

MEXICO EQUITY & INCOME FUND INC
Form N-CSR
October 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number [811-06111

The Mexico Equity and Income Fund, Inc.
(Exact name of registrant as specified in charter)

615 E. Michigan Street
Milwaukee, WI 53202
(Address of principal executive offices) (Zip code)

Mr. Gerald Hellerman
c/o U.S. Bancorp Fund Services, LLC
615 E. Michigan Street
Milwaukee, WI 53202
(Name and address of agent for service)

[(866) 700-6104
Registrant's telephone number, including area code

Date of fiscal year end: July 31, 2009

Date of reporting period: July 31, 2009

Item 1. Reports to Stockholders.

The Mexico Equity
and Income Fund, Inc.

Annual Report

July 31, 2009

The Mexico Equity and Income Fund Inc.

September 28, 2009

Dear Fellow Shareholders:

In thinking about what I should say now to shareholders of the Mexico Equity & Income Fund, I decided to review the letter I wrote about six months ago which now appears to have been very close to the bottom of the market. What a contrast with today! Here is what I said then:

After experiencing the most vicious stock market decline in my lifetime, it is difficult to find anything positive to say. How about Friederich Nietzsche's "Whatever doesn't kill you makes you stronger?" Or, "Adversity builds character?" Or, King Solomon's "This too shall pass?"

In times of severe market stress like this it inevitably feels like things will never improve. No matter what country one looks at, the prospects for a quick recovery appear bleak. And Mexico admittedly has more than its share of problems. Yet, just as we know the sun does eventually come out after even the worst storm, we are pretty sure that securities markets, including Mexico, will ultimately reach a bottom. And, if you believe that markets are more or less efficient, stock prices may have already discounted much of the bad news. The problem is no one knows when the bottom will actually be reached and my experience over thirty-five years of investing tells me it is folly to try to time market movements.

When world markets do begin to recover we feel our Fund may once again provide the sort of out-performance it has delivered over its entire life. Some of our holdings like Gmodelo, Kimberly and Walmex are sector leaders that have learned to deal with extreme macroeconomic stress. They are underleveraged, high cash generating, non-cyclical liquid stocks which will likely emerge as relative winners. And they are well positioned to increase their market share. Also, Mexican stocks in general appear to be relatively inexpensive. For example, Mexican stocks are now in line to market valuations of Brazilian stocks versus an average premium of 30% for the past 10 years.

Despite our Fund's recent underperformance, its long term performance remains impressive. From its inception on August 30, 1990 through February 28, 2009 our investment advisor, Pichardo Asset Management (and its predecessor's entities) has generated a good return on net asset value over 18-1/2 years. Our objective is to continue to manage the Mexico Equity and Income Fund so as to make it a rewarding long term investment.

I think I made a good point about the futility of trying to time markets. Yet, I never suspected how quickly that point would be illustrated. Who would have predicted that our Fund's stock price would be up more than 50% in just six months? The problem with trying to invest by timing markets is that it is almost inevitable that sometimes you will be horribly wrong. That is even more evident when trying to pick a turning point in a volatile emerging market like Mexico. Anyone that sold our Fund's shares back in March missed out on an enormous rally.

After such a breathtaking recovery, is the market overextended? No one can know the answer. So, what can we know? Well, we know that over the past nineteen years patient investors in the Mexico Equity & Income Fund have been rewarded with very solid returns thanks to the efforts of our investment advisor, Pichardo Asset Management. And, while it is certainly true that past performance is not a guarantee of future results, I don't know of any better indicator of future results than past performance.

Finally, moving from the philosophical to the practical, we recently conducted a tender offer for 100% of our Fund's preferred shares. This was consistent with the board's commitment to allow an exit to shareholders of our preferred

stock at a price close to net asset value. After the tender offer, only a little more than 100,000 preferred shares remain outstanding and it is the board's intention to retire those shares since it is likely the New York Stock Exchange will eventually delist them.

Sincerely yours,

Phillip Goldstein
Chairman

1

THE MEXICO EQUITY AND INCOME FUND, INC.

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

Dear Fund Stockholders,

I. INTRODUCTION

During the Fund's fiscal year ended July 31, 2009 stock markets experienced a period of inconceivable economic downturn and asset class volatility (the disappearance of Bear Stearns, the bankruptcy of Lehman Brothers, the collapse of mortgage markets and U.S. and world governments assuming majority ownership in the financial system).

After years of prudent and responsible monetary policies and consolidated debt markets, Mexico experienced a severe credit crunch that forced the government to intervene to avoid counterparty risk; concurrently, the Mexican peso had a strong depreciation, after years of stability, reaching Ps. 15.57 relative to the USD on March 9, 2009.

In the Fund's January 31, 2009, semiannual shareholder letter we remarked that we stood on the threshold of what may be the world's sharpest downturn since the great depression. Concurrently, the Mexican economy registered its worst ever gross domestic product contraction of 22% in the second quarter of 2009, quarter-on-quarter, annualized.

For the Fund's fiscal year ended July 31, 2009, the Fund's NAV declined 41.00% in dollar terms with dividends reinvested on "payment date" (source: US Bancorp and PAM) and declined 45.52% with dividend reinvested on "ex-date" (source: Bloomberg).

The Fund registered average annual dollar returns of 15.47% and 13.33%, with dividends reinvested, for the five and ten-year periods, through July 2009, respectively (source: Bloomberg).

The main reasons the Fund underperformed the Mexbol for the Fund's fiscal year ended July 31, 2009 were:

- i. The MXE's de-indexation from the Mexbol Index and the AFORES's (pension system) hit on some heavily-weighted (21% Amx, 14% Walmex); and low float (7% Telecom, 6% Elektra, and 4% GInbur) constituents in the Mexbol which experienced a strong rally following the AFORES' agreement to invest only in Mexican instruments on March 24th, 2009. The MXE's investment policies, established by PAM in its investment strategy, avoid overconcentration in any single issuer. The MXE's strategy is not Mexbol-indexed.

THE MEXICO EQUITY AND INCOME FUND, INC.

ii. An increase in cash and readily available instruments to approximately 30% from 10% during the first four months of 2009 in view of our cautious stance due to a sharp fall in industrial activity during first quarter of 2009.

iii. The MXE's overweight in infrastructure.

The stock market, as measured by the Mexbol, made a strong recovery in the first seven months of 2009, as well as the MXE dollar performance.

Going forward, the banking system capitalization ratios continue to be well above the regulatory minimum with adequate loan loss reserves.

The Ministry of Finance estimates that the following factors will help sustain the recovery: (i) Real exchange rate depreciation, (ii) A high degree of trade openness (iii) Mexico's proximity to the United States (iv) Long-term financing through the pension system, (v) Energy Reform, (vi) Investment in infrastructure, (vi) The development of the housing sector and (viii) Counter-cyclical policies.

II.MEXICO'S ECONOMIC REVIEW

For the first six-month period in 2009, Mexico experienced a -9.2% gross domestic product contraction, with aggregate supply and demand figures reflecting a deeper recession, compared with growth rates of 2.7% and 3.2% in 2008 and 2007 (source: Mexico National Institute of Statistics, Geography, and Informatics "INEGI").

Industrial production fell 6.5% in July 2009 on an annual basis and grew 2.84% on seasonally adjusted terms. This figure is a good signal that industrial activity may be turning the corner (source: INEGI).

On the demand side, private consumption was first impacted by industrial sector job losses during 4Q'08 followed by the Influenza episode which brought services sector activity to an official standstill for about two weeks followed by an estimated contraction in the tourism sector during the rest of the year 2009. (source: INEGI).

The unemployment rate reached an historical high of 6.12%, high in July 2009, above market expectations of 5.7%. (source: INEGI).

Gross fixed investment declined 12.7% in June 2009 year-over-year, and 0.02% seasonally adjusted terms (source: INEGI).

Mexican imports in the U.S. registered a 24.5% decrease for the period January to June 2009 (source: INEGI).

Like all central banks, Banco de Mexico was finally forced to adopt a more flexible monetary policy, lowering its reference rate to 4.5% in July 2009 from 7.75%. Also, as a result of Banco de Mexico's

THE MEXICO EQUITY AND INCOME FUND, INC.

controversial intervention, the Mexican Peso experienced strong bouts of volatility against the US Dollar. For the Fund's fiscal year, ended July 31, 2009, the Mexican peso lost -31.5% vs. the US Dollar (source: Bloomberg).

At the time of writing, President Felipe Calderon's proposals for the 2010 budget are an ambitious effort to contain fiscal pressure in 2010 and 2011 and put fiscal accounts on the right path. Even though initial signs of stabilization are being observed and a recovery is anticipated during the second half of the year 2009, it is expected to be gradual. Therefore, the Mexican government needs to continue with an ambitious agenda of reforms to accelerate growth and job creation. This should not only include fiscal adjustment measures but also ways to increase the Mexican economy's competitiveness.

