

The Herzfeld Caribbean Basin Fund, Inc.

The Herzfeld Building PO Box 161465 Miami, FL 33116 (305) 271-1900

Investment Advisor

HERZFELD/CUBA a division of Thomas J. Herzfeld Advisors, Inc. PO Box 161465 Miami, FL 33116 (305) 271-1900

Transfer Agent & Registrar

Investors Bank & Trust Company 200 Clarendon Street, 16th Floor Boston, MA 02116 (617) 443-6870

Custodian

Investors Bank & Trust Company 200 Clarendon Street, 5th Floor Boston, MA 02116

Counsel

Pepper Hamilton LLP 3000 Two Logan Square 18th and Arch Streets Philadelphia, PA 19103 The Herzfeld Caribbean Basin Fund's investment objective is long-term capital appreciation. To achieve its objective, the Fund invests in issuers that are likely, in the Advisor's view, to benefit from economic, political, structural and technological developments in the countries in the Caribbean Basin, which consist of Cuba, Jamaica, Trinidad and Tobago, the Bahamas, the Dominican Republic, Barbados, Aruba, Haiti, the Netherlands Antilles, the Commonwealth of Puerto Rico, Mexico, Honduras, Guatemala, Belize, Costa Rica, Panama, Colombia and Venezuela. The fund invests at least 80% of its total assets in a broad range of securities of issuers, including U.S.-based companies which engage in substantial trade with, and derive substantial revenue from, operations in the Caribbean Basin Countries.

Listed NASDAQ Capital Market Symbol: CUBA

Letter to Stockholders

February 7, 2006

Dear Fellow Shareholders:

I am pleased to report to you that our Fund continues to do well on all fronts: net asset value performance, price performance and shareholder value.

As of December 31, 2005, the end of the first half of our fiscal year, our Fund's net asset value stood at \$7.83 per share, a gain of 9.21% (adjusted for a year-end distribution of \$0.1748 per share; not annualized, unaudited). Over the 12 month period ended Dec-



Thomas J. Herzfeld Chairman and President

ember 31, 2005, the net asset value increased 14.52%. We are now up over 100% from inception (adjusted for distributions). The Fund's share price, over the 6 and 12 month periods, gained 28.87% (not annualized) and 32.33%, respectively, adjusted for the distribution.

Since calendar year-end, the Fund's net asset value has continued to climb, reaching a record high of \$8.39 on February 1st. Eleven companies of our portfolio have made the new high list so far this year: Bancolombia, S.A.; Cemex, ADR; Consolidated Water Co.; Florida East Coast Industries; Grupo Televisa S.A.; Grupo TMM, S.A. ADR; Latin America Equity Fund; Mastec, Inc.; Mexico Fund; Telefonos de Mexico ADR; and Watsco Incorporated. Two stocks which had been disappointments have come back nicely; these include Grupo TMM, which is currently changing hands at \$4.72, up 52% from a year ago, and CancerVax, which is trading above \$3 today, up from \$1.31 last October.

Herzfeld Caribbean's discount to net asset value is currently 6.5%, four percentage points narrower than it was a year ago. At the beginning of January, our shares traded at a slight premium. This is the 12th year of the Fund's existence, and in each year, it has attained a premium to net asset value. In December, when the share price made a record high at \$8.85 per share, we were trading at over a 10% premium to net asset value.

Letter to Stockholders (continued)

Portfolio Commentary

We have made some significant changes in our portfolio since December 31st. We took some rather large profits in three of our closed-end fund holdings: Latin American Equity Fund, Latin America Discovery Fund and Mexico Fund. For seasonal reasons, January is usually a good time of the year to sell closed-end funds. Historically, in December closed-end funds become undervalued due to year-end tax selling and in January they tend to snap back, just like a stretched rubberband which has been released. For instance, our gain in Latin American Discovery Fund was \$158,000; in addition, from that holding we received a large year-end distribution of \$5.7595 per share, or \$77,920. The January sales have boosted our cash position from zero at year-end to approximately 6%. For the time being I prefer to keep this somewhat reduced investment level.

There are two new companies in our portfolio: the first is **Copa Holdings**, **S.A**. and the second is **Cuban Electric Company**.

