y-o-y)	16.1%	22.1%	(4.9)%	1.5%	2.5%	14.7%	14%
Imports	$(142.0)	$(174.5)	$(168.4)	$(168.7)	$(170.5)	$(197.2)	$(221.3)
Import growth (y-o-y)	13.2%	22.9%	(3.5)%	0.2%	1.1%	15.7%	12%

Financial variables and Prices	1999	2000	2001	2002	2003	2004	2005
28-Day CETES (T-bills)/Average	31.40%	15.30%	11.20%	7.10%	6.24%	8.60%	8.02%
Exchange rate (Pesos/US$)Average	9.56	9.46	9.34	9.66	10.79	11.147	10.635
Inflation IPC, 12 month trailing	12.3%	9.0%	4.4%	5.7%	4.0%	5.2%	3.3%

Mexbol Index	1999	2000	2001	2002	2003	2004	2005
USD Return	90.39%	(20.81)%	20.88%	(14.43)%	33.61%	50.49%	44.9%
Market Cap. (US Billions)	$ 129.6	$ 111.7	$ 112.4	$ 103.8	$ 124.7	$ 169.5	$ 283.8
EV/EBITDA	10.5x	7.9x	8.1x	6.6x	7.8x	8.3x	8.9x

Fund's NAV & Common Share Market Price Performance

(USD Return)	1999	2000	2001	2002	2003	2004	2005
NAV's per share	59.2%	(14.2)%	10.0%	(13.5)%	40.0%	55.6%	38.7%
Share Price	74.7%	(5.6)%	18.7%	(18.5)%	36.0%	66.6%	8.1%

Source: Thomson

Fund's Asset Categories (%) Net Assets	2001	2002	2003	2004	2005
Strong market position	22.9%	28.2%	32.7%	32.3%	27.7%
Undervalued/restructuring stories	18.5%	15.6%	27.7%	18.9%	12.8%
Fast growing business segments	14.9%	8.8%	17.8%	30.8%	35.2%
Financial groups	19.4%	14.4%	7.5%	4.2%	1.9%
Globally consolidated industries	9.1%	13.8%	6.4%	3.0%	0.0%
Global leaders	9.1%	5.9%	4.6%	6.2%	18.9%
Warrants/Equity mutual funds	0.0%	1.7%	0.0%	0.0%	0.0%
Fixed Income	6.0%	19.6%	3.4%	4.6%	3.5%

Thank you for your continued support.

Sincerely yours,

Maria Eugenia Pichardo
Portfolio Manager
Pichardo Asset Management, S.A. de C.V.

