

The Mexico Equity and Income Fund Inc.

Dear Fellow Shareholders:

To quote Thomas Paine, "These are the times that try men's souls."

Like most other markets around the world, the Mexican stock market is down this year although the decline has not been as precipitous as in some other countries. Despite the recent correction, the long term performance of the Mexico Equity and Income Fund remains impressive. Over the eighteen years since its inception on August 30, 1990 our investment advisor, Pichardo Asset Management and its predecessor's entities has generated a return on net asset value of approximately 17% per annum.

Although our Fund's discount has narrowed a bit recently, it is still too wide in my opinion. As a result, we are continuing to opportunistically repurchase our shares in the stock market to enhance net asset value. Every share we have repurchased this year has added at least \$3 to our total net asset value. Finally, although I am weary of writing about it, longer term we continue to believe our proposal to issue put warrants to shareholders will permanently solve the discount problem. After some recent personnel changes, the SEC does seem to be moving, albeit slowly and with an abundance of caution, to provide us with the relief we need to implement our proposal.

Sincerely yours,



Phillip Goldstein
Chairman

THE MEXICO EQUITY AND INCOME FUND, INC.

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

Dear Fund Shareholders:

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, 2008.

I. INTRODUCTION

In the context of the global credit crisis and the recent fate of several large U.S. investment banks, the Mexican economy is expected to grow a meager 2.2% in 2008, according to Banamex. Even so, Mexico's responsibly restrictive monetary policy and sound public finances for the last 10 years is likely to help the country face this unprecedented crisis along with relatively healthier financial and debt markets.

As mentioned in the Fund's fiscal year report ended July 2007, President Felipe Calderon's National Project "Vision 2030", which incorporates the 2007-2012 National Development Plan and — importantly— an estimated US\$30 bn per annum investment in infrastructure, could prove to be a short-term engine for achieving higher economic growth. The 2007-2008 infrastructure investment of approximately US\$30 bn has been funded by the approved fiscal reform, excess oil revenues and government asset sales, including private sector investment.

The MXE's net per share asset value registered a 7.16% loss for the Fund's fiscal year ended July 31, 2008, compared to a 13.46% loss for the Mexico Fund, a comparable peer, and a 2.32% loss for the Mexican Bolsa, as reported by Bloomberg. Year-to-date, through August 2008, the Fund's 7.95% loss led it to rank third compared to a 20.06% average loss for Lipper's 20 Emerging Markets Closed-end Funds sample.

The long-term performance of the Mexico Equity and Income Fund remains at approximately 17% per annum for the last eighteen years since its inception on August 30, 1990, amid the recent market correction, as reported by Thomson Financial. The Fund's 15.85% to -13.79% premium/discount range for the fiscal year has stabilized at a discount of -12% to -14% at the writing of this report, after a 15.85% premium in July 2007 following the outbreak of the sub-prime crisis.

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We are patiently adhering to an investment strategy consisting primarily of an overweight in infrastructure. In the midst of uncertainty about the macro consequences of the actions of the U.S. Federal Reserve and the U.S. Treasury's proposed US\$700 billion bail-out, we believe that an investment strategy like the Fund's, which is tied to a domestic growth vehicle such as the National Infrastructure Program, is likely to enhance shareholder value in the long-term.

II. MEXICO'S ECONOMIC REVIEW

Mexico's GDP grew 2.7% year-over-year during the first half of 2008 compared to 3.2% in 2007. During the period, the most dynamic sector was the services sector with 3.5% growth followed by the agricultural sector, 1.8%, and the industrial sector 1.1%.

The industrial sector's more modest growth during the period January to June 2008 was particularly notable within the construction sector, which registered a meager 0.8% growth compared to 3.0% in 2007. This was mainly the result of the Mexican government's infrastructure program getting off to a slow start.

The Mexican economy has so far weathered the effects of the U.S. economic downturn relatively well, although recent economic woes have led analysts to believe that economic weakness will most probably continue through the end of 2009. Hence, during the year, Mexico's 2008 GDP growth has been revised down on several occasions from 3.5% at the beginning of the year to 2.3% currently and 1.9% for 2009.

Early in the year, strong momentum in private consumption (70% of GDP) was seen as a strong catalyst for growth during the year and the 4.2% growth rate registered during the first quarter of 2008 seemed to support this view. Nonetheless, the recently released 3.0% growth rate for 2008 confirms that weakness in the real sector has spilled over to the consumer, especially as during the year, many of the traditional drivers of private consumption have registered slower growth, namely: (i) job creation: 286,440 new jobs were created in the period January to August, down 50% from the same year-ago period; (ii) a slower rate of credit growth: 15.55% in June compared to 18% in May; and (iii) lower U.S. remittances from Mexican workers abroad, which amounted to US\$13 billion during the first half of 2008.

However, it is worth noting that capital investment growth maintained its pace during the first half of 2008, amid a negative external scenario and slowing domestic demand, reflecting private sector confidence in the Mexican economy in the medium term, which should contribute to growth once external weakness subsides.

Gross fixed investment grew 4.9% year-on-year for the period January to June 2008, mainly as a result of investment in machinery and equipment, as construction's 0.9% growth for the period

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evidenced the slowdown in the sector, probably due to a lagging response to the Mexican government's infrastructure program. US\$10.5 billion in foreign direct investment inflows in the first half of 2008 has also supported capital investment growth.

Although the real sector slowdown which began in 2007 has continued this year and will probably last until 2009, Mexico's fiscal stability has been preserved, largely due to record high oil prices. The 2008 budget estimated a Mexican mix oil price of US\$49 year, which has been largely surpassed by the US\$122.73 oil price as at end-July 2008, and the US\$58.19 price reached in 2007, resulting in excess oil revenues of US\$3 billion during the first half of 2008 and an accumulation of US\$6 billion in the so-called Stabilization Fund, which has forestalled any Mexican government spending cuts thus far and is likely to continue to do so in the near future.

Nonetheless, the decline in oil production since 2005, which to date amounts to 300,000 barrels per day, means that in the last 3 years Mexico has ceased to raise around US\$10 billion in accumulated oil revenue based on the average annual oil price for the period. Furthermore, GEA, an independent economic and research institute, estimates a decrease in oil exports from 1.4 million barrels per day on average in 2008 to 1.1 million barrels per day in 2009. And although Pemex (oil state monopoly) and Energy reform is expected to be approved sometime in October of this year, national security is currently on the top of the Mexican government's agenda following the recent terrorist attacks, which threaten to be a new economic growth inhibitor and are a direct consequence of the Calderon government's pledge to combat organized crime.