Copa Holdings, based in Panama, is a leading Latin American airline providing passenger and cargo service to twenty countries, primarily in Central America, South America and the Caribbean, including daily flights to Havana.

We have been expanding our research into companies that have had property confiscated by the Castro government; it is a very long list. About 9000 claims have been filed, of which just under 6000 have been certified by the Foreign Claims Settlement Commission of the United States for a total value of \$1.8 billion, and with accumulated interest for 46 years the total approaches \$20 billion! These certified claims are by U.S. companies and citizens and do not include another \$20 billion in Cuban exile claims. **Cuban Electric**, a U.S. company, is our first investment which targets this area. As of June 30, 2005, Cuban Electric had approximately \$18 million in assets (outside of Cuba) in cash and equivalents, and with 3.6 million shares outstanding, that represents about \$5 per share. We have been buying stock in the \$8 per share range. The company filed a claim under the Cuban Claims Act which has been certified; the claim amounts to over \$267 million, about \$74 per share (not including interest). Of course, whether or not any Cuban prior claims or the defaulted Republic of Cuba debt* will ever be paid, even in part, is impossible to predict. I do believe, however, that before the U.S.

^{*}We hold \$165,000 of the Republic of Cuba, 4.5%, 1977 bonds, which our board is currently valuing at zero.

Letter to Stockholders (continued)

government would consider lifting the embargo, the subject of prior claims will have to be addressed. These investments are in keeping with our investment strategy of trying to position a significant part of the Fund's portfolio in companies that would benefit from any resumption of trade with Cuba.

Largest Allocations

The following tables present our largest investment and geographic allocations as of December 31, 2005.

Geographic % of No	et Assets
Allocation	
USA	55.33%
Mexico	13.48%
Cayman Islands	8.59%
Latin American Regional	0.000
Puerto Rico	3.09%
Panama	3.05%
Netherlands Antilles	2.48%
Belize	2.08%
Colombia	1.76%
Virgin Islands	1.31%
Costa Rica	0.25%
Venezuela	0.03%
Cuba	0.00%
Other	1.28%

Largest Portfolio Positions % of N	et Assets
Florida East Coast Industries, Inc.	15.97%
Watsco Incorporated	8.42%
Consolidated Water Co.	7.51%
Seaboard Corporation	7.36%
Florida Rock Industries, Inc.	6.20%
Royal Caribbean Cruises Ltd.	6.00%
The Latin American Equity Fund, Inc.	5.74%
Banco Latinoamericano de	
Exportaciones, S.A.	3.05%
Garmin Ltd.	3.03%
Trailer Bridge Inc.	2.94%

Daily net asset values and press releases on the Fund are available on the Internet at www.herzfeld.com.

I would like to thank the members of the Board of Directors for their hard work and guidance and also to thank my fellow stockholders for their continued support and suggestions.

Sincerely,

Thomas J. Herzfeld Chairman of the Board and President

Schedule of Investments as of December 31, 2005

Shares or P	rincipal Amount Description	Ma	arket Value
Common s	tocks - 100.81% of net assets		
	d finance - 5.34%		
8,000	Bancolombia, S.A.	\$	230,640
21,920	Banco Latinoamericano de Exportaciones, S.A.		401,136
2,000	Doral Financial Corp.		21,200
16,000	Grupo Financiero Banorte, S.A. de C.V. Series O		33,123
9,500	Grupo Financiero Inbursa, S.A. de C.V. Series O		16,201
Communic	ations - 10.97%		
35,000	América Móvil, S.A. de C.V. Series A		50,838
135,900	América Móvil, S.A. de C.V. Series L		198,428
12,200	América Telecom, S.A. de C.V. Series A1*		59,299
4,100	Atlantic Tele-Network, Inc.		171,790
11,900	Carso Global Telecom, S.A. de C.V. Series A1		30,654
6,000	Garmin Ltd.		398,100
725	Grupo Iusacell, S.A. de C.V. Series V*		1,637
16,800	Grupo Radio Centro, S.A. ADR		116,928
2,500	Grupo Televisa, S.A. ADR		201,250
13,000	Grupo Televisa, S.A. Series CPO		51,948
1,000	Telefonos de Mexico ADR Series L		24,680
23,400	Telefonos de Mexico, S.A. de C.V. Series A		28,819
78,600	Telefonos de Mexico, S.A. de C.V. Series L		97,173
13,900	TV Azteca, S.A. de C.V. Series CPO		9,082
Conglomer	ates - 2.97%		
5,300	Alfa, S.A. de C.V. Series A		29,399
40,400	BB Holdings*		273,508
13,000	Carlisle Holdings, Inc.*		24,393
3,200	Corporación Interamericana de Entretenimiento, S.A. de C.V.		
	Series B*		6,860
1,580	Desc, S.A. de C.V. Series B*		1,976
10,700	Grupo Carso, S.A. de C.V.		26,044
500	Grupo Imsa, S.A. de C.V., Series UBC		1,645
3,300	U.S. Commercial Corp., S.A. de C.V.*		1,210
2,900	Vitro, S.A. Series A		3,572
6,000	Vitro Sociedad Anonima ADR		21,780