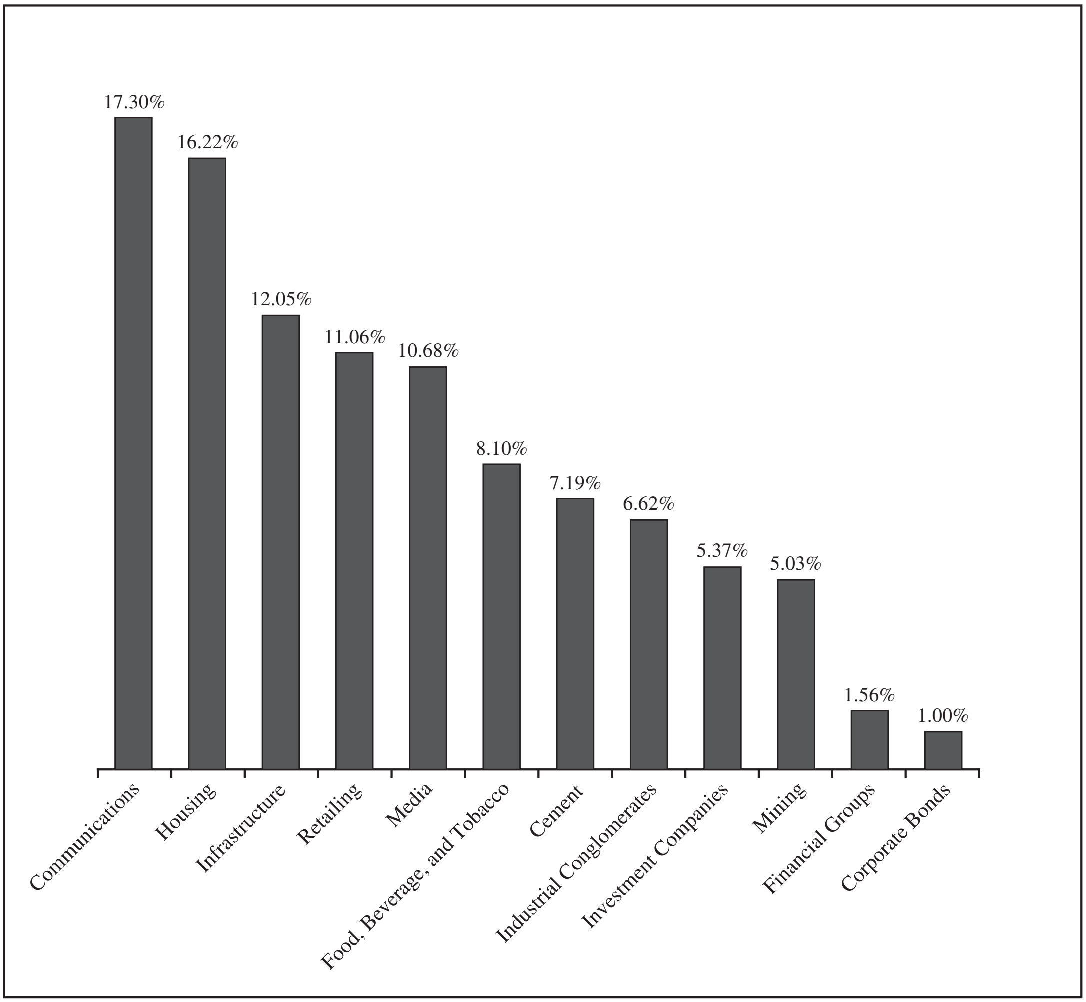
The discussion above reflects the opinions of the Portfolio Manager. These opinions are subject to change and any forecasts made cannot be guaranteed.

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 semi-annual report for more complete fund information.

Allocation of Portfolio Assets

January 31, 2006
(Unaudited)

(Calculated as a percentage of Net Assets)



See Notes to the Financial Statements.

Schedule of Investments

January 31, 2006
(Unaudited)

MEXICO – 101.23%	Shares	Value
COMMON STOCKS – 95.81%		
Communications – 17.30%		
America Movil, S.A. de C.V. - Class L	1,808,600	$ 3,061,254
America Movil, S.A. de C.V. - Class L ADR	112,370	3,790,240
America Telecom, S.A. de C.V. - Class A1*	1,370,000	7,440,874
		14,292,368
Cement – 7.19%		
Cemex, S.A. de C.V. CPO	598,937	3,954,665
Grupo Cementos de Chihuahua, S.A. de C.V.	650,000	1,988,351
		5,943,016
Financial Groups – 1.56%		
Grupo Financiero Banorte, S.A. de C.V. - Class O	542,400	1,291,639
		1,291,639
Food, Beverage, and Tobacco – 8.10%		
Alsea, S.A. de C.V.	1,010,394	3,116,498
Gruma S.A. de C.V.	966,300	3,575,666
		6,692,164
Housing – 16.22%		
Consorcio ARA, S.A. de C.V.	100,800	482,975
Corporacion GEO, S.A. de C.V. – Class B*	1,509,800	5,186,209
SARE Holding, S.A. de C.V. - Class B*	3,035,306	3,779,777
Urbi, Desarrollos Urbanos, S.A. de C.V.*	535,700	3,950,207
		13,399,168
Industrial Conglomerates – 6.62%		
Alfa, S.A. - Class A	197,000	1,119,029
Industrias CH, S.A.*	712,400	1,753,789
Mexichem S.A. de C.V.	1,962,000	2,593,572
		5,466,390

See Notes to the Financial Statements.