III. THE MEXICAN STOCK EXCHANGE

For the Fund's fiscal year ended July 31, 2009, the Mexbol Index lost -25% in dollar terms despite a rebound of approximately 49% in dollar terms during the second half of the Fund's fiscal year (source: Bloomberg). Year-to-date through July 31, 2009, the Index has gained 27% (source: Bloomberg).

Even so, the Mexbol ranks 31st out of the world's 51 main stock markets and last in the Latam region as at the Fund's fiscal year ended July 31, 2009, with Brazil (IBOV Index) registering an 82% gain in dollar terms, Chile (IPSA Index) +59%, Argentina (MERVAL Index) +46% and Venezuela (IBVC Index) +30% (source: Bloomberg).

As mentioned in the MXE's semiannual letter, the pension system (AFORES) signed a voluntary agreement to invest exclusively in Mexican financial instruments for a one-year-period on March 18, 2009. Following this agreement, heavily weighted Mexbol constituents with low floats registered relatively high price increases.

On August 21, 2009, CONSAR, the AFORES' governing body, modified their equity investment regime by permitting a divergence of +/- 4 percentage points from the weight of each stock within the Mexbol's trackers from a +/- 1 percentage point deviation previously. (Source: Citigroup).

IV. THE FUND'S PERFORMANCE

For the Fund's fiscal year ended July 31, 2009, the MXE's net per share asset value lost 41.00% in dollar terms with dividends reinvested on "payment date" (source: US Bancorp and PAM) following a 31.5% currency loss (source: Bloomberg).

Through July 2009, the MXE's average annual dollar return, with dividends reinvested, was -0.83%, 15.47% and 13.38% for the last 3, 5 and 19-year periods since the Fund's inception in August 1990, (source: Thomson Financial and Bloomberg).

THE MEXICO EQUITY AND INCOME FUND, INC.

For the Fund's fiscal year ended July 31, 2008, a dividend was declared on December 12, 2008, with an ex-date on December 23, 2008. Subsequently, on January 27, 2009 the MXE paid a dividend on both classes of stocks of \$6.77 per share to shareholders of record on December 26th, 2008; the dividend was paid in shares of common stock with an option to elect up to 30% in cash. The MXE has delivered to its shareholders a total dollar amount of US\$ 226 million during the nineteen-year period since inception in August, 1990, through January 2009.

The dates and valuation for determining the price at which the common stock dividend was issued were based on the trade-weighted average market price of the Fund's common stock from January 21 through January 23, 2009, the "Valuation Dates".

Due to the 17.24% decrease in the Fund's common market price per share from ex-date to the January 27, 2009 payment date, the Fund issued 20.80% more shares than if the Fund had been able to reinvest at the market price of US\$6.38 on the Fund's ex-date (see MXE's August 2009 webpage release).

The Fund's performance for periods beginning December 31, 2008, calculated using the reported NAV on December 31, 2008 is not reflective of the performance of the Fund's investment portfolio. This method will lead to an unrepresentative performance calculation for all periods beginning with December 31, 2008.

V. PORTFOLIO STRATEGY

In the MXE's semiannual shareholder letter, we also referred to the Fund's strategy set up by PAM on December 2008, with a focus on balancing and strengthening MXE's investment during these periods of uncertainty and worldwide stock markets turbulence.

MXE's investment strategy has been determined based on PAM'S classification of three asset categories, named:

i. Alpha-defensive companies

- Net Debt/EBITDA (Earnings before interests, taxes, depreciation and amortization) of less than 1 time or negative.

High total annual yield = Cash+ dividend + aggressive share buybacks/Clean Balance Sheet/ Market share dominance/ Pricing power.

ii. Beta-growth companies

- Consistent Sales and Operating Cash Flow or EBITDA
- Oversold Companies.

Infrastructure concessions –financing by project- / National Infrastructure Program driver and cyclical related stocks.

iii. Special Situation companies

- High discount to companies' Intrinsic value determined by PAM

Experienced structure senior management. Investment edge with special situations growth.

THE MEXICO EQUITY AND INCOME FUND, INC.

The MXE's asset class percentage allocation in ALPHA, BETA AND SPECIAL SITUATION investments is likely to be the most important element for the Fund's dollar return in the years ahead based on PAM's reading of a recessionary turning point, and stocks specifics.

While we realize that the Fund's net per share dollar loss and widening of its discount to NAV during the Fund's fiscal year ended July 31, 2009, are challenges to overcome, we will do our best to manage within a consistent discipline to MXE's investment strategy for the benefit of MXE's stockholders.

Sincerely yours,

Maria Eugenia Pichardo
Portfolio Manager

Disclosures

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data to the most recent month end may be obtained by calling U.S. Bancorp Fund Services, LLC, (414) 765-4255.

Past performance is not a guarantee of future results.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling U.S. Bancorp Fund Services, LLC, (414) 765-4255/or visiting www.themexicoequityandincomefund.com. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible.

Investing in Foreign Securities. Investment in Mexican securities involves special considerations and risks that are not normally associated with investments in U.S. securities, including (1) relatively higher price volatility, lesser liquidity and small market capitalization of the Mexican securities markets; (2) currency fluctuations and the cost of converting Mexican pesos into U.S. dollars; (3) restrictions on foreign investment and potential restrictions on repatriation of capital invested in Mexico and remittance of profits and dividends accruing thereon; (4) political, economic and social risks and uncertainties, including risks of confiscatory taxation and expropriation or nationalization of assets; (5) higher rates of inflation, unemployment and interest rates than in the United States; and (6) less stringent disclosure requirements, less available information regarding Mexican public companies and less active regulatory oversight of Mexican public companies.

THE MEXICO EQUITY AND INCOME FUND, INC.

Mexican Economic and Political Factors. Although Mexico's economy has strengthened in recent years and Mexico's sovereign debt was recently upgraded to an "investment-grade" rating by the three most prominent rating agencies, including Standard and Poor's, Mexico continues to be characterized as a developing economy and investments in developing countries are subject to certain economic risks. Mexico has experienced widespread bank failures, currency devaluations, high levels of inflation and interest rates. Mexico is also dependent on certain industries and exports for the health of its economy. The Portfolio Securities are denominated in pesos. As a result, the Portfolio Securities must increase in market value at a rate in excess of the rate of any decline in the value of the peso against the U.S. dollar in order to avoid a decline in their equivalent U.S. dollar value.

The information provided herein represents the opinion of Pichardo Asset Management and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

Fund holdings and sector allocations are subject to change at any time, and should not be considered recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk.

Definitions

MEXBOL-Mexico Bolsa Index: The Mexican Bolsa Index, or the IPC (Indice de Precios y Cotizaciones), is a capitalization-weighted index of the leading stocks traded on the Mexican Stock Exchange. The index was developed with a base level of 0.78 as of October 30, 1978.

IPSA-Chile Stock Market Select: The IPSA Index (Indice de Precios Selectivo de Acciones) is composed of the 40 stocks with the highest average annual trading volume in the Santiago Stock Exchange (Bolsa de Comercio de Santiago). On the last trading day of the year, the index is re-based back to 1000. The index has been calculated since 1977 and is revised on a quarterly basis.

IBOV-Brazil Bovespa Stock Exchange Index: The Bovespa Index is a total return index weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Bovespa Index has been divided 10 times by a factor of 10 since January 1, 1985, those dates are: 12/02/85, 04/14/89, 05/28/91, 01/26/93, 02/10/94, 08/29/88, 01/12/90, 01/21/92, 08/27/93, 03/03/97.

MERVAL-Argentina Merval Index: The Argentin Merval Index, a basket weighted index, is the market value of a stock portfolio, selected according to participation in the Buenos Aires Stock Exchange, number of transactions and trading value. The index has a base value of \$0.01 as of June 30, 1986. The index is revised every 3 months, taking into account trading volumes over the past 6 months.

IBVC-Venezuela Stock Market Index: The IBC Index from the Caracas Stock Exchange (Venezuela), also known as the General Index, is a capitalization-weighted index of the 15 most liquid and highest capitalized stocks traded on the Caracas Stock Exchange (Bolsa de Valores de Caracas). The index was modified from a previous existing index on August 28, 1997, but essentially continues to be the same.

THE MEXICO EQUITY AND INCOME FUND, INC.