^{*}Non-income producing

Schedule of Investments as of December 31, 2005 (continued)

Shares or P	rincipal Amount Description	Market Value
Construction	on and related - 9.43%	
22,416	Cemex, S.A. de C.V. Series CPO	\$ 132,918
500	Cemex, ADR	29,665
2,032	Ceramica Carabobo Class A ADR*	3,143
4,200	Consorcio ARA, S.A. de C.V.*	18,361
3,283	Empresas ICA, Sociedad Controladora, S.A. de C.V.*	8,024
16,600	Florida Rock Industries, Inc.	814,396
600	Grupo Cementos de Chichuahua, S.A. de C.V.	1,798
100	Hylsamex S.A. de C.V. Series B*	323
21,950	Mastec, Inc.*	229,817
Consumer 1	products and related manufacturing - 9.48%	
800,000	Atlas Electricas, S.A.	32,536
5,900	Grupo Casa Saba, S.A. ADR	105,905
18,500	Watsco Incorporated	1,106,485
Food, beve	rages and tobacco - 1.76%	
200	Alsea, S.A. de C.V.	522
4,800	Coca Cola Femsa, S.A. de C.V. ADR	129,648
200	Coca Cola Femsa, S.A. de C.V., Series L	559
6,200	Fomento Económico Mexicano, S.A. de C.V., Series UBD	44,883
600	Gruma, S.A. de C.V., Series B	1,946
7,500	Grupo Bimbo, S.A. de C.V., Series A	26,089
7,600	Grupo Modelo, S.A. de C.V., Series C	27,509
Housing - (0.06%	
1,300	Corporación Geo, S.A. de. C.V., Series B	4,583
100	Desarrolladora Homex, S.A. de C.V.	513
200	Sare Holding, S.A. de C.V., Series B	212
300	Urbi Desarrollos Urbanos, S.A. de C.V.	2,073
Investment	companies - 10.21%	
13,529	The Latin American Discovery Fund, Inc.	307,244
24,745	The Latin America Equity Fund, Inc.	753,733
4,784	The Mexico Fund, Inc.	135,722
4,100	Salomon Brothers Global High Income Fund	52,275
5,096	Salomon Brothers Emerging Markets Debt Fund	91,830

^{*}Non-income producing

See accompanying notes.

Schedule of Investments as of December 31, 2005 (continued)

Shares or P	rincipal Amount Description	Ma	rket Value
Leisure - 8.	24%		
5,500	Carnival Corp.	\$	294,085
17,500	Royal Caribbean Cruises Ltd.		788,550
Medical - 2	.74%		
25,159	CancerVax Corp.		34,719
8,160	Orthofix International N.V.*		325,502
Pulp and pa	per - 0.16%		
6,000	Kimberly-Clark de México, S.A. de C.V. Series A		21,436
Railroad an	d landholdings - 15.97%		
49,500	Florida East Coast Industries, Inc.	2	2,097,315
Retail - 1.0	6%		
3,700	Controladora Comercial Mexicana, S.A. de C.V. Series UBC		5,663
1,380	Grupo Elektra, S.A. de C.V.		12,196
22,006	Wal-Mart de México, S.A. de C.V. Series V		122,065
Trucking ar	nd marine freight - 10.74%		
14,800	Grupo TMM, S.A. ADR*		56,980
640	Seaboard Corporation		967,040
41,799	Trailer Bridge, Inc.*		386,641
Utilities - 8	.64%		
12,000	Caribbean Utilities Ltd. Class A		142,800
48,600	Consolidated Water, Inc.		986,094
700	Cuban Electric		6,055
Other - 3.04	4%		
600	Grupo Aeroportuario del Sureste, S.A. de C.V., Series B		1,931
900	Grupo México, S.A. de C.V., Series B		2,098
54,921	Margo Caribe, Inc.*		384,447
843	Siderurgica Venezolana Sivensa ADR		1,326
75	Siderurgica Venezolana Sivensa Series B		118
45,000	Xcelera, Inc.*		9,000
Total comr	non stocks (cost \$7,545,379)	\$13	3,242,086