Schedule of Investments (continued)

January 31, 2006
(Unaudited)

COMMON STOCKS (continued)	Shares	Value
Infrastructure - 12.05%		
Carso Infraestructura y Construccion, S.A.*	4,236,800	$ 3,530,836
Empresas ICA Sociedad Conroladora S.A. de C.V.*	1,285,550	4,073,566
Impulsora del Desarrollo y el Empleo en America Latina, S.A. de C.V.*	1,894,023	2,345,871
		9,950,273
Media – 10.68%		
Grupo Televisa, S.A. ADR	25,100	2,097,105
Grupo Televisa, S.A. CPO	1,610,300	6,729,957
		8,827,062
Mining – 5.03%		
Grupo Mexico, S.A. de C.V. - Class B	1,481,800	4,155,011
Retailing – 11.06%		
Grupo Elektra, S.A. de C.V.	341,400	3,393,234
Wal-Mart de Mexico, S.A. de C.V. - Class V	988,084	5,743,277
		9,136,511
TOTAL COMMON STOCKS (Cost $63,580,801)		$79,153,602

CORPORATE BONDS – 1.00%	Titles	
TVACB-04, 11.1800%, 12-15-2011^	11,265,000	822,440
TOTAL CORPORATE BONDS (Cost $1,000,000)		822,440

See Notes to the Financial Statements.

Schedule of Investments (concluded)

January 31, 2006
(Unaudited)

INVESTMENT COMPANIES – 4.42%	Shares	Value
GBM Fondo de Mercado de Dinero S.A. de C.V. SIID para Personas Fisicas*	1,577,883	$ 3,659,741
TOTAL INVESTMENT COMPANIES (Cost $3,650,850)		3,659,741
TOTAL MEXICO (Cost $68,231,651)		83,635,783
UNITED STATES – 0.95%		
INVESTMENT COMPANIES – 0.95%		
Treasury Cash Series II, 3.5200%	781,853	781,853
First American Obligations Fund, 3.9700%	46	46
TOTAL INVESTMENT COMPANIES (Cost $781,899)		781,899
TOTAL UNITED STATES (Cost $781,899)		781,899
TOTAL INVESTMENTS – 102.18% (Cost $69,013,550)		**84,417,682**
LIABILITIES IN EXCESS OF OTHER ASSETS – (2.18)%		(1,801,783)
TOTAL NET ASSETS – 100.00%		**$82,615,899**

Footnotes and Abbreviations

* - Non-income producing security.
ADR - American Depository Receipts.
ˆ - Fair valued security. See Note A in Notes to Financial Statements.

See Notes to the Financial Statements.

Statement of Assets & Liabilities

January 31, 2006
(Unaudited)

ASSETS:	
Investments, at value (Cost $69,013,550)	$ 84,417,682
Cash	476,273
Foreign currencies (Cost $77,656)	78,069
Receivables:	
Investments sold	4,390,668
Interest	25,805
Prepaid expenses	76,341
Total Assets	89,464,838
LIABILITIES:	
Payable for securities purchased	6,734,742
Advisory fees payable	49,851
Administration fees payable	11,139
Fund accounting fees payable	7,692
Directors' fees payable	8,308
Custody fees payable	7,362
CCO's fee payable	2,000
Accrued expenses	27,845
Total Liabilities	6,848,939
Net Assets	$ 82,615,899
Net Asset Value Per Preferred Stock ($30,256,398/1,429,336)	$ 21.17
Net Asset Value Per Common Stock ($52,359,501/2,473,504)	$ 21.17
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; 2,473,504 shares outstanding (100,000,000 shares authorized)	2,474
Paid-in capital	60,246,666
Undistributed net investment loss	(62,186)
Accumulated net realized gain on investments and foreign currency	7,022,919
Net unrealized appreciation on investments and foreign currency	15,404,597
Net Assets	$ 82,615,899

See Notes to the Financial Statements.