VI. RELEVANT ECONOMIC INFORMATION for years ended December 31

| | | | | | | | | | | | | | | | | | |
|--|----------|---|----------|---|----------|---|----------|---|----------|---|----------|---|----------|---|----------|---|-------|
| Real Activity (billion US\$) | 2000 | | 2001 | | 2002 | | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | | 2008 |
| Real GDP | | | | | | | | | | | | | | | | | |
| Growth (y-o-y) | 6.60 | % | -0.30 | % | 0.90 | % | 1.30 | % | 4.40 | % | 3.00 | % | 4.80 | % | 3.30 | % | 1.30 |
| Industrial | | | | | | | | | | | | | | | | | |
| Production (y-o-y) | 6.00 | % | -3.50 | % | 0.00 | % | -0.75 | % | 3.80 | % | 1.60 | % | 1.60 | % | 1.40 | % | -0.7 |
| Trade Balance (US billions) | \$-8.00 | | \$10.00 | | \$-8.00 | | \$-5.60 | | \$-8.10 | | \$-7.60 | | \$-6.10 | | \$-11.20 | | \$-15 |
| Exports | \$166.50 | | \$158.40 | | \$160.70 | | \$164.80 | | \$189.10 | | \$213.70 | | \$253.90 | | \$249.99 | | \$29 |
| Export | | | | | | | | | | | | | | | | | |
| growth (y-o-y) | 22.10 | % | -4.90 | % | 1.50 | % | 2.50 | % | 14.70 | % | 14.00 | % | 10.30 | % | 5.80 | % | 7.30 |
| Imports | \$174.50 | | \$168.40 | | \$168.70 | | \$170.50 | | \$197.20 | | \$221.30 | | \$260.00 | | \$283.00 | | \$30 |
| Import | | | | | | | | | | | | | | | | | |
| growth (y-o-y) | 22.90 | % | -3.50 | % | 0.20 | % | 1.10 | % | 15.70 | % | 12.00 | % | 13.10 | % | 8.30 | % | 9.50 |
| Financial Variables and Prices | 2000 | | 2001 | | 2002 | | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | | 2008 |
| 28-Day CETES | | | | | | | | | | | | | | | | | |
| (T-bills)/Average | 15.30 | % | 11.20 | % | 7.10 | % | 6.24 | % | 8.60 | % | 8.02 | % | 7.10 | % | 7.04 | % | 7.97 |
| Exchange rate (Pesos/US\$)Average | 9.46 | | 9.34 | | 9.66 | | 10.79 | | 11.15 | | 10.64 | | 10.9 | | 10.93 | | 11.1 |
| Inflation IPC, 12 month trailing | 9.00 | % | 4.40 | % | 5.70 | % | 4.00 | % | 5.20 | % | 3.30 | % | 3.80 | % | 4.00 | % | 6.53 |
| Mexbol Index | 2000 | | 2001 | | 2002 | | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | | 2008 |
| USD Return | 20.81 | % | 20.88 | % | 14.43 | % | 33.61 | % | 50.49 | % | 44.90 | % | 45.77 | % | 10.56 | % | -40. |
| Market Cap. (US billions) | \$111.70 | | \$112.40 | | \$103.80 | | \$124.70 | | \$169.50 | | \$283.80 | | \$343.48 | | \$441.04 | | \$17 |
| EV/EBITDA | 7.9 | x | 8.1 | x | 6.6 | x | 7.8 | x | 8.3 | x | 8.9 | x | 10.60 | x | 9.8 | x | 7.4 |
| Fund's NAV & Common Share Market Price Performance (USD Return) | 2000 | | 2001 | | 2002 | | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | | 2008 |
| NAV's per share | -14.61 | % | 9.48 | % | -13.51 | % | 40.00 | % | 55.58 | % | 36.71 | % | 59.29 | % | 30.68 | % | -52. |
| Share Price | -5.82 | % | 18.73 | % | -18.50 | % | 36.04 | % | 66.57 | % | 24.84 | % | 75.10 | % | 25.34 | % | -41. |

Sources: Banamex, Banco de Mexico, Bloomberg, US Bancorp.

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Allocation of Portfolio Assets
(Calculated as a percentage of Net Assets)

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

9

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Schedule of Investments

| MEXICO – 101.83% | SHARES | VALUE |
|--|-----------|-----------|
| COMMON STOCKS – 84.49% | | |
| Cement – 2.65% | | |
| Corporacion Moctezuma, S.A. de C.V. | 352,417 | \$744,107 |
| Grupo Cementos de Chihuahua, S.A. de C.V. | 334,351 | 885,933 |
| | | 1,630,040 |
| Communications – 6.90% | | |
| America Movil, S.A. de C.V. – Class L | 1,295,600 | 2,776,776 |
| Megacable Holdings SAB de CV | 1,012,200 | 1,459,793 |
| | | 4,236,569 |
| Financial Groups – 2.13% | | |
| Corporativo GBM SAB de CV | 4,845,125 | 1,309,493 |
| | | 1,309,493 |
| Food, Beverage, and Tobacco – 9.39% | | |
| Embotelladoras Arca S.A. | 354,937 | 877,333 |
| Fomento Economico Mexicano, S.A. de C.V. | 526,000 | 2,031,286 |
| Grupo Bimbo, S.A.B. de C.V. | 510,600 | 2,855,866 |
| | | 5,764,485 |
| Housing – 8.31% | | |
| Corp GEO S.A. de C.V. | 2,401,500 | 5,106,983 |
| | | 5,106,983 |
| Industrial Conglomerates – 11.00% | | |
| Industrias CH, S.A. – Class B (a) | 452,418 | 1,592,317 |
| Grupo Simec, S.A. de C.V. | 259,300 | 610,706 |
| Kimberly-Clark de Mexico, S.A.B. de C.V. | 727,700 | 3,028,365 |
| Mexichem, S.A. de C.V. | 1,147,100 | 1,524,951 |
| | | 6,756,339 |
| Infrastructure – 19.79% | | |
| Carso Infraestructura y Construccion, S.A. | 1,025,769 | 512,535 |
| Empresas ICA Sociedad Conroladora, S.A. de C.V. (a) | 3,199,645 | 5,874,131 |
| Grupo Mexicano de Desarrollo, S.A. (a) | 1,778,315 | 733,728 |
| Impulsora del Desarrollo y el Empleo en America Latina, S.A. de C.V. | 438,300 | 356,042 |

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

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Schedule of Investments (continued)

| COMMON STOCKS (CONTINUED) | SHARES | VALUE |
|---|-----------|---------------------------|
| Infrastructure (continued) | | |
| Promotora y Operadora de Infraestructura, S.A. de C.V. (a) | 2,672,293 | \$4,681,419 12,157,855 |
| Media – 1.81% | | |
| Grupo Televisa, S.A. CPO | 118,869 | 427,727 |
| Grupo Televisa, S.A. – ADR | 37,765 | 683,169 1,110,896 |
| Mining – 10.29% | | |
| Grupo Mexico, S.A. – Series B | 2,550,700 | 3,609,098 |
| Industrias Penoles, S.A. | 170,583 | 2,713,263 6,322,361 |
| Real Estate Developer – 9.48% | | |
| GMD Resorts SAB de CV | 1,453,723 | 489,747 |
| Grupe, S.A. de C.V. (a)(b) | 3,467,818 | 5,329,450 5,819,197 |
| Waste Management – 2.74% | | |
| Promotora Ambiental, S.A. de C.V. (a) | 1,882,712 | 1,681,884 1,681,884 |
| TOTAL COMMON STOCKS (Cost \$56,669,028) | | \$51,896,102 |
| CORPORATE BONDS – 4.95% | | |
| Housing – 4.95% | | |
| Urbi, Desarrollos Urbanos, S.A. de C.V. 8.500%, 04/19/2016 | 3,252,000 | 3,040,620 |
| TOTAL CORPORATE BONDS (Cost \$2,662,464) | | 3,040,620 |

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

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Schedule of Investments (concluded)

| SHORT-TERM INVESTMENTS – 12.39% | Principal | Value |
|---|---------------|---------------------|
| Mexican BACMEXT 0.000% Coupon, 4.062% Effective Yield, 08/05/2009 (c) | 37,151,768 * | \$2,811,208 |
| Mexican IBANOBRA 0.000% Coupon, 4.053% Effective Yield, 08/06/2009 (c) | 20,017,422 * | 1,514,496 |
| Mexican INAFIN 0.000% Coupon, 4.099% Effective Yield, 08/06/2009 (c) | 21,009,751 * | 1,589,563 |
| El Puerto de Liverpool SA de CV 9.240%, 02/11/2010 | 22,386,300 * | 1,694,795 |
| TOTAL SHORT-TERM INVESTMENTS (Cost \$7,326,991) | | 7,610,062 |
| TOTAL MEXICO (Cost \$66,658,483) | | \$62,546,784 |
| UNITED STATES – 0.29% | Shares | |
| INVESTMENT COMPANIES – 0.29% | | |
| First American Treasury Obligation – Class A, 2.132% | 179,844 | 179,844 |
| TOTAL INVESTMENT COMPANIES (Cost \$179,844) | | 179,844 |
| TOTAL UNITED STATES (Cost \$179,844) | | 179,844 |
| TOTAL INVESTMENTS – 102.12% (Cost \$66,838,327) | | 62,726,628 |
| LIABILITIES IN EXCESS OF OTHER ASSETS – (2.12)% | | (1,301,863) |
| TOTAL NET ASSETS – 100.00% | | \$61,424,765 |

Footnotes and Abbreviations

ADR – American Depository Receipts.