See accompanying notes.

^{*}Non-income producing

Schedule of Investments as of December 31, 2005 (continued)

Shares or P	rincipal Amount	Description	Market Value
Bonds - 0%	of net assets		
165,000	Republic of Cuba - 4	.5%, 1977 - in default	
	(cost \$63,038) (Not	e 2)*	\$
Other asse	ts less liabilities - (0.8	31%) of net assets	<u>(\$ 106,761)</u>
Net assets	- 100% (a)		<u>\$13,135,325</u>

^{*}Non-income producing

⁽a) The cost for federal income tax purposes was \$7,608,417. At December 31, 2005, net unrealized gain for all securities based on tax cost was \$5,633,669. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess value over tax cost of \$6,107,676 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$474,007.

Statement of Assets and Liabilities as of December 31, 2005 (unaudited)

ASSETS				
Investments in securities, at market value (cost \$7,608,417 (Note 2) Cash)	\$	2	242,086
Dividends receivable Receivable for investments sold Other assets				3,395 33,249
TOTAL ASSETS		\$	13,6	11,394
LIABILITIES				
Payable for investments purchased Distributions payable Accrued investment advisor fee (Note 3) Other payables		68,195 293,251 47,232 67,391		
TOTAL LIABILITIES				176,069
NET ASSETS (Equivalent to \$7.83 per share based on 1,677,636 shares outstanding)			<u>\$13,</u>	135,325
Net assets consist of the following: Common stock, \$.001 par value; 100,000,000 shares authorized; 1,677,636 shares issued				
and outstanding Additional paid-in capital				1,678 362,502
Accumulated net investment loss Accumulated net realized gain on investments Net unrealized gain on investments			4	125,429) 562,905 <u>633,669</u>

See accompanying notes.

\$13,135,325

TOTAL

Statement of Operations Six Months Ended December 31, 2005 (unaudited)

INVESTMENT INCOME				
Dividends			\$	188,664
EXPENSES				
Investment advisor fees (Note 3)	\$	93,430		
Professional fees		42,424		
Custodian fees		27,000		
Insurance		14,038		
Transfer agent fees		8,775		
Listing fees		7,500		
CCO Expense		6,476		
Proxy services		6,000		
Printing		4,248		
Director fees		3,900		
Postage		3,011		
Miscellaneous		4,269		
Total investment expenses	_			221,071
INVESTMENT LOSS - NET			(\$	32,407)
REALIZED AND UNREALIZED GAIN				
ON INVESTMENTS AND FOREIGN CURRENCY				
Net realized gain on investments and foreign				
currency		427,184		
Change in unrealized gain on investments and				
foreign currency	_	741,843		
NET GAIN ON INVESTMENTS			_1	,169,027
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS			<u>\$ 1</u>	,136,620

Statements of Changes in Net Assets (unaudited)

	1	x Months Ended 12/31/05 naudited)		r Ended /30/05
INCREASE IN NET ASSETS RESULTING FROM				
OPERATIONS:	(4)	22 (0=)	<i>(</i> n -	
Net investment loss	(\$	32,407)	(\$ 1	155,794)
Net realized gain on investments and foreign currency		427,184	-	700,005
Change in unrealized gain on investments		727,107	,	00,003
and foreign currency		741,843	2,6	538,583
Net increase in net assets resulting from				
operations		1,136,620	3,1	82,794
DISTRIBUTIONS TO SHAREHOLDERS FROM: Investment income and short-term realized gains Realized gains - long-term Total Distributions	(_	293,251) 293,251)		
NET INCREASE IN NET ASSETS	\$	843,369	\$ 3,1	82,794
NET ASSETS:				
Beginning of year	\$ <u>1</u>	<u>2,291,956</u>	\$ 9,1	09,162
End of year	\$ <u>1</u>	3,135,325	<u>\$12,</u>	<u> 291,956</u>