Statement of Operations

For the Six Months Ended January 31, 2006 (Unaudited)

INVESTMENT INCOME:		
Dividends		$ 385,760
Interest		106,585
Total Investment Income		492,345
EXPENSES:		
Advisory fees	$236,512	
Legal fees	118,937	
Administration fees	33,379	
Reports to shareholders	24,747	
Fund accounting fees	22,807	
Directors' fees and expenses	21,255	
Custodian fees	20,830	
Insurance expense	20,224	
Audit fees	12,252	
CCO's fee	12,144	
NYSE fees	11,157	
Transfer agent fees	5,942	
Total Expenses		540,186
NET INVESTMENT LOSS		(47,841)
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain from investments and foreign currency transactions		8,120,859
Net change in unrealized appreciation from investments and foreign currency transactions		7,541,417
Net gain from investments and foreign currency transactions		15,662,276
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		$15,614,435

See Notes to the Financial Statements.

Statements of Changes in Net Assets

	For the Six Months Ended January 31, 2006 (Unaudited)	For the Year Ended July 31, 2005
INCREASE (DECREASE) IN NET ASSETS		
Operations:		
Net investment income (loss)	$ (47,841)	$ 14,602
Net realized gain investments and foreign currency transactions	8,120,859	13,122,119
Net change in unrealized appreciation in value of investments and foreign currency transactions	7,541,417	5,705,280
Net increase in net assets resulting from operations	15,614,435	18,842,001
Distributions to Preferred Shareholders from:		
Net investment income	—	—
Net realized gains	—	—
Return of capital	—	—
Decrease in net assets from distributions	—	—
Distributions to Common Shareholders from:		
Net investment income	(395,538)	—
Net realized gains	(10,909,315)	—
Return of capital	—	—
Decrease in net assets from distributions	(11,304,853)	—
Capital Share Transactions:		
Purchase of common stock for dividend	(4,514,583)	—
Issuance of common stock for dividend	4,514,583	—
Proceeds from preferred stock sold	25,685,167	—
Increase in net assets from capital share transactions	25,685,167	—
Total increase in net assets	29,994,749	18,842,001
Net Assets:		
Beginning of period	52,621,150	33,779,149
End of period*	$ 82,615,899	$52,621,150
*Including undistributed net investment income (loss) of:	$ (62,186)	$ 381,193

See Notes to the Financial Statements.

Financial Highlights

For a Common Share Outstanding Throughout Each Period

	For the Six Months Ended January 31, 2006 (Unaudited)	For the Year Ended July 31, 2005	For the Year Ended July 31, 2004	For the Year Ended July 31, 2003	For the Year Ended July 31, 2002	For the Year Ended July 31, 2001
Per Share Operating Performance:						
Net asset value, beginning of period	$21.27	$13.66	$10.15	$ 8.74	$ 10.19	$11.36
Net investment income (loss)	(0.01)	0.01	(0.02)	0.00[2]	(0.03)	(0.02)
Net realized and unrealized gains (losses) on investments and foreign currency transactions	5.68	7.60	3.55	1.41	(1.42)	(0.64)
Net increase (decrease) from investment operations	5.67	7.61	3.53	1.41	(1.45)	(0.66)
Less: Distributions						
Dividends from net investment income	(0.16)	—	(0.02)	—	—	(0.01)
Distributions from net realized gains	(4.41)	—	—	—	—	(0.60)
Return of capital	—	—	—	—	—	(0.01)
Total dividends and distributions	(4.57)	—	(0.02)	—	—	(0.62)
Capital Share Transactions						
Anti-dilutive effect of Tender Offer	—	—	—	—	—	0.09
Anti-dilutive effect of Share Repurchase	0.18	—	—	—	—	0.02
Dilutive effect of Share Issuance	(0.18)	—	—	—	—	—
Dilutive effect of Preferred Share Issuance	(1.20)	—	—	—	—	—
Total capital share transactions	(1.20)	—	—	—	—	0.11
Net asset value, end of period	$21.17	$21.27	$13.66	$10.15	$ 8.74	$10.19
Per share market value, end of period	$19.25	$18.82	$11.73	$ 9.10	$ 7.95	$ 9.11
Total Investment Return Based on Market Value, end of period[1]	26.39%[3]	60.44%	29.10%	14.47%	(12.73)%	(8.64)%