(a) Non-income producing security.

(b) Affiliated company.

(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 in integral part of these financial statements.

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Statement of Assets & Liabilities

ASSETS:

| | |
|---|--------------|
| Investments, at value | |
| Unaffiliated issuers (Cost \$61,843,955) | \$57,397,178 |
| Affiliated issuers (Cost \$4,994,372) | 5,329,450 |
| Total investments, at value (Cost \$66,838,327) | 62,726,628 |

Receivables:

| | |
|------------------------|------------|
| Investments sold | 4,369,531 |
| Dividends and Interest | 75,014 |
| Prepaid expenses | 2,905 |
| Total Assets | 67,174,078 |

LIABILITIES:

| | |
|--|--------------|
| Payable for securities purchased | 2,859,721 |
| Payable to custodian | 2,766,776 |
| Advisory fees payable | 38,581 |
| Legal fees payable | 16,024 |
| Custody fees payable | 12,307 |
| Fund accounting fees payable | 7,583 |
| Administration fees payable | 5,797 |
| CCO fees payable | 3,349 |
| Accrued expenses and other liabilities | 39,175 |
| Total Liabilities | 5,749,313 |
| Net Assets | \$61,424,765 |

Net Asset Value Per Preferred Share
(\$4,444,329 / 603,001) \$7.37

Net Asset Value Per Common Share
(\$56,980,436 / 7,731,009) \$7.37

NET ASSETS CONSIST OF:

| | |
|---|---------------|
| Preferred stock, \$0.001 par value; 603,001 shares outstanding (1,855,128 shares authorized) | \$603 |
| Common stock, \$0.001 par value; 7,731,009 shares outstanding (98,144,872 shares authorized) | 7,731 |
| Paid-in capital | 102,950,363 |
| Accumulated net investment loss | (409,861) |
| Accumulated net realized loss on investments and foreign currency | (37,012,767) |
| Net unrealized depreciation on investments and foreign currency | (4,111,304) |
| Net Assets | \$61,424,765 |

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

THE MEXICO EQUITY AND INCOME FUND, INC.

For the Year Ended
July 31, 2009

Statement of Operations

INVESTMENT INCOME

| | |
|-------------------------------------|-----------|
| Dividends – Unaffiliated issuers(1) | \$908,610 |
| Interest(2) | 854,209 |
| Total Investment Income | 1,762,819 |

EXPENSES

| | |
|---------------------------------------|-----------|
| Advisory fees (Note B) | \$506,443 |
| Directors' fees and expenses (Note B) | 132,073 |
| Custodian fees (Note B) | 88,867 |
| Administration fees (Note B) | 76,417 |
| Legal fees | 73,298 |
| Printing and mailing | 50,045 |
| Fund accounting fees (Note B) | 41,506 |
| CCO fees (Note B) | 38,791 |
| Transfer agent fees | 37,644 |
| Insurance expense | 37,481 |
| NYSE fees | 35,039 |
| Audit fees | 30,252 |
| Miscellaneous fees | 1,255 |
| Total expenses | 1,149,111 |
| NET INVESTMENT INCOME | 613,708 |

NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS

| | |
|---|----------------|
| Net realized gain (loss) from investments and foreign currency transactions | |
| Unaffiliated Issuers | (38,136,633) |
| Affiliated Issuers | 109,559 |
| Net realized gain (loss) from in-kind redemptions (Note A) | |
| Unaffiliated Issuers | (441,976) |
| Affiliated Issuers | 53,321 |
| Net change in unrealized appreciation/depreciation | (18,185,491) |
| Net loss from investments and foreign currency transactions | (56,601,220) |
| Net decrease in net assets resulting from operations | \$(55,987,512) |

(1)Net of \$378 in foreign withholding tax.

(2)Net of \$7,261 in foreign withholding tax.

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

THE MEXICO EQUITY AND INCOME FUND, INC.

Statements of Changes in Net Assets

| | For the Year Ended July 31, 2009 | For the Year Ended July 31, 2008 |
|--|--|--|
| INCREASE (DECREASE) IN NET ASSETS | | |
| Operations: | | |
| Net investment income | \$613,708 | \$138,121 |
| Net realized gain from investments and foreign currency transactions | | |
| Unaffiliated Issuers | (38,136,633) | 27,713,608 |
| Affiliated Issuers | 109,559 | 441 |
| Net realized gain from in-kind redemptions (Note A) | | |
| Unaffiliated Issuers | (441,976) | 5,676,789 |
| Affiliated Issuers | 53,321 | 471,042 |
| Net change in unrealized appreciation in value of investments and foreign currency transactions | (18,185,491) | (42,665,370) |
| Net decrease in net assets resulting from operations | (55,987,512) | (8,665,369) |
| Distributions to Shareholders from: | | |
| Net investment income | | |
| Common stock | (933,287) | — |
| Preferred stock | (203,116) | — |
| Net realized gains | | |
| Common stock | (24,096,615) | (25,750,748) |
| Preferred stock | (5,244,284) | (7,945,743) |
| Decrease in net assets from distributions | (30,477,302) | (33,696,491) |
| Capital Share Transactions | | |
| Repurchase of common stock through Repurchase Program | (1,233,668) | (4,138,645) |
| Proceeds from common stock sold | — | 30,736,956 |
| Issuance of common stock for dividend | 21,326,756 | 11,124,950 |
| Repurchase of preferred stock for in-kind tender offer | (1,429,112) | (20,954,066) |
| Increase in net assets from capital share transactions | 18,663,976 | 16,769,195 |
| Total decrease in net assets | (67,800,838) | (25,592,665) |
| Net Assets: | | |
| Beginning of year | 129,225,603 | 154,818,268 |
| End of year* | \$61,424,765 | \$129,225,603 |
| * Including accumulated net investment income (loss) of | \$(409,861) | \$1,136,374 |

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

THE MEXICO EQUITY AND INCOME FUND, INC.

Financial Highlights

For a Common Share Outstanding Throughout Each Period

| | For the Year Ended July 31, | | | | |
|---|-----------------------------|----------|---------|---------|---------|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Per Share Operating Performance | | | | | |
| Net asset value, beginning of year | \$28.29 | \$38.18 | \$22.18 | \$21.27 | \$13.66 |
| Net investment income (loss) | 0.07 | 0.03 | (0.14) | 0.14 | 0.01 |
| Net realized and unrealized gains (losses) on investments and foreign currency transactions | (13.95) | (2.57) | 19.17 | 6.54 | 7.60 |
| Net increase (decrease) from investment operations | (13.88) | (2.54) | 19.03 | 6.68 | 7.61 |
| Less: Distributions | | | | | |
| Dividends from net investment income | (0.25) | — | (0.13) | (0.16) | — |
| Distributions from net realized gains | (6.52) | (7.41) | (2.90) | (4.41) | — |
| Total dividends and distributions | (6.77) | (7.41) | (3.03) | (4.57) | — |
| Capital Share Transactions | | | | | |
| Anti-dilutive effect of Common Share Repurchase Program | 0.04 | 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 Preferred In-Kind Tender Offer | (0.02) | — | — | — | — |
| Dilutive effect of Reinvestment of Distributions by Common Stockholders | (0.29) | (0.17) | — | (0.18) | — |
| Dilutive effect of Preferred Shares Offering | — | — | — | (1.20) | — |
| Total capital share transactions | (0.27) | 0.06 | — | (1.20) | — |
| Net Asset Value, end of year | \$7.37 | \$28.29 | \$38.18 | \$22.18 | \$21.27 |
| Per share market value, end of year | \$6.08 | \$24.39 | \$44.23 | \$19.40 | \$18.82 |
| Total Investment Return Based on Market Value, end of year(1) | (43.10)% | (28.38)% | 152.78% | 37.62% | 60.44% |

The accompanying notes are in 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, | | | | |
|---|-----------------------------|-------------|-------------|-------------|----------|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Ratios/Supplemental Data | | | | | |
| Net assets, end of year (000's) | \$56,980 | \$106,484 | \$100,251 | \$54,872 | \$52,621 |
| Ratios of expenses to average net assets: | 1.82% | 1.50% | 1.42% | 1.90% | 1.77% |
| Ratios of net investment | | | | | |
| income (loss) to average net assets: | 0.97% | 0.09% | (0.47)% | 0.24% | 0.03% |
| Portfolio turnover rate | 335.64% (2) | 224.10% (2) | 135.49% (2) | 179.85% (2) | 259.60% |

(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 in integral part of these financial statements.

THE MEXICO EQUITY AND INCOME FUND, INC.