The other (negative) side of the coin, however, consists of greater inflationary pressures stemming from higher prices for fuel — hitherto contained by gasoline price subsidies — and food during the year, which have led Banxico to raise its reference rate by 75 bps on three occasion to 8.25% as at end-July 2008 and delay convergence with its inflation target of 3% until 2010. Annual inflation as at the end of July 2008 was 5.39%, well above the Central Bank's target.

III. THE MEXICAN STOCK EXCHANGE

For the Fund's fiscal year period ending July 31, 2008, the Mexbol Index lost 2.32% in dollar terms. This period was characterized by two main developments: the deepening of the subprime crisis and rising global inflation pressures due to higher commodity and food prices.

During the first half of the Fund's fiscal year, the Mexbol registered a 5.24% dollar loss at the beginning of a global economic slowdown and a 3.08% gain during the second half of the Fund's fiscal year amid high levels of volatility and a steep correction in financial markets worldwide. However, given the recent severe bout of market turmoil, the Mexbol Index is currently entering a new cycle with greater volatility, which has led it to post an 11.73% loss year-to-date through September 25.

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The Mexbol Index's over-performing stocks during the Fund's fiscal year period ended July 31st, 2008, were mainly related to the petrochemical, financial and retail sectors, while laggard stocks were mainly related to the diversified communications, construction and engineering and housing sectors.

Although in terms of multiple valuations (last-12-month EV/EBITDA) Bolsa-listed companies seem fairly valued, 2008 and 2009 earnings growth forecasts which result in attractive valuations have a high degree of downside risk due to economic growth uncertainty. Given the prospect of a complex and prolonged global financial crisis, buying stocks at today's projected multiples could prove expensive.

IV. THE FUND'S PERFORMANCE

For the Fund's fiscal year ended July 31, 2008, the MXE's net per share asset value lost 7.16% in dollar terms and 14.75% in Mexican peso terms, as the Mexican peso appreciated 8.65% against the U.S. dollar. In comparison, the Mexico Fund's net per share asset value lost 13.46% in U.S. dollar terms and 20.53% in Mexican peso terms for the same period.

The Fund's 13.79% discount from net asset value registered at the end of July 2008 following an all-time high premium of 15.85% in July 2007, has resulted in a 28.92% decrease in the Fund's common share market price in U.S. dollar terms at the end of July.

The main contributors to the Fund's loss for the most recent fiscal year were infrastructure-related securities, which staged a strong correction during the entire period, mainly due to the market's perception of a bureaucratic delay in infrastructure project bidding processes.

At the end of August 2008, the MXE's net asset value per share posted an average annual U.S. dollar return (with reinvested dividends) of 17.02% for the last eighteen years since the Fund's inception in August 1990.

V. PORTFOLIO STRATEGY

The Fund's investment strategy for the fiscal year ended July 31, 2008 remained consistent with the policies established at the end of 2007 with an overweight in infrastructure as well as materials and housing asset classes. At the close of the fiscal year, the MXE's portfolio had a 15.55% allocation in liquid peso-denominated instruments.

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We believe that our decision to overweight the MXE's portfolio in the infrastructure asset category as classified by Pichardo Asset Management¹ in addition to exposure to the Mexican housing sector and the largest wireless operator in the Latin American region, constitutes an investment thesis which leverages the Fund to reap the rewards of growing private and public investment in Mexico derived from the Calderon government's National Infrastructure Program.

¹ water treatment plants, municipal solid waste collection services, toll road concessions, communication routes, oil, gas and other energy production and supply projects, education and health service projects, airport operators, mega-resort developments in coastal areas and port operators.



THE MEXICO EQUITY AND INCOME FUND, INC.

ECONOMIC INFORMATION

Real Activity	1999	2000	2001	2002	2003	2004	2005	2006	2007
Real GDP Growth (y-o-y)	3.90%	6.60%	(0.20)%	0.80%	1.40%	4.20%	2.80%	4.80%	3.30%
Industrial Production (y-o-y) . .	4.20%	6.10%	(3.50)%	0.00%	(0.20)%	4.20%	1.70%	5.00%	1.40%
Trade Balance (US Billions) . . .	(\$ 5.61)	(\$ 8.33)	(\$ 9.62)	(\$ 7.63)	(\$ 5.78)	(\$ 8.81)	(\$ 7.59)	(\$ 6.13)	(\$11.20)
Exports (US Billions)	\$136.36	\$166.12	\$158.78	\$161.05	\$164.77	\$187.99	\$214.23	\$253.90	\$272.00
Exports Growth (y-o-y)	16.10%	21.80%	(4.40)%	1.40%	2.30%	14.10%	14.00%	16.70%	8.90%
Imports (US Billions)	\$141.97	\$174.46	\$168.40	\$168.68	\$170.54	\$196.81	\$221.82	\$256.13	\$283.00
Imports Growth (y-o-y)	13.20%	22.90%	(3.50)%	0.20%	1.10%	15.40%	12.70%	15.50%	10.60%
Financial Variables and Prices	1999	2000	2001	2002	2003	2004	2005	2006	2007
28-Day CETES (T-bills)/Average	21.41%	15.24%	11.31%	7.09%	6.23%	6.82%	9.20%	7.19%	7.20%
Exchange rate (Pesos/US\$) Average	9.56	9.46	9.34	9.66	10.79	11.15	10.64	10.9	10.93
Inflation IPC, 12 month trailing	12.32%	8.96%	4.40%	5.70%	3.98%	5.19%	3.33%	4.05%	3.80%
Mexbol Index	1999	2000	2001	2002	2003	2004	2005	2006	2007
USD Returns	90.39%	(20.81)%	20.88%	(14.43)%	33.61%	50.49%	44.90%	45.77%	10.56%
Market Cap. (US Billions) . . .	\$129.60	\$111.70	\$112.40	\$103.80	\$124.70	\$169.50	\$283.80	\$343.48	\$441.04
EV/EBITDA	10.5x	7.9x	8.1x	6.6x	7.8x	8.3x	8.9x	10.6x	9.8x

Fund's NAV & Common Share Market Price Performance

(USD Return)	1999	2000	2001	2002	2003	2004	2005	2006	2007
NAV's per share	59.20%	(14.20)%	10.00%	(13.50)%	40.00%	55.60%	38.70%	59.29%	30.68%
Share Price	74.70%	(5.60)%	18.70%	(18.50)%	36.00%	66.60%	8.10%	75.54%	24.39%

On behalf of the Board of Directors and ourselves, we thank you for your continuing support.