Financial Highlights (continued)

For a Common Share Outstanding Throughout Each Period

	For the Six Months Ended January 31, 2006 (Unaudited)	For the Year Ended July 31, 2005	For the Year Ended July 31, 2004	For the Year Ended July 31, 2003	For the Year Ended July 31, 2002	For the Year Ended July 31, 2001
Ratios/Supplemental Data:						
Net assets, end of period (000's)	$ 52,360	$ 52,621	$ 33,779	$ 25,104	$ 21,629	$ 87,620
Ratios of expenses to average net assets:						
Before expense reimbursement	1.82%[4]	1.77%	2.09%	2.64%	1.81%	1.90%
After expense reimbursement . .	1.82%[4]	1.77%	2.08%	2.62%	1.81%	1.90%
Ratios of net investment income (loss) to average net assets:						
Before expense reimbursement	(0.14)%[4]	0.03%	(0.15)%	0.02%	(0.14)%	(0.16)%
After expense reimbursement . .	(0.14)%[4]	0.03%	(0.14)%	0.04%	(0.14)%	(0.16)%
Portfolio turnover rate	116.69%[5]	259.60%	234.42%	180.67%	189.05%	220.85%

(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. Total investment does not reflect brokerage commissions.

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

(3) Not Annualized

(4) Annualized

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

See Notes to the Financial Statements.

Financial Highlights (concluded)

For a Preferred Share Outstanding Throughout the Period

	For the Period January 7, 2006 through January 31, 2006 (Unaudited)
Per Share Operating Performance:	
Net asset value, beginning of period	$ 21.25
Net investment loss	(0.02)
Net realized and unrealized gains (losses) on investments and foreign currency transactions	(0.06)
Net decrease from investment operations	(0.08)
Less: Distributions	
Dividends from net investment income	—
Distributions from net realized gains	—
Return of capital	—
Total dividends and distributions	—
Net asset value, end of period	$ 21.17
Per share market value, end of period	$ 19.12
Total Investment Return Based on Market Value, end of period[1]	2.96%[2]
Ratios/Supplemental Data:	
Net assets, end of period (000's)	$30,256
Ratios of expenses to average net assets:	
Before expense reimbursement	1.90%[3]
After expense reimbursement	1.90%[3]
Ratios of net investment loss to average net assets:	
Before expense reimbursement	(1.26)%[3]
After expense reimbursement	(1.26)%[3]
Portfolio turnover rate	116.69%[4]

(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. 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.

See Notes to the Financial Statements.

Notes to Financial Statements

January 31, 2006
(Unaudited)

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. As of January 31, 2006, the Fund held one security which represented 1.00% of the Fund's net assets for which market values were not readily ascertainable.

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

Notes to Financial Statements (continued)

securities is evaluated periodically, and any resulting allowances for uncollectible amounts are reflected currently in the determination of investment income.

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.

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, 2005, the Fund increased undistributed net investment income by $366,591, decreased accumulated net realized gain on investments by $416,986, and increased paid-in capital by $50,395, due to the tax treatment of foreign currency gains and losses.

Notes to Financial Statements (continued)

January 31, 2006
(Unaudited)

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.

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

Notes to Financial Statements (continued)

January 31, 2006
(Unaudited)

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 periods ended January 31, 2006 and July 31, 2005 were as follows:

Distributions paid from:	1/31/06	7/31/05
Ordinary Income	$ 6,722,440	$ —
Long-Term Capital Gain	4,582,413	—
Return of Capital	—	—
Total	$11,304,853	$ —

As of July 31, 2005, the components of distributable earnings on a tax basis were as follows:

Cost of investments and foreign currency (a)	$ 44,717,222
Gross tax unrealized appreciation	7,988,022
Gross tax unrealized depreciation	(110,501)
Net tax unrealized appreciation	$ 7,877,521
Undistributed ordinary income	$ 6,099,501
Undistributed long-term capital gain	4,107,408
Total distributable earnings	$ 10,206,909
Other accumulated losses	$ (28,682)
Total accumulated earnings	$ 18,055,748

(a) Represents cost for federal income tax purposes. Differences between the Fund's cost basis of investments and foreign currency at July 31, 2005, for book and tax purposes, relate primarily to the deferral of losses related to wash sales.