Financial Highlights

For a Preferred Share Outstanding Throughout the Period

| | For the Year Ended July 31, | | | For the Period |
|--|-----------------------------|-------------|-------------|---|
| | 2009 | 2008 | 2007 | January 7, 2006 through July 31, 2006 |
| Per Share Operating Performance | | | | |
| Net asset value, beginning of period | \$28.29 | \$38.18 | \$22.18 | \$ 21.25 |
| Net investment income | 0.07 | 0.03 | (0.14) | 0.13 |
| Net realized and unrealized gains (losses) on investments and foreign currency transactions | (13.95) | (2.57) | 19.17 | 0.80 |
| Net increase (decrease) from investment operations | (13.88) | (2.54) | 19.03 | 0.93 |
| Less: Distributions | | | | |
| Dividends from net investment income | (0.25) | — | (0.13) | — |
| Distributions from net realized gains | (6.52) | (7.41) | (2.90) | — |
| Total dividends and distributions | (6.77) | (7.41) | (3.03) | — |
| Capital Share Transactions | | | | |
| Anti-dilutive effect of Common Share Repurchase Program | 0.04 | 0.15 | — | — |
| Anti-dilutive effect of Common Rights Offering | — | 0.06 | — | — |
| Anti-dilutive effect of Preferred In-Kind Tender Offer | — | 0.02 | — | — |
| Dilutive effect of Preferred In-Kind Tender Offer | (0.02) | — | — | — |
| Dilutive effect of Reinvestment of Distributions by Common Stockholders | (0.29) | (0.17) | — | — |
| Total capital share transactions | (0.27) | 0.06 | — | — |
| Net Asset Value, end of period | \$7.37 | \$28.29 | \$38.18 | \$ 22.18 |
| Per share market value, end of period | \$6.85 | \$25.50 | \$36.10 | \$ 19.00 |
| Total Investment Return Based on Market Value, end of period(1) | (38.67)% | (8.25)% | 110.66% | 2.70% (3) |
| Ratios/Supplemental Data | | | | |
| Net assets, end of period (000's) | \$4,444 | \$22,742 | \$54,567 | \$ 31,708 |
| Ratios of expenses to average net assets: | 1.82% | 1.50% | 1.42% | 1.97% (4) |
| Ratios of net investment income (loss) to average net assets: | 0.97% | 0.09% | (0.47)% | 0.37% (4) |
| Portfolio turnover rate | 335.64% (2) | 224.10% (2) | 135.49% (2) | 179.85% (2) |

(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.

(3) Not Annualized.

(4) Annualized.

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

18

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Notes to Financial Statements

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.

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 MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Notes to Financial Statements (continued)

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%.

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

Subsequent Events Evaluation. In preparing these financial statements, the Fund has evaluated events and transactions for potential recognition or disclosure resulting from subsequent events through September 29, 2009, the date the financial statements were available to be issued. The evaluation determined one such event. The Fund conducted a fourth and final in-kind tender offer for the repurchase of 100% of its issued and outstanding Preferred Shares. Approximately 83% of the Preferred Shares outstanding participated in the offer. Following the expiration of the offer on August 14, 2009, the Fund redeemed 501,101, Preferred Shares or \$3,813,379 of Capital Stock.

FAS 161 – Derivatives

The Fund has adopted Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities ("FAS 161"). FAS 161 amends FASB Statement No. 133, Accounting for Derivatives and Hedging Activities ("FAS 133"). FAS 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.

The Fund did not hold any derivative instruments during the year ended July 31, 2009.

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Notes to Financial Statements (continued)

FAS 157 – Summary of Fair Value Exposure at July 31, 2009

The Fund has adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“FAS 157”) and FASB Staff Position (“FSP 157-4”). FSP 157-4 clarifies FAS 157 and requires an entity to evaluate certain factors to determine whether there has been a significant decrease in volume and level of activity for the security such that recent transactions and quoted prices may not be determinative of fair value and further analysis and adjustment may be necessary to estimate fair value. FSP 157-4 also requires enhanced disclosure regarding the inputs and valuation techniques used to measure fair value in those instances as well as expanded disclosure of valuation levels for major security types. FAS 157 requires the Fund to classify its securities based on valuation method. These inputs are summarized in the three broad levels listed below:

Level 1 – Quoted prices in active markets for identical securities.

Level 2 – Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

Level 3 – Significant unobservable inputs (including the Fund’s own assumptions in determining the fair value of investments).

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following is a summary of the inputs used to value the Fund’s securities as of July 31, 2009:

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Notes to Financial Statements (continued)

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------|--------------|---------------|---------|---------------|
| Equity | | | | |
| Cement | \$ 744,107 | \$ 885,933 | \$— | \$ 1,630,040 |
| Communications | 4,236,569 | — | — | 4,236,569 |
| Financial Groups | 1,309,493 | — | — | 1,309,493 |
| Food, Beverage, and Tobacco | 5,764,485 | — | — | 5,764,485 |
| Housing | 5,106,983 | — | — | 5,106,983 |
| Industrial Conglomerates | 6,756,339 | — | — | 6,756,339 |
| Infrastructure | 12,157,855 | — | — | 12,157,855 |
| Media | 1,110,896 | — | — | 1,110,896 |
| Mining | 6,322,361 | — | — | 6,322,361 |
| Real Estate Developer | — | 5,819,197 | — | 5,819,197 |
| Waste Management | — | 1,681,884 | — | 1,681,884 |
| Investment Companies | — | 179,844 | — | 179,844 |
| Total Equity | 43,509,088 | 8,566,858 | — | 52,075,946 |
| Corporate Bonds | | | | |
| Housing | \$— | \$ 3,040,620 | \$— | \$ 3,040,620 |
| Short Term Investments | \$— | \$ 7,610,062 | \$— | \$ 7,610,062 |
| Total Investment in Securities | \$43,509,088 | \$ 19,217,540 | \$— | \$ 62,726,628 |

Federal Income Taxes. The Fund intends to comply with the requirements of the Internal Revenue Code necessary to qualify as a regulated investment company and to make the requisite distributions of income and capital gains to its shareholders sufficient to relieve it from all or substantially all federal income taxes. Therefore, no federal income tax provision is required. Accounting principles generally accepted in the United States of America require that permanent differences between financial reporting and tax reporting be reclassified between various components of net assets.

The Fund recognizes the tax benefits of uncertain tax positions only where the position is “more-likely-than-not” to be sustained assuming examination by tax authorities. The Adviser has analyzed the Fund’s tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for open tax years (2006-2008), or expected to be taken in the Fund’s 2009 tax returns. The Fund identifies its major tax jurisdictions as U.S. Federal, New York State and foreign jurisdictions where the Fund makes significant investments; however the Fund is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Notes to Financial Statements (continued)

The Fund intends to utilize provisions of the federal income tax laws which allow it to carry a realized capital loss forward for eight years following the year of loss and offset such losses against any future realized capital gains. At July 31, 2009, the Fund had accumulated capital loss carryforwards for tax purposes as follows:

| Date of Expiration | Amount |
|--------------------|-------------|
| July 31, 2017 | \$8,567,159 |

As of July 31, 2009, the Fund deferred post-October losses on investments and foreign currencies of \$22,118,749, which will be recognized in the fiscal year ending July 31, 2010.

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, 2009, the Fund decreased undistributed net investment income by \$1,023,540 increased accumulated realized gain by \$4,078,133 and decreased paid in capital by \$3,054,593.

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. 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.

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Notes to Financial Statements (continued)

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 capital gains for tax purposes, they are reported as distributions from additional paid-in capital.

Distributions to Shareholders. The tax character of distributions paid to shareholders during the periods ended July 31, 2009 and July 31, 2008 were as follows:

| Distributions paid from: | 7/31/09 | 7/31/08 |
|--------------------------|--------------|--------------|
| Ordinary Income | \$7,580,697 | \$14,703,135 |
| Long-Term Capital Gain | 22,896,605 | 18,993,356 |
| Total | \$30,477,302 | \$33,696,491 |

The Fund has designated \$22,896,605 as long-term capital gain dividend, pursuant to Internal Revenue Code section 852(b)(3).

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Notes to Financial Statements (continued)

As of July 31, 2009, the components of distributable earnings on a tax basis were as follows:

| | |
|--|----------------|
| Cost of Investments for tax purposes(a) | \$73,575,047 |
| Gross tax unrealized appreciation on investments | 7,530,703 |
| Gross tax unrealized depreciation on investments | (18,379,122) |
| Net tax unrealized appreciation (depreciation) on investments | (10,848,419) |
| Net unrealized appreciation on foreign currency transactions | 395 |
| Net tax unrealized appreciation (depreciation) on investments and foreign currency | \$(10,848,024) |
| Undistributed ordinary income | — |
| Undistributed long-term capital gains | — |
| Total Distributable earnings | \$— |
| Other accumulated gains(losses) | \$(30,685,908) |
| Total accumulated earnings(losses) | \$(41,533,932) |

(a) Represents cost for federal income tax purposes. Differences between the Fund's cost basis of investments at July 31, 2009, for book and tax purposes, relates primarily to the deferral of losses related to wash sales.