Financial Highlights

	Six Months Ended		Year End	Year Ended June 30	
	12/31/05 (unaudited)	2005	2004	2003	2002
PER SHARE OPERATING PERFORMANCE					
(For a share of capital stock outstanding for each time period indicated)	period indicated	_			
Net asset value, beginning of year	<u>\$7.33</u>	\$5.43	\$3.95	\$3.92	\$5.15
Operations:					
Net investment loss ¹	(0.02)	(0.00)	(0.01)	(0.11)	(0.10)
Net realized and unrealized gain (loss) on investment					
$transactions^1$	<u>0.69</u>	1.99	1.55	0.22	(0.98)
Total from operations	$\overline{0.67}$	1.90	1.48	0.11	(1.08)
Distributions:					
From net investment income	ı	1	1	ŀ	(0.10)
From net realized gains	(0.17)	!	ŀ	(0.08)	(0.05)
Total distributions	(0.17)	1	1	(0.08)	(0.15)
Net asset value, end of year	\$7.83	\$7.33	\$5.43	\$3.95	\$3.92
Per share market value, end of year	\$7.94	\$6.30	\$4.87	\$3.49	\$3.48
Total investment return (loss) based on					
market value per share	$57.73\%^{2}$	29.36%	39.54%	2.70%	(13.45%)
RATIOS AND SUPPLEMENTAL DATA					
Net assets, end of year (in 000's)	\$13,135	\$12,292	\$9,109	\$6,626	\$6,568
Ratio of expenses to average net assets	$\frac{3.41\%^{2}}{}$	3.55%	3.67%	4.46%	3.77%
Ratio of net investment loss					
to average net assets	$(0.50\%)^2$	(1.47%)	(1.39%)	(3.15%)	(2.45%)
Portfolio turnover rate	11%	30%	23%	3%	18%
¹ Computed by dividing the respective period's amounts from the Statement of Operations by the average outstanding shares for	om the Statement	of Operation	s by the averag	e outstanding	shares for
This figure has been annualized; however, the percentage shown is not necessarily indicative of results for a full year.	shown is not nec	essarily indic	cative of results	s for a full year	
				•	

See accompanying notes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Related Matters

The Herzfeld Caribbean Basin Fund, Inc. (the Fund) is a non-diversified, closed-end management investment company incorporated under the laws of the State of Maryland on March 10, 1992, and registered under the Investment Company Act of 1940. The Fund commenced investing activities in January, 1994. The Fund is listed on the NASDAQ Capital Market and trades under the symbol "CUBA".

The Fund's investment policy is to invest at least 80% of its assets in investments that are economically tied to Caribbean Basin Countries. The Fund's investment objective is to obtain long-term capital appreciation. The Fund pursues its objective by investing primarily in equity and equity-linked securities of public and private companies, including U.S.-based companies, (i) whose securities are traded principally on a stock exchange in a Caribbean Basin Country or (ii) that have at least 50% of the value of their assets in a Caribbean Basin Country or (iii) that derive at least 50% of their total revenue from operations in a Caribbean Basin Country. The Fund's investment objective is fundamental and may not be changed without the approval of a majority of the Fund's outstanding voting securities.

At December 31, 2005, the Fund had foreign investments in companies operating principally in Mexico and the Cayman Islands, representing approximately 13.48% and 8.59% of the Fund's net assets, respectively.

The Fund's custodian and transfer agent is Investors Bank & Trust Company, based in Boston, Massachusetts.

Security Valuation

Investments in securities traded on a national securities exchange (or reported on the NASDAQ National Market or Capital Market) are stated at the last reported sales price on the day of valuation (or at the NASDAQ official closing price); other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price. Restricted securities and other securities for which quotations are not readily available are valued at fair value as determined by the Board of Directors.

Income Recognition

Security transactions are recorded on