Sincerely yours,

Eugenia Pichardo
 Portfolio Manager

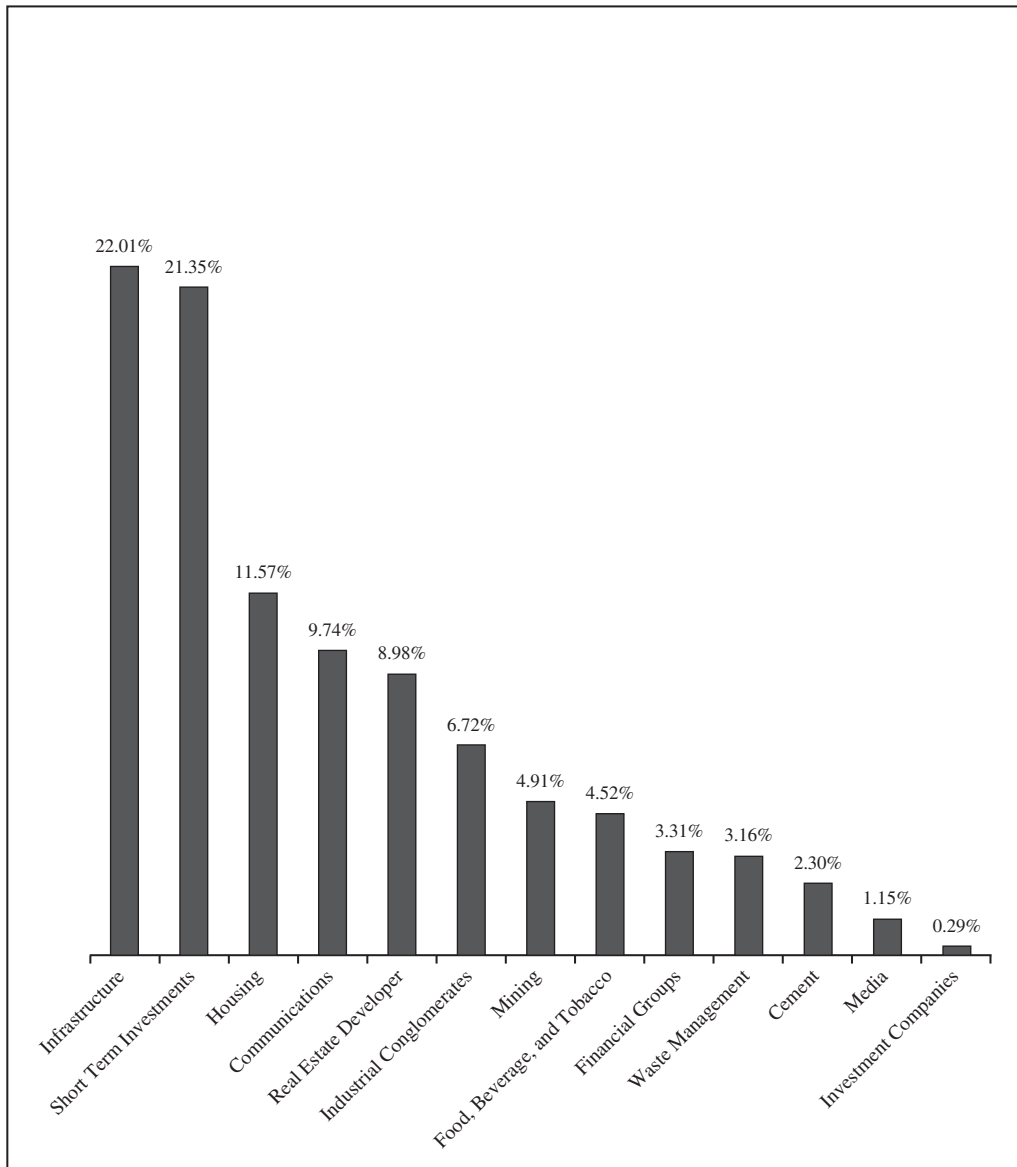


THE MEXICO EQUITY AND INCOME FUND, INC.

Allocation of Portfolio Assets

(Calculated as a percentage of Net Assets)

July 31, 2008



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



THE MEXICO EQUITY AND INCOME FUND, INC.

Schedule of Investments

July 31, 2008

MEXICO – 99.72%	Shares	Value
COMMON STOCKS – 78.37%		
Cement – 2.30%		
Cemex, S.A. de C.V. CPO	99,856	\$ 212,668
Corporacion Moctezuma, S.A. de C.V.	375,608	890,496
Grupo Cementos de Chihuahua, S.A. de C.V.	364,867	1,871,448
		<u>2,974,612</u>
Communications – 9.74%		
America Movil, S.A. de C.V. – Class L	3,914,893	9,924,944
America Movil, S.A. de C.V. – Class L ADR	52,738	2,662,742
		<u>12,587,686</u>
Financial Groups – 3.31%		
Corporativo GBM SAB de CV	5,301,734	4,272,547
Food, Beverage, and Tobacco – 4.52%		
Gruma S.A.B.	341,365	974,916
Embotelladoras Arca S.A.	372,192	1,323,226
Fomento Economico Mexicano, S.A. de C.V.	771,008	3,544,467
		<u>5,842,609</u>
Housing – 11.57%		
Desarrolladora Homex, S.A. de C.V. ^(a)	1,045,181	9,769,078
SARE Holding, S.A. de C.V. ^(a)	1,754,397	1,992,292
Urbi, Desarrollos Urbanos, S.A. de C.V.	953,552	3,186,818
		<u>14,948,188</u>
Industrial Conglomerates – 6.72%		
Industrias CH, S.A. – Class B ^(a)	1,111,842	5,800,241
Mexichem, S.A. de C.V.	415,601	2,890,939
		<u>8,691,180</u>
Infrastructure – 22.01%		
Empresas ICA Sociedad Conroladora, S.A. de C.V. ^(a)	2,020,293	10,726,596
Grupo Mexicano de Desarrollo, S.A. ^(a)	1,857,742	4,765,220
Promotora y Operadora de Infraestructura, S.A. de C.V. ^(a)	4,149,594	12,950,495
		<u>28,442,311</u>

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



THE MEXICO EQUITY AND INCOME FUND, INC.

Schedule of Investments (continued)

July 31, 2008

COMMON STOCKS (continued)

	Shares	Value
Media – 1.15%		
Grupo Televisa, S.A. – ADR	66,283	\$ 1,490,705
Mining – 4.91%		
Grupo Mexico, S.A. – Series B	2,884,953	5,115,394
Industrias Penoles, S.A.	46,029	1,224,368
		<u>6,339,762</u>
Real Estate Developer – 8.98%		
GMD Resorts SAB de CV	1,573,112	1,253,632
Grupe, S.A. de C.V. ^{(a)(b)}	3,849,668	10,353,982
		<u>11,607,614</u>
Waste Management – 3.16%		
Promotora Ambiental, S.A. de C.V. ^(a)	1,932,942	4,082,019
TOTAL COMMON STOCKS (Cost \$87,400,171)		<u>\$101,279,233</u>

SHORT-TERM INVESTMENTS – 21.35%

	Principal	
Mexican BI CETES		
0.000% Coupon, 7.838% Effective Yield, 08/21/2008 ^(c)	6,309,000	6,256,890
Mexican BANOBRA		
0.000% Coupon, 7.349% Effective Yield, 08/07/2008 ^(c)	61,094,888*	6,076,454
Mexican INAFIN		
0.000% Coupon, 7.385% Effective Yield, 08/18/2008 ^(c)	53,571,227*	5,334,116
Mexican CETES		
0.000% Coupon, 7.359% Effective Yield, 08/14/2008 ^(c)	5,000,000	4,966,565
Mexican CETES		
0.000% Coupon, 8.257% Effective Yield, 08/28/2008 ^(c)	5,000,000	4,950,802
TOTAL SHORT-TERM INVESTMENTS (Cost \$27,389,638)		<u>27,584,827</u>
TOTAL MEXICO (Cost \$114,789,809)		<u>\$128,864,060</u>

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Schedule of Investments (continued)

July 31, 2008

UNITED STATES – 0.29%	Shares	Value
<hr/>		
INVESTMENT COMPANIES – 0.29%		
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First American Treasury Obligation – Class A, 2.132%	375,257	<u>\$ 375,257</u>
TOTAL INVESTMENT COMPANIES (Cost \$375,257)		<u>375,257</u>
TOTAL UNITED STATES (Cost \$375,257)		<u>375,257</u>
TOTAL INVESTMENTS – 100.00% (Cost \$115,165,066)		129,239,317
OTHER LIABILITIES IN EXCESS OF ASSETS – (0.01)%		<u>(13,714)</u>
TOTAL NET ASSETS – 100.00%		<u>\$129,225,603</u>

Footnotes and Abbreviations

ADR – American Depository Receipts.

(a) Non-income producing security.

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

(c) Effective yield based on the purchase price. The calculation assumes the security is held to maturity.

* Principal Amount in Mexican Pesos

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

THE MEXICO EQUITY AND INCOME FUND, INC.

Statement of Assets & Liabilities

July 31, 2008

ASSETS:

Investments, at value	
Unaffiliated issuers (Cost \$109,791,003)	\$ 118,885,335
Affiliated issuers (Cost \$5,374,063)	<u>10,353,982</u>
Total investments, at value (Cost \$115,165,066)	129,239,317
Cash	195,813
Foreign currencies (Cost \$5)	5
Receivables:	
Dividends and Interest	27,123
Prepaid expenses	<u>781</u>
Total Assets	<u>129,463,039</u>

LIABILITIES:

Advisory fees payable	91,311
Administration fees payable	28,481
Legal fees payable	14,726
Fund accounting fees payable	13,880
Custody fees payable	12,994
CCO fees payable	2,367
Accrued expenses and other liabilities	<u>73,677</u>
Total Liabilities	<u>237,436</u>

Net Assets **\$129,225,603**

Net Asset Value Per Preferred Share
(\$22,741,613/804,001) **\$ 28.29**

Net Asset Value Per Common Share
(\$106,483,990/3,764,607) **\$ 28.29**

NET ASSETS CONSIST OF:

Preferred stock, \$0.001 par value; 804,001 shares outstanding (1,855,128 shares authorized)	\$ 804
Common stock, \$0.001 par value; 3,764,607 shares outstanding (98,144,872 shares authorized)	3,765
Paid-in capital	87,344,745
Accumulated net investment income	1,136,374
Accumulated net realized gain on investments	26,665,728
Net unrealized appreciation on investments and foreign currency	<u>14,074,187</u>
Net Assets	<u>\$129,225,603</u>

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



THE MEXICO EQUITY AND INCOME FUND, INC.

Statement of Operations

**For the Year Ended
 July 31, 2008**

INVESTMENT INCOME

Dividends ⁽¹⁾ – Unaffiliated issuers	\$ 1,833,784
Interest	<u>612,990</u>
Total Investment Income	<u>2,446,774</u>

EXPENSES

Advisory fees (Note B)	\$1,228,015
Legal fees	297,398
Administration fees (Note B)	188,594
Printing and mailing	127,534
Custodian fees (Note B)	93,952
Directors' fees and expenses (Note B)	92,964
Transfer agent fees	72,810
Fund accounting fees (Note B)	70,142
Insurance expense	42,456
CCO fees (Note B)	33,235
NYSE fees	32,182
Audit fees	25,620
Miscellaneous fees	<u>3,751</u>
Total expenses	<u>2,308,653</u>

NET INVESTMENT INCOME	<u>138,121</u>
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NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS

Net realized gain from investments and foreign currency transactions	
Unaffiliated Issuers	27,713,608
Affiliated Issuers	441
Net realized gain from in-kind redemptions (Note A)	
Unaffiliated Issuers	5,676,789
Affiliated Issuers	471,042
Net change in unrealized appreciation from investments and foreign currency transactions	<u>(42,665,370)</u>
Net loss from investments and foreign currency transactions	<u>(8,803,490)</u>
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ (8,665,369)</u>

⁽¹⁾ Net of \$701 in foreign withholding tax.
 The accompanying notes are an integral part of these financial statements.

THE MEXICO EQUITY AND INCOME FUND, INC.

Statements of Changes in Net Assets

	<u>For the Year Ended July 31, 2008</u>	<u>For the Year Ended July 31, 2007</u>
INCREASE (DECREASE) IN NET ASSETS		
Operations:		
Net investment income (loss)	\$ 138,121	\$ (566,000)
Net realized gain on investments and foreign currency transactions	27,714,049	34,194,338
Net realized gain from in-kind redemptions	6,147,831	—
Net change in unrealized appreciation in value of investments and foreign currency transactions	<u>(42,665,370)</u>	<u>42,191,964</u>
Net increase (decrease) in net assets resulting from operations	<u>(8,665,369)</u>	<u>75,820,302</u>
Distributions to Shareholders from:		
Net investment income		
Common stock	—	(326,181)
Preferred stock	—	(188,487)
Net realized gains		
Common stock	(25,750,748)	(7,176,105)
Preferred stock	<u>(7,945,743)</u>	<u>(4,146,775)</u>
Decrease in net assets from distributions	<u>(33,696,491)</u>	<u>(11,837,548)</u>
Capital Share Transactions		
Repurchase of common stock through Repurchase Plan	(4,138,645)	—
Proceeds from common stock sold	30,736,956	—
Issuance of common stock for dividend	11,124,950	4,255,191
Repurchase of preferred stock for in-kind tender offers	<u>(20,954,066)</u>	<u>—</u>
Increase in net assets from capital share transactions	<u>16,769,195</u>	<u>4,255,191</u>
Total increase (decrease) in net assets	(25,592,665)	68,237,945
Net Assets:		
Beginning of year	<u>154,818,268</u>	<u>86,580,323</u>
End of year*	<u>\$129,225,603</u>	<u>\$154,818,268</u>
*Including undistributed net investment income of:	<u>\$ 1,136,374</u>	<u>\$ —</u>

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

THE MEXICO EQUITY AND INCOME FUND, INC.

Financial Highlights

For a Common Share Outstanding Throughout Each Period

	<u>For the Year Ended July 31, 2008</u>	<u>For the Year Ended July 31, 2007</u>	<u>For the Year Ended July 31, 2006</u>	<u>For the Year Ended July 31, 2005</u>	<u>For the Year Ended July 31, 2004</u>
Per Share Operating Performance					
Net asset value, beginning of period	\$ 38.18	\$ 22.18	\$ 21.27	\$ 13.66	\$ 10.15
Net investment income (loss)	0.03	(0.14)	0.14	0.01	(0.02)
Net realized and unrealized gains (losses) on investments and foreign currency transactions	<u>(2.57)</u>	<u>19.17</u>	<u>6.54</u>	<u>7.60</u>	<u>3.55</u>
Net increase (decrease) from investment operations	<u>(2.54)</u>	<u>19.03</u>	<u>6.68</u>	<u>7.61</u>	<u>3.53</u>
Less: Distributions					
Dividends from net investment income	—	(0.13)	(0.16)	—	(0.02)
Distributions from net realized gains	<u>(7.41)</u>	<u>(2.90)</u>	<u>(4.41)</u>	<u>—</u>	<u>—</u>
Total dividends and distributions	<u>(7.41)</u>	<u>(3.03)</u>	<u>(4.57)</u>	<u>—</u>	<u>(0.02)</u>
Capital Share Transactions					
Anti-dilutive effect of Common Share Repurchase	0.15	—	0.18	—	—
Anti-dilutive effect of Common Rights Offering	0.06	—	—	—	—
Anti-dilutive effect of Preferred In-Kind Tender Offer	0.02	—	—	—	—
Dilutive effect of Reinvestment of Distributions by Common Stockholders	(0.17)	—	(0.18)	—	—
Dilutive effect of Preferred Share Offering	<u>—</u>	<u>—</u>	<u>(1.20)</u>	<u>—</u>	<u>—</u>
Total capital share transactions	<u>0.06</u>	<u>—</u>	<u>(1.20)</u>	<u>—</u>	<u>—</u>
Net Asset Value, end of period	<u>\$ 28.29</u>	<u>\$ 38.18</u>	<u>\$ 22.18</u>	<u>\$ 21.27</u>	<u>\$ 13.66</u>
Per share market value, end of year	\$ 24.39	\$ 44.23	\$ 19.40	\$ 18.82	\$ 11.73
Total Investment Return Based on Market					
Value, end of year ⁽¹⁾	(28.38)%	152.78%	37.62%	60.44%	29.10%

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



THE MEXICO EQUITY AND INCOME FUND, INC.

Financial Highlights (continued)

For a Common Share Outstanding Throughout Each Period

	For the Year Ended July 31, 2008	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
Ratios/Supplemental Data					
Net assets, end of period (000's)	\$ 106,484	\$ 100,251	\$ 54,872	\$ 52,621	\$ 33,779
Ratios of expenses to average net assets:					
Before expense reimbursement	1.50%	1.42%	1.90%	1.77%	2.09%
After expense reimbursement	1.50%	1.42%	1.90%	1.77%	2.08%
Ratios of net investment income (loss) to average net assets:					
Before expense reimbursement	0.09%	(0.47)%	0.24%	0.03%	(0.15)%
After expense reimbursement	0.09%	(0.47)%	0.24%	0.03%	(0.15)%
Portfolio turnover rate	224.10% ⁽²⁾	135.49% ⁽²⁾	179.85% ⁽²⁾	259.60%	234.42%

(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) 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.

THE MEXICO EQUITY AND INCOME FUND, INC.

Financial Highlights

For a Preferred Share Outstanding Throughout the Period

	<u>For the Year Ended July 31, 2008</u>	<u>For the Year Ended July 31, 2007</u>	<u>For the Period January 7, 2006 through July 31, 2006</u>
Per Share Operating Performance			
Net asset value, beginning of period	\$ 38.18	\$ 22.18	\$ 21.25
Net investment income	0.03	(0.14)	0.13
Net realized and unrealized gains (losses) on investments and foreign currency transactions	(2.57)	19.17	0.80
Net increase (decrease) from investment operations	(2.54)	19.03	0.93
Less: Distributions			
Dividends from net investment income	—	(0.13)	—
Distributions from net realized gains	(7.41)	(2.90)	—
Total dividends and distributions	(7.41)	(3.03)	—
Capital Share Transactions			
Anti-dilutive effect of Common Share Repurchase	0.15	—	—
Anti-dilutive effect of Common Rights Offering	0.06	—	—
Anti-dilutive effect of Preferred In-Kind Tender Offers	0.02	—	—
Dilutive effect of Reinvestment of Distributions by Common Stockholders	(0.17)	—	—
Total capital share transactions	0.06	—	—
Net Asset Value, end of period	<u>\$ 28.29</u>	<u>\$ 38.18</u>	<u>\$ 22.18</u>
Per share market value, end of period	\$ 25.50	\$ 36.10	\$ 19.00
Total Investment Return Based on Market Value, end of period⁽¹⁾	(8.25)%	110.66%	2.70% ⁽²⁾
Ratios/Supplemental Data			
Net assets, end of period (000's)	\$ 22,742	\$ 54,567	\$ 31,708
Ratios of expenses to average net assets:	1.50%	1.42%	1.97% ⁽³⁾
Ratios of net investment income (loss) to average net assets:	0.09%	(0.47)%	0.37% ⁽³⁾
Portfolio turnover rate	224.10% ⁽⁴⁾	135.49% ⁽⁴⁾	179.85% ⁽⁴⁾

(1) Total investment return is calculated assuming a purchase of preferred 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.

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

THE MEXICO EQUITY AND INCOME FUND, INC.

Notes to Financial Statements

July 31, 2008

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.

THE MEXICO EQUITY AND INCOME FUND, INC.

Notes to Financial Statements (continued)

July 31, 2008

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. In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 48 (FIN 48), "Accounting for Uncertainty in Income Taxes." This standard defines the threshold for recognizing the benefits of tax-return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority and requires measurement of a tax position meeting the more-likely-than-not criterion, based on the largest benefit that is more than 50 percent likely to be realized. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006 (August 1, 2007 for the Fund); with early application permitted if no interim financial statements have been issued. At adoption, companies must adjust their financial statements to reflect only those tax positions that are more-likely-than-not to be sustained as of the adoption date. The Fund adopted FIN 48 on January 31, 2008. The effect of adopting FIN 48 for the Fund does not have a material impact on the Fund's financial statements.

THE MEXICO EQUITY AND INCOME FUND, INC.

Notes to Financial Statements (continued)

July 31, 2008

The Fund had no material uncertain tax positions as of July 31, 2008. Also, the Fund had recognized no interest and penalties related to uncertain tax benefits in 2008. At July 31, 2008, the fiscal years 2005 through 2008 remain open to examination in the Fund's major tax jurisdiction.

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.

In March 2008, Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161") was issued and is effective for fiscal years beginning after November 15, 2008. SFAS 161 is intended to improve financial reporting for derivative instruments by requiring enhanced disclosure that enables investors to understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivative instruments affect an entity's results of operations and financial position. Management is currently evaluating the implications of SFAS 161. The impact on the Fund's financial statement disclosures, if any, is currently being assessed.

Reclassification of Capital Accounts. Accounting Principles generally accepted in the United States of America require certain components of net assets relating to permanent differences be reclassified between financial and tax reporting. These reclassifications have no effect on net assets or net asset value per shares. The permanent differences are primarily attributed to foreign currency gain reclassifications and net capital gains realized on in-kind redemptions due to the tender offers on the preferred shares (Note D). For the year ended July 31, 2008, the Fund increased undistributed net investment income by \$998,253 decreased accumulated realized gain by \$7,072,612 and increased paid in capital by \$6,074,359.

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

THE MEXICO EQUITY AND INCOME FUND, INC.

Notes to Financial Statements (continued)

July 31, 2008

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.

In-kind Redemptions. Net Capital gains or losses resulting from in-kind redemptions are excluded from the Fund's taxable gains and are not distributed to shareholders.

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 from additional paid-in capital.



THE MEXICO EQUITY AND INCOME FUND, INC.

Notes to Financial Statements (continued)

July 31, 2008

Distributions to Shareholders. The tax character of distributions paid to shareholders during the years ended July 31, 2008 and July 31, 2007 were as follows:

<u>Distributions paid from:</u>	<u>7/31/08</u>	<u>7/31/07</u>
Ordinary Income	\$14,703,135	\$ 7,190,007
Long-Term Capital Gain	<u>18,993,356</u>	<u>4,647,541</u>
Total	<u>\$33,696,491</u>	<u>\$11,837,548</u>

The Fund has designated \$18,993,356 as long-term capital gain dividend, pursuant to Internal Revenue Code section 852(b)(3).

As of July 31, 2008, the components of distributable earnings on a tax basis were as follows:

Cost of Investments for tax purposes ^(a)	<u>\$117,823,142</u>
Gross tax unrealized appreciation on investments	21,877,305
Gross tax unrealized depreciation on investments	<u>(10,461,130)</u>
Net tax unrealized appreciation (depreciation) on investments	11,416,175
Net unrealized appreciation on foreign currency transactions	(64)
Net tax unrealized appreciation (depreciation) on investments and foreign currency	<u>\$ 11,416,111</u>
Undistributed ordinary income	\$ 7,580,684
Undistributed long-term capital gains	<u>22,896,599</u>
Total Distributable earnings	<u>\$ 30,477,283</u>
Other accumulated gains (losses)	<u>\$ (17,105)</u>
Total accumulated earnings (losses)	<u>\$ 41,876,289</u>

(a) Represents cost for federal income tax purposes. Differences between the Fund's cost basis of investments at July 31, 2008, for book and tax purposes, relates primarily to the deferral of losses related to wash sales.

The Mexico Equity and Income Fund designates 7% of dividends declared for the fiscal year July 31, 2008 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, 2008 was 0%. (Unaudited)

THE MEXICO EQUITY AND INCOME FUND, INC.

Notes to Financial Statements (continued)

July 31, 2008

The percent of ordinary income distributions designated as short-term capital gain distributions for the fiscal year ended July 31, 2008 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, 2008, these fees amounted to \$1,228,015. 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 year ended July 31, 2008, there were no expense reimbursements made by the Investment Adviser.

Effective September 20, 2007, 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 \$20,000, paid pro rata, quarterly plus a fee of \$500 for each meeting held telephonically. For serving the Fund as Chief Compliance Officer, in addition to the aforementioned Directors' fees, Mr. Hellerman receives annual compensation in the amount of \$30,000. 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:

THE MEXICO EQUITY AND INCOME FUND, INC.

Notes to Financial Statements (continued)

July 31, 2008

\$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, 2008, the Mexico Equity and Income Fund, Inc. incurred Administration fees of \$188,594; Fund Accounting fees of \$70,142 and Custody fees of \$93,952.

NOTE C: PORTFOLIO ACTIVITY

Purchases and sales of securities other than short-term obligations, aggregated \$330,040,165 and \$373,608,679 respectively, for the year ended July 31, 2008.

At July 31, 2008 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

During the year ended July 31, 2008, the Fund purchased 158,149 shares of capital stock in the open market at a total cost of \$4,138,645. The weighted average discount of these purchases comparing the average purchase price to the net asset value at the close of the New York Stock Exchange was approximately 14.94%.

The Board of Directors approved in-kind tender offers to repurchase up to 25% of the Fund's preferred stock in exchange for portfolio securities of the Fund valued at 99% of the Fund's per share net asset value on the expiration date of the repurchase offers (the "Offers"). During the year ended July 31, 2008, the Fund commenced two Offers with expiration dates of June 27th, 2008 and November 16th, 2007. Portfolio securities to be received by participating Preferred Stockholders were pro-rata among tendering Preferred Stockholders in proportion to the number of Preferred Shares tendered to the Fund by each such Preferred Stockholder. Following the expiration of the Offers, the Fund redeemed 625,335 Preferred Shares or \$20,954,066 of Capital Stock. The net asset value per share of the Fund's common and preferred stockholders was increased by approximately \$0.02 as a result of these Offers.

The Board of Directors approved a nontransferable rights offering for the purchase of the Funds common stock. The Fund issued to each stockholder of record as of July 27, 2007 (the Record

THE MEXICO EQUITY AND INCOME FUND, INC.

Notes to Financial Statements (continued)

July 31, 2008

Date) one nontransferable right for every two shares of common or preferred stock such stockholder owned as of the Record Date. Each right entitled the holder to purchase one share of common stock at a subscription price calculated as the greater of (i) the Funds asset value per share (NAV) as determined on the Expiration Date (August 31, 2007) or (ii) 95% of the average trade weighted market price of the Funds common stock on the Expiration Date. On September 11, 2007, the Fund issued 848,150 shares of common stock at \$36.24 which raised \$30,736,956. The net asset value per share of the Funds common and preferred stockholders was increased by approximately \$0.06 per share as a result of this issuance.

On December 6, 2007, the Board of Director's declared a stock dividend of \$7.41206 per share. This dividend was paid in shares of common stock of the Fund, or in cash by specific election of the stockholder. Stockholders that did not elect the cash option were issued 448,587 shares, which amounted to \$11,124,950.

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 stockholder. Stockholders that did not select the cash option were issued 152,515 shares, which amount to \$4,255,191.

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).

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 stockholders 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 and July 31, 2004, the Fund made no repurchases pursuant to the program.



THE MEXICO EQUITY AND INCOME FUND, INC.

Notes to Financial Statements (concluded)

July 31, 2008

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: 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 and the ability to elect two directors.

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, 2007 through July 31, 2008. As defined in Section (2)(a)(3) of the Investment Company Act of 1940, such issuers are:

<u>Issuer Name</u>	<u>Share Balance At Aug. 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Share Balance At July 31, 2008</u>	<u>Dividend Income</u>	<u>Value At July 31, 2008</u>
Grupe, S.A. de C.V.	4,071,300	—	221,632	3,849,668	\$—	\$10,353,982

THE MEXICO EQUITY AND INCOME FUND, INC.

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, 2008 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, 2008, 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, 2008, 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 25, 2008**

THE MEXICO EQUITY AND INCOME FUND, INC.

Additional Information (unaudited)

July 31, 2008

BOARD CONSIDERATION OF AND CONTINUATION OF INVESTMENT ADVISORY AGREEMENT (Unaudited)

In March 2008, the Board of Directors of The Mexico Equity and Income Fund, Inc., (the “Fund”), including the Independent Directors, unanimously approved the renewal of the Fund’s Investment Advisory Agreement (the “Agreement”) with the Adviser for an additional one-year term. The information, material facts and conclusions that formed the basis for the Board’s approval are described below.

Information Reviewed

During the course of the year, Board members review a wide variety of materials relating to the nature, extent and quality of the services provided to the Fund by the Adviser, including reports on the Fund’s investment results, portfolio composition, investment strategy, and other matters. In addition, in connection with its annual review of the Agreement, the Board requested and reviewed supplementary information that included materials regarding the Fund’s investment results, advisory fee and expense comparisons, financial and profitability information regarding the Adviser, descriptions of various functions such as compliance monitoring and portfolio trading practices, and information about the personnel providing investment management and administrative services to the Fund. In connection with its review, the Board received assistance and advice regarding legal and industry standards from counsel to the Fund. The Independent Directors discussed the approval of the Agreement with representatives of the Adviser and in a private session with counsel at which no representatives of the Adviser were present. In deciding to recommend approval of the Agreement, the Board and the Independent Directors did not identify any single or particular piece of information that, in isolation, was the controlling factor. This summary describes the most important, but not all, of the factors considered by the Board and the Independent Directors.

Nature, Extent and Quality of Services

With respect to the nature, extent and quality of services provided by the Adviser to the Fund, the Directors engaged in a broad discussion of the value the Adviser provided to the Fund and the experience of the Fund’s portfolio manager. The Board considered both the short-term and long-term performance of the Fund. The Board reviewed the Fund’s performance over various periods and compared these returns with data supplied by an independent provider of fund data on the returns of the Fund’s peers and relevant indices. They noted that the Adviser was delivering performance that continued to outperform its peers and relevant indices.

Advisory Fees, Total Expenses and Ancillary Benefits

With respect to advisory fees and total expenses, the Directors noted that the Fund’s management fees were in the 3rd highest quartile and slightly lower than the industry average for its peer group

THE MEXICO EQUITY AND INCOME FUND, INC.

Additional Information (unaudited) (continued) July 31, 2008

based on information provided by Lipper, Inc. The Board reviewed and discussed expenses and noted the Fund's expense ratio of 1.53% was reasonable when compared to funds with similar asset size and complexity. In addition, the Board reviewed and discussed the profitability to the Adviser and its relationship with the Fund, which they concluded was reasonable, and information regarding the Adviser's financial capability to continue to provide services to the Fund in the future, which they concluded was adequate. The Directors considered the extent to which economies of scale were or should be reflected in the Fund's advisory fee, and concluded that in view of the Fund's investment results, the Fund's reasonable level of total expenses and overall size of the net assets in the Fund that the investment advisory fees were reasonable and that there were no economies of scale available to this time that should be passed along to the Fund. The Board also considered ancillary benefits to the Adviser as a result of its relationship with the Fund. The Board noted that the Adviser has no affiliated entities that provide services to the Fund and that any such benefit was difficult to quantify and likely not significant.

Conclusions

Based on their review, including consideration of each of the factors referred to above, the Board and the Independent Directors concluded that the Agreement is fair and reasonable to the Fund and its stockholders, that the Fund's stockholders receive reasonable value in return for the advisory fees paid to the Adviser by the Fund, that each of the factors discussed above supported renewal of the Agreement, and that renewal of the Agreement was in the best interests of the Fund and its stockholders.

NOTE 1: 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 2: 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.

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THE MEXICO EQUITY AND INCOME FUND, INC.

Additional Information (unaudited) (concluded)

July 31, 2008

NOTE 3: INFORMATION ABOUT CERTIFICATIONS

In November 2007, 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.

THE MEXICO EQUITY AND INCOME FUND, INC.

Dividends and Distributions (unaudited) **July 31, 2008**

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

THE MEXICO EQUITY AND INCOME FUND, INC.

Dividends and Distributions (unaudited) (continued) July 31, 2008

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 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.

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THE MEXICO EQUITY AND INCOME FUND, INC.

Dividends and Distributions (unaudited) (concluded) July 31, 2008

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.



THE MEXICO EQUITY AND INCOME FUND, INC.

Results of Annual Stockholders Meeting (unaudited)

July 31, 2008

The Fund's Annual Stockholders meeting was held on November 26, 2007, at 615 E. Michigan Street 2nd Floor, Milwaukee, Wisconsin 53202. As of October 15, 2007, the record date, outstanding shares of common and preferred stock were 3,474,168 and 1,429,336, respectively. Holders of 2,633,120 common shares and 1,157,536 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 four proposals. The stockholders elected two Directors to the Board of Directors, one by each share class. Stockholders, voting as a single class, did not approve an increase to the annual investment advisory fee payable to Pichardo Asset Management, S.A. de C.V., approved the Board of Director's adoption of a Managed Distribution Plan, and approved an amendment to the Fund's Articles Supplementary to permit preferred shareholders, at their sole discretion, to convert some or all of their outstanding shares of the Fund's preferred stock into shares of common stock at relative net asset value. The following table provides information concerning the matters voted on at the meeting:

I. Election of Directors

	<u>Votes For</u>	<u>Votes Withheld</u>
<u>Common Stockholders</u>		
Gerald Hellerman	2,499,599	133,521
<u>Preferred Stockholders</u>		
Glenn Goodstein	670,348	487,188

II. Approval of Increase in Annual Investment Advisory Fee

	<u>Votes For</u>	<u>Votes Against</u>	<u>Abstained</u>	<u>Non Votes</u>
<u>Common Stockholders</u>	621,879	890,940	47,825	1,072,476
<u>Preferred Stockholders</u>	179,396	601,954	800	375,386

III. Approval of the Board of Director's Adoption of a Managed Distribution Plan

	<u>Votes For</u>	<u>Votes Against</u>	<u>Abstained</u>	<u>Non Votes</u>
<u>Common Stockholders</u>	1,334,084	182,089	44,472	1,072,476
<u>Preferred Stockholders</u>	764,616	16,379	1,155	375,386

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THE MEXICO EQUITY AND INCOME FUND, INC.

Results of Annual Stockholders Meeting (unaudited) (continued) **July 31, 2008**

IV. Approval of an Amendment to the Fund's Articles Supplementary to Permit Conversion of Preferred to Common Stock

	<u>Votes For</u>	<u>Votes Against</u>	<u>Abstained</u>	<u>Non Votes</u>
<u>Common Stockholders</u>	1,323,460	180,361	56,823	1,072,476
<u>Preferred Stockholders</u>	778,485	3,233	432	375,386

THE MEXICO EQUITY AND INCOME FUND, INC.

Privacy Policy (unaudited)

July 31, 2008

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

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THE MEXICO EQUITY AND INCOME FUND, INC.

Privacy Policy (unaudited) (continued)

July 31, 2008

and adequate records. The Fund will require its service providers to confirm to The Fund, in writing, that 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.

THE MEXICO EQUITY AND INCOME FUND, INC.

Management of the Fund (unaudited)

July 31, 2008

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.

<u>Name and Address</u>	<u>Year Born</u>	<u>Position(s) with the Fund</u>	<u>Term of Office/Length of Time Served</u>	<u>Principal Occupation During the Past Five Years</u>	<u>Other Directorships Held by Director</u>
Gerald Hellerman 5431 NW 21 st Avenue Boca Raton, FL 33496	1937	Director, Chief Financial Officer and Chief Compliance Officer	2007 / 7 years	Managing Director, Hellerman Associates	Director, MVC Capital, Inc.; Director, MVC Acquisition Corp; Director, Old Mutual Absolute Return and Emerging managers Fund Complex; Director and Chairman of Audit Committee; Director, Brantley Corporation
Phillip Goldstein 60 Heritage Drive Pleasantville, NY 10570	1945	Director	2008 / 8 years	Principal of the general partner of five investment partnerships in the Bulldog Investors group of funds.	Director, Brantley Capital Corporation; ASA Ltd.
Glenn Goodstein 2308 Camino Robledo Carlsbad, CA 92009	1963	Director	2008 / 7 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 / 7 years	Principal, Bulldog Investors, a group of Investment Funds Managing member of the General Partner of Opportunity Income Plus L.P. an investment fund.	None

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THE MEXICO EQUITY AND INCOME FUND, INC.

<u>Name and Address</u>	<u>Year Born</u>	<u>Position(s) with the Fund</u>	<u>Term of Office/Length of Time Served</u>	<u>Principal Occupation During the Past Five Years</u>	<u>Other Directorships Held by Director</u>
Andrew Dakos Park 80 West Plaza Two, Suite 750 Saddle Brook, NJ 07663	1966	Director	2006 / 7 years	Managing Member of the general partner of five investment partnerships in the Bulldog Investors group of Funds: Opportunity Partners L.P, Opportunity Income Plus Fund L.P, Full Value Partners L.P, Full Value Special Situations Fund L.P, and Full Value Offshore L.P.	Director, Brantley Corporation
Maria Eugenia Pichardo . . 408 Teopanzolco Avenue 3rd Floor-Reforma Cuernavaca, 62260 Morelos Mexico	1950	Interested Officer, President	Indefinite / 4 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 / 4 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.

**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

July 31, 2008