The Mexico Equity and Income Fund designates 23.96% of dividends declared for the fiscal year July 31, 2009 from net investment income as qualified dividend income under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (unaudited).

IN-KIND REDEMPTION

During the year ended July 31, 2009, the Mexico Equity and Income Fund realized \$388,655 of net capital losses resulting from an in-kind redemption. Shareholders exchanged fund shares for securities held by the Fund rather than cash. Net Capital gains or losses resulting from in-kind redemptions are excluded from the Fund's taxable gains and are not distributed to shareholders. Because such gains are not taxable to the Fund, and are not distributed to shareholders, they have been reclassified from accumulated net realized gains and losses to paid-in-capital. Such reclassification has no effect on the Fund's net assets.

ADDITIONAL INFORMATION APPLICABLE TO FOREIGN SHAREHOLDERS ONLY (unaudited)

The percent of ordinary income distributions designated as interest related dividends for the fiscal year ended July 31, 2009 was 1.45%.

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Notes to Financial Statements (continued)

The percent of ordinary income distributions designated as short-term capital gain distributions for the fiscal year ended July 31, 2009 was 85.01%.

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, 2009, these fees amounted to \$506,443. 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, 2009, 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

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Notes to Financial Statements (continued)

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

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

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

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

For the year ended July 31, 2009, the Mexico Equity and Income Fund, Inc. incurred Administration fees of \$76,417; Fund Accounting fees of \$41,506 and Custody fees of \$88,867.

NOTE C: PORTFOLIO ACTIVITY

Purchases and sales of securities other than short-term obligations, aggregated \$200,495,079 and \$190,413,213 respectively, for the year ended July 31, 2009.

At July 31, 2009 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, 2009, the Fund purchased 70,348 shares of capital stock in the open market at a cost of \$1,233,668. 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 12.52%.

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, 2009, the Fund commenced one offer with an expiration date of December 26, 2008. 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 Stock-holders 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

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Notes to Financial Statements (continued)

826,335 Preferred Shares or \$22,383,178 of Capital Stock. The net asset value per share of the Fund's common and preferred stockholders was increased by approximately \$0.02 and decreased by approximately \$0.02 in 2008 and 2009, respectively, 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 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 12, 2008, the Board of Directors declared a stock dividend of \$6.77531 per share. This dividend was paid in shares of common stock of the Fund, or in cash by specific election of the stockholders. Stockholders that did not elect the cash options were issued 4,036,750 shares, which amounted to \$21,326,756.

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).

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Notes to Financial Statements (concluded)

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 and July 31, 2005, the Fund made no repurchases pursuant to the program.

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

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, 2008 through July 31, 2009. As defined in Section (2)(a)(3) of the Investment Company Act of 1940, such issuers are:

| Issuer Name | Share Balance At Aug. 1, 2008 | Additions | Reductions | Share Balance At July 31, 2009 | Realized Gain | Dividend Income | Value At July 31, 2009 | Acquisition Cost |
|------------------------|---|-----------|------------|--|------------------|--------------------|------------------------------|---------------------|
| Grupe, S.A. de C.V. | 3,849,668 | — | 381,850 | 3,467,818 | \$162,880 | — | \$5,329,450 | \$4,994,372 |

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, 2009 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, 2009, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. 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, 2009, 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 29, 2009

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Additional Information (unaudited)

BOARD CONSIDERATION OF THE CONTINUATION OF THE FUND'S INVESTMENT ADVISORY AGREEMENT (Unaudited)

In March 2009, 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 within the range of the standard fees for comparable investment companies. The Board reviewed and

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Additional Information (unaudited)(continued)

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 terms of 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 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.

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Additional Information (unaudited)(concluded)

NOTE 3: INFORMATION ABOUT CERTIFICATIONS

In November 2008, 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.

33

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

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: Ms. Margaret Dunn, 250 Royall Street; 3B, Canton, Massachusetts 02021. Dividends and distributions with respect to shares of the Fund's Common Stock and Preferred Stock registered in the name of a broker-dealer or other nominee (i.e., in "street name") will be reinvested under the Plan unless the service is not provided by the broker or nominee or the shareholder elects to receive dividends and distributions in cash. A shareholder whose shares are held by a broker or nominee that does not provide a dividend reinvestment program may be required to have his shares registered in his own name to participate in the Plan. Investors who own shares of the Fund's Common Stock and Preferred Stock registered in street name should contact the broker or nominee for details.

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

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Dividends and Distributions (unaudited)(continued)

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.

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.

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Dividends and Distributions (unaudited)(concluded)

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.

36

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Results of Annual Stockholders Meeting (unaudited)

The Fund's Annual Stockholders meeting was held on November 26, 2008, at 777 Wisconsin Avenue, 31st Floor, Milwaukee, Wisconsin 53202. As of October 15, 2008, the record date, outstanding shares of common and preferred stock were 3,703,888 and 804,001 respectively. Holders of 4,054,015 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 a Director to the Board of Directors. The following table provides information concerning the matter voted on at the meeting:

I. Election of Director

| | Votes For | Votes Against |
|-------------------|-----------|---------------|
| Phillip Goldstein | 3,947,087 | 106,928 |

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Privacy Policy (unaudited)

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

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

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

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

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

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

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

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Privacy Policy (unaudited)(concluded)

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.

39

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Management of the Fund (unaudited)

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

| Name and Address | Year Born | Position(s) with the Fund | Term of Office/Length of Time Served | Principal Occupation During the Past Five Years | Other Directorships Held by Director |
|--|-----------|--|--------------------------------------|---|---|
| Gerald Hellerman 5431 NW 21st Avenue Boca Raton, FL 33496 | 1937 | Director, Chief Financial Officer and Chief Compliance Officer | 2007 / 8 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; Director, TM Entertainment & Media, Inc. |
| Phillip Goldstein 60 Heritage Drive Pleasantville, NY 10570 | 1945 | Director | 2008 / 9 years | Principal of the general partner of five investment partnerships in the Bulldog | Director, Brantley Capital Corporation; ASA Ltd. |

Investors group of
funds.

| | | | | | |
|---|------|----------|----------------|---|------|
| Glenn Goodstein | 1963 | Director | 2007 / 8 years | Registered Investment Advisor; held numerous executive positions with Automatic Data Processing until 1996. | None |
| 2308 Camino Robledo Carlsbad, CA 92009 | | | | | |

THE MEXICO EQUITY AND INCOME FUND, INC.

July 31, 2009

Management of the Fund (unaudited)(concluded)

| Name and Address | Year Born | Position(s) with the Fund | Term of Office/Length of Time Served | Principal Occupation During the Past Five Years | Other Directorships Held by Director |
|--|-----------|----------------------------------|--------------------------------------|---|--------------------------------------|
| Rajeev Das 68 Lafayette Avenue Dumont, NJ 07628 | 1968 | Director | 2006 / 8 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 |
| Andrew Dakos Park 80 West Plaza Two, Suite 750 Saddle Brook, NJ 07663 | 1966 | Director | 2006 / 8 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 / 5 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 | 1971 | Interested Officer, Secretary | Indefinite / 5 years | Research Director, Pichardo Asset Management, S.A. de C.V. since 2003; Assistant | None |

Cuernavaca, 62260

Morelos Mexico

Portfolio Manager,
Acciones
y Valores de Mexico, S.A.
de
C.V. from 1997 to 2002.

41

(This Page Intentionally Left Blank.)–

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

Item 2. Code of Ethics.

The registrant has adopted a code of ethics that applies to the registrant's principal executive officer and principal financial officer. The registrant has not made any amendments to its code of ethics during the period covered by this report. The registrant has not granted any waivers from any provisions of the code of ethics during the period covered by this report. The registrant undertakes to provide to any person without charge, upon request, a copy of its code of ethics by mail when they call the registrant at 1-414-765-4255.

Item 3. Audit Committee Financial Expert.

The registrant's board of directors has determined that it does not have an audit committee financial expert serving on its audit committee. At this time, the registrant believes that the experience provided by each member of the audit committee together offers the registrant adequate oversight for the registrant's level of financial complexity.

Item 4. Principal Accountant Fees and Services.

The registrant has engaged its principal accountant to perform audit services, audit-related services, tax services and other services during the past two fiscal years. "Audit services" refer to performing an audit of the registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years. "Audit-related services" refer to the assurance and related services by the principal accountant that are reasonably related to the performance of the audit. "Tax services" refer to professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning. "Other services" were not provided by the principal accountant. The following table details the aggregate fees billed or expected to be billed for each of the last two fiscal years for audit fees, audit-related fees, tax fees and other fees by the principal accountant.

| | FYE 7/31/2009 | FYE 7/31/2008 |
|--------------------|---------------|---------------|
| Audit Fees | \$25,350 | \$24,250 |
| Audit-Related Fees | \$0 | \$0 |
| Tax Fees | \$3,000 | \$2,750 |
| All Other Fees | \$0 | \$0 |

The audit committee has adopted pre-approval policies and procedures that require the audit committee to pre-approve all audit and non-audit services of the registrant, including services provided to any entity affiliated with the registrant. All of the principal accountant's hours spent on auditing the registrant's financial statements were attributed to work performed by full-time permanent employees of the principal accountant.

The following table indicates the non-audit fees billed or expected to be billed by the registrant's accountant for services to the registrant and to the registrant's investment adviser (and any other controlling entity, etc.—not sub-adviser) for the last two years. The audit committee of the board of trustees/directors has considered whether the provision of non-audit services that were rendered to the registrant's investment adviser is compatible with maintaining the principal accountant's independence and has concluded that the provision of such non-audit services by the accountant has not compromised the accountant's independence.

| Non-Audit Related Fees | FYE 7/31/2009 | FYE 7/31/2008 |
|---------------------------------|---------------|---------------|
| Registrant | \$0 | \$0 |
| Registrant's Investment Adviser | \$0 | \$0 |

Item 5. Audit Committee of Listed Registrants.

The standing audit committee is comprised of Mr. Andrew Dakos, Mr. Phillip Goldstein and Mr. Rajeev Das.

Item 6. Investments.

Schedule of Investments is included as part of the report to shareholders filed under Item 1 of this Form.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

PROXY VOTING POLICIES AND GUIDELINES

The Proxy Voting Policies and Guidelines contained in this document summarize The Mexico Equity and Income Fund, Inc.'s (the "Fund") positions on various issues of concern to the Fund's shareholders. These Guidelines give general indication as to how the Fund's Advisor will vote Fund shares on each issue listed. However, this listing does not address all potential voting issues or the intricacies that may surround individual proxy votes. For that reason there may be instances in which votes may vary from the guidelines presented here. The Fund endeavors to vote Fund shares in accordance with the Fund's investment objectives and strategies.

I. CORPORATE GOVERNANCE

A. Board and Governance Issues

1. Board of Director/Trustee Composition

The Board of Directors is responsible for the overall governance of the corporation.

The Fund advisor will oppose slates without at least a majority of independent directors (1/3 of directors who are outsiders to the corporation).

The Fund advisor will vote for shareholder proposals that request that the board audit, compensation and/or nominating committees include independent directors exclusively.

2. Increase Authorized Common Stock

The Fund advisor will generally support the authorization of additional common stock necessary to facilitate a stock split.

The Fund advisor will generally support the authorization of additional common stock, if the company already has a large amount of stock authorized but not issued or reserved for its stock option plans. In this latter instance, there is a concern that the authorized but unissued shares will be used as a poison pill or other takeover defense, which will be opposed. In addition, we will require the company to provide a specific purpose for any request to increase shares by more than 100 percent of the current authorization.

3. Blank Check Preferred Stock

Blank check preferred is stock with a fixed dividend and a preferential claim on company assets relative to common shares. The terms of the stock (voting dividend and conversion rights) are set by the Board at a future date without further shareholder action. While such an issue can in theory have legitimate corporate purposes, most often it has been used as a takeover defense since the stock has terms that make the entire company less attractive.

The Fund advisor will generally oppose the creation of blank check preferred stock.

4. Classified or “Staggered” Board

On a classified (or staggered) board, directors are divided into separate classes (usually three) with directors in each class elected to overlapping three-year terms. Companies argue that such Boards offer continuity in direction which promotes long-term planning. However, in some instances they may serve to deter unwanted takeovers since a potential buyer would have to wait at least two years to gain a majority of Board seats.

The Fund advisor will vote on a case-by-case basis on issues involving classified boards.

5. Supermajority Vote Requirements

Supermajority vote requirements in a company’s charter or bylaws require a level of voting approval in excess of a simple majority. Generally, supermajority provisions require at least 2/3 affirmative vote for passage of issues.

The Fund advisor will vote on a case-by-case issues involving supermajority voting.

6. Restrictions on Shareholders to Act by Written Consent

Written consent allows shareholders to initiate and carry out a shareholder action without waiting until the annual meeting or by calling a special meeting. It permits action to be taken by the written consent of the same percentage of outstanding shares that would be required to effect the proposed action at a shareholder meeting.

The Fund advisor will generally oppose proposals to limit or eliminate the right of shareholders to act by written consent.

7. Restrictions on Shareholders to Call Meetings

The Fund advisor will generally oppose such a restriction as it limits the right of the shareholder.

8. Limitations, Director Liability and Indemnification

Because of increased litigation brought against directors of corporations and the increased costs of director’s liability insurance, many states have passed laws limiting director liability for those acting in good faith. Shareholders however must opt into such statutes. In addition, many companies are seeking to add indemnification of directors to corporate bylaws.

The Fund advisor will generally support director liability and indemnification resolutions because it is important for companies to be able to attract the most qualified individuals to their Boards. Note: Those directors acting fraudulently would remain liable for their actions irrespective of this resolution.

9. Reincorporation

Corporations are in general bound by the laws of the state in which they are incorporated. Companies reincorporate for a variety of reasons including shifting incorporation to a state where the company has its most active operations or corporate headquarters, or shifting incorporation to take advantage of state corporate takeover laws.

While each reincorporation proposal will be evaluated based on its own merits, the Fund advisor will generally support reincorporation resolutions for valid business reasons (such as reincorporating in the same state as the corporate headquarters).

10. Cumulative Voting

Cumulative voting allows shareholders to “stack” their votes behind one or a few directors running for the board, thereby helping a minority of shareholders to win board representation. Cumulative voting gives minority shareholders a voice in corporate affairs proportionate to their actual strength in voting shares.

The Fund advisor will generally support proposals calling for cumulative voting in the election of directors.

11. Dual Classes of Stock

In order to maintain corporate control in the hands of a certain group of shareholders, companies may seek to create multiple classes of stock with differing rights pertaining to voting and dividends.

The Fund advisor will generally oppose dual classes of stock. However, the advisor will support classes of stock offering different dividend rights (such as one class which pays cash dividends and a second which pays stock dividends) depending on the circumstances.

12. Limit Directors’ Tenure

In general corporate directors may stand for re-election indefinitely. Opponents of this practice suggest that limited tenure would inject new perspectives into the boardroom as well as possibly creating room for directors from diverse backgrounds; however, continuity is important to corporate leadership and in some instances alternative means may be explored for injecting new ideas or members from diverse backgrounds into corporate boardrooms.

Accordingly, the Fund advisor will vote on a case-by-case basis attempts to limit director tenure.

13. Minimum Director Stock Ownership

The director share ownership proposal requires that all corporate directors own a minimum number of shares in the corporation. The purpose of this resolution is to encourage directors to have the same interest as other shareholders.

The Fund advisor will support resolutions that require corporate directors to own shares in the company.

14. Selection of Auditor

Annual election of the outside accountants is standard practice. While it is recognized that the company is in the best position to evaluate the competence of the outside accountants, we believe that outside accountants must ultimately be accountable to shareholders. Furthermore, audit committees have been the subject of a report released by the Blue Ribbon Commission on Improving the Effectiveness of Corporate Audit Committees in conjunction with the NYSE and the National Association of Securities Dealers. The Blue Ribbon Commission concluded that audit committees must improve their current level of oversight of independent accountants. Given the rash of accounting irregularities that were not detected by audit panels or auditors, shareholder ratification is an essential step in restoring investor confidence.

The Fund advisor will oppose the resolutions seeking ratification of the auditor when fees for financial systems design and implementation exceed audit and all other fees, as this can compromise the independence of the auditor.

The Fund advisor will oppose the election of the audit committee chair if the audit committee recommends an auditor whose fees for financial systems design and implementation exceed audit and all other fees, as this can compromise the independence of the auditor.

B. Executive Compensation

1. Disclosure of CEO, Executive, Board and Management Compensation

On a case-by-case basis, the Fund advisor will support shareholder resolutions requesting companies to disclose the salaries of top management and the Board of Directors.

2. Compensation for CEO, Executive, Board and Management

The Fund advisor will oppose an executive compensation proposal if we believe the compensation does not reflect the economic and social circumstances of the company (i.e. at times of layoffs, downsizing, employee wage freezes, etc.).

3. Formation and Independence of Compensation Review Committee

The Fund advisor will support shareholder resolutions requesting the formation of a committee of independent directors to review and examine executive compensation.

4. Stock Options for Board and Executives

The Fund advisor will generally oppose stock option plans that in total offer greater than 15% of shares outstanding because of voting and earnings dilution.

The Fund advisor will generally oppose option programs that allow the repricing of underwater options. (Repricing divides shareholder and employee interests. Shareholders cannot “reprice” their stock and, therefore, optionees should not be treated differently).

The Fund advisor will generally oppose stock option plans that have option exercise prices below the marketplace on the day of the grant.

The Fund advisor will generally support options programs for outside directors subject to the same constraints previously described.

5. Employee Stock Ownership Plan (ESOPs)

The Fund advisor will support ESOPs created to promote active employee ownership. However, they will oppose any ESOP whose purpose is to prevent a corporate takeover.

6. Pay Equity

The Fund advisor will support shareholder resolutions that request that management provide a race and/or gender pay equity report.

7. Ratio Between CEO and Worker Pay

The Fund advisor will generally support shareholder resolutions requesting that management report on the ratio between CEO and employee compensation.

8. Maximum Ratio Between CEO and Worker Compensation and/or Cap on CEO Compensation

The Fund advisor will vote on a case-by-case basis shareholder resolutions requesting management to set a maximum ratio between CEO and employee compensation and/or a cap on CEO compensation.

9. Changes to Charter or By-Laws

The Fund advisor will conduct a case-by-case review of the proposed changes with the voting decision resting on whether the proposed changes are in shareholder's best interests.

10. Confidential Voting

Typically, proxy voting differs from voting in political elections in that the company is made aware of shareholder votes as they are cast. This enables management to contact dissenting shareholders in an attempt to get them to change their votes.

The Fund advisor will support confidential voting because the voting process should be free of coercion.

11. Equal Access to Proxy

Equal access proposals ask companies to give shareholders access to proxy materials to state their views on contested issues, including director nominations. In some cases, they would actually allow shareholders to nominate directors. Companies suggest that such proposals would make an increasingly complex process even more burdensome.

In general, the Fund advisor will oppose resolutions for equal access proposals.

12. Golden Parachutes

Golden parachutes are severance payments to top executives who are terminated or demoted pursuant to a takeover. Companies argue that such provisions are necessary to keep executives from "jumping ship" during potential takeover attempts.

The Fund advisor will support the right of shareholders to vote on golden parachutes because they go above and beyond ordinary compensation practices. In evaluating a particular golden parachute, we will examine total management compensation, the employees covered by the plan, and the quality of management.

C. Mergers and Acquisitions

1. Considering the Non-Financial Effects of a Merger Proposal

Such a proposal allows or requires the Board to consider the impact of merger decisions on various "stakeholders," such as employees, communities, customers and business partners. This proposal gives the Board the right to reject a tender offer on the grounds that it would adversely affect the company's stakeholders.

The Fund advisor will support shareholder resolutions that consider non-financial impacts of mergers.

2. Mergers, Restructuring and Spin-offs

A merger, restructuring, or spin-off in some way affects a change in control of the company's assets. In evaluating the merit of each issue, we will consider the terms of each proposal. This will include an analysis of the potential long-term value of the investment.

The Fund advisor will support management proposals for merger or restructuring if the transaction appears to offer fair value and other proxy voting policies stated are not violated. For example, the advisor may oppose restructuring

resolution which include in it significant takeover defenses and may again oppose the merger of a non-nuclear and a nuclear utility if it poses potential liabilities.

3. Poison Pills

Poison pills (or shareholder rights plans) are triggered by an unwanted takeover attempt and cause a variety of events to occur which may make the company financially less attractive to the suitor. Typically, directors have enacted these plans without shareholder approval. Most poison pill resolutions deal with putting poison pills up for a vote or repealing them altogether.

The Fund advisor will support proposals to put rights plans up for a shareholder vote. In general, poison pills will be opposed unless management is able to present a convincing case for such a plan.

4. Anti-Greenmail Proposals

Greenmail is the payment a corporate raider receives in exchange for his/her shares. This payment is usually at a premium to the market price, so while greenmail can ensure the continued independence of the company, it discriminates against other shareholders.

The Fund advisor will generally support greenmail provisions.

5. Opt-Out of State Anti-Takeover Law

A strategy for dealing with anti-takeover issues has been a shareholder resolution asking for a company to opt-out of a particular state's anti-takeover laws.

The Fund advisor will generally support bylaws changes requiring a company to opt-out of state anti-takeover laws. However, resolutions requiring companies to opt-into state anti-takeover statutes will be opposed.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

Information is presented as of July 31, 2009.

Portfolio Manager. Ms. Maria Eugenia Pichardo is the Portfolio Manager responsible for the day-to-day management of the Fund, which includes making portfolio management decisions and executing transactions.

Ms. Pichardo has been the Fund's Portfolio Manager since the Fund's inception (1990). She is also the President and General Partner of Pichardo Asset Management, S.A. de C.V. ("PAM") (the Fund's Investment Adviser) since February 2003. Prior to starting PAM, from 1989 to 1990 she was General Director of Acci-Worldwide S.A. de C. V, a wholly owned subsidiary of Acciones y Valores de Mexico, S. A. de C.V member of the Banamex Financial Group, subsidiary of Citigroup. Ms Pichardo was Managing Director and General Director of the International Sales Department of Acciones y Valores de Mexico, S. A. de C. V from 1983 to 1989.

| Portfolio Manager Name | Registered Investment Company (dollar amount and number of accounts) | Other Pooled Investments (dollar amount and number of accounts) | Other Accounts (dollar amount and number of accounts) |
|----------------------------|--|---|---|
| Ms. Maria Eugenia Pichardo | \$61,424,765 (1) | \$1,590,094 (1) | \$1,103,784 (12) |

Material Conflict of Interest. The Portfolio Manager has day-to-day management responsibilities with respect to other accounts and accordingly may be presented with potential or actual conflicts of interest. Conflicts of interest can arise in the allocation of securities to the various accounts when a security is purchased or sold over a period of time. "PAM" has established policies and procedures to reduce the conflict of interest.

The management of other accounts may result in the Portfolio Manager devoting unequal time and attention to the management of the Fund and/or other accounts. In approving the Advisory Agreement, the Board of Directors was satisfied that the Portfolio Manager would be able to devote sufficient attention to the management of the Fund, and that PAM seeks to manage such competing interests for the time and attention of the portfolio manager.

Compensation. Ms. Pichardo receives a fixed annual salary and bonus from PAM. Ms. Pichardo participates in a deferred compensation plan.

Securities Owned in the Fund by Portfolio Manager. As of July 31, 2009, the Portfolio Manager owned the following securities in the Fund:

| Portfolio Manager Name | Dollar Range of Equity Securities in the Fund (None, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001 - \$500,000, \$500,001 to \$1,000,000, Over \$1,000,000) | Aggregate Dollar Range of Securities in all Registered Investment Companies Overseen by Portfolio Manager in Family of Investment Companies |
|----------------------------|---|---|
| Ms. Maria Eugenia Pichardo | None | None |

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|-------------------|--|---|--|--|
| 2/1/09 to 2/28/09 | 0 | 0 | 0 | 0 |
| 3/1/09 to 3/31/09 | 0 | 0 | 0 | 0 |
| 4/1/09 to 4/30/09 | 0 | 0 | 0 | 0 |
| 5/1/09 to 5/31/09 | 0 | 0 | 0 | 0 |
| 6/1/09 to 6/30/09 | 0 | 0 | 0 | 0 |
| 7/1/09 to 7/31/09 | 0 | 0 | 0 | 0 |
| Total | 0 | 0 | 0 | 0 |

Item 10. Submission of Matters to a Vote of Security Holders.

The registrant's independent directors serve as its nominating committee, however they do not make use of a nominating committee charter.

Item 11. Controls and Procedures.

- (a) The Registrant's President and Chief Financial Officer have reviewed the Registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the "Act")) as of a date within 90 days of the filing of this report, as required by Rule 30a-3(b) under the Act and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934. Based on their review, such officers have concluded that the disclosure controls and procedures are effective in ensuring that information required to be disclosed in this report is appropriately recorded, processed, summarized and reported and made known to them by others within the Registrant and by the Registrant's service provider.
- (b) There were no changes in the Registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Item 12. Exhibits.

- (a) (1) Any code of ethics or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent that the registrant intends to satisfy Item 2 requirements through filing an exhibit. Not applicable.
 - (2) A separate certification for each principal executive and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
 - (3) Any written solicitation to purchase securities under Rule 23c-1 under the Act sent or given during the period covered by the report by or on behalf of the registrant to 10 or more persons. None.
 - (b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.
-

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) The Mexico Equity and Income Fund,
Inc.

By (Signature and Title) /s/ Maria Eugenia
Pichardo
Maria Eugenia Pichardo, President

Date October 8, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title) /s/ Maria Eugenia
Pichardo
Maria Eugenia Pichardo, President

Date October 8, 2009

By (Signature and Title) /s/ Gerald
Hellerman
Gerald Hellerman, Chief Financial Officer

Date October 7, 2009