The Mexico Equity and Income Fund designates 100% of dividends declared after July 31, 2003 from net investment income as qualified dividend income under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (unaudited).

Notes to Financial Statements (continued)

January 31, 2006
(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 six months ended January 31, 2006, these fees amounted to $236,512. The Investment Adviser has voluntarily agreed to reimburse the Fund for certain fees and expenses on an annual basis. These expense reimbursements may be terminated at any time. For the six months ended January 31, 2006, 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 (subject to a minimum annual fee of $53,000 through July 31, 2005, then $57,000 through July 31, 2006):

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

Notes to Financial Statements (continued)

January 31, 2006
(Unaudited)

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 six months ended January 31, 2006, the Mexico Equity and Income Fund, Inc. incurred Administration fees of $33,379, Fund Accounting fees of $22,807 and Custody fees of $20,830.

Certain officers of the Fund are also officers of the Administrator.

NOTE C: PORTFOLIO ACTIVITY

Purchases and sales of securities other than short-term obligations, aggregated $85,883,377 and $70,133,674 respectively, for the six months ended January 31, 2006.

At January 31, 2006 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 7, 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.

Notes to Financial Statements (concluded)

During the six months ended January 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, 2005, July 31, 2004, July 31, 2003 and July 31, 2002, the Fund made no repurchases pursuant to the program. Pursuant to the share repurchase program, during the year ended July 31, 2001, the Fund purchased 174,000 shares of capital stock in the open market at a total cost of $1,703,552. The weighted average discount of these purchases comparing the purchase price to the net asset value at the time of purchase was 9.01%. During the fiscal year ended July 31, 2000, the Fund purchased 1,199,700 shares of capital stock in the open market at a total cost of $10,573,159. The weighted average discount of these purchases comparing the purchase prices to the net asset value at the time of purchase was 16.40%.

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.

NOTE E: NEW DIRECTOR

At a Board of Directors meeting held on December 9, 2006, the Board unanimously elected Pablo Padilla as an Interested Director of the Fund.

NOTE F: PREFERRED STOCK

The Fund intends to conduct a series of tender offers for preferred stock only (each, a "Tender Offer") on a semi-annual basis (each semi-annual period, a "Tender Period"), on dates to be determined by the Board of Directors and beginning within the 6-month period between January 31, 2006 and July 31, 2006, 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.

Additional Information (unaudited)

January 31, 2006

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 2005, the Fund submitted a CEO annual certification to the NYSE in which the Fund's principal executive officer certified that he 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)

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: Mr. Charles Zade, 2 North La Salle Street, Chicago, Illinois 60602. Dividends and distributions with respect to shares of the Fund's Common 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 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 or in cash, as shareholders may have elected, nonparticipants in the Plan will receive cash and participants in the Plan will receive Common Stock, 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 asset value; or, if the net asset value is less than

Dividends and Distributions (unaudited) (continued)

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 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 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 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)

The receipt of dividends and distributions in Common 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)

The Fund's Annual Stockholders meeting was held on November 29, 2005, at 405 Lexington Avenue, New York, New York 10174. As of October 17, 2005, the record date, outstanding shares of common stock ("shares") of the Fund were 2,473,504. Holders of 2,107,413 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 one proposal. The stockholders elected two Directors to the Board of Directors.

The following table provides information concerning the matter voted on at the meeting:

I. Election of Directors

Nominee	Votes For	Votes Withheld
Phillip Goldstein	2,054,177	53,236
Glenn Goodstein	2,054,177	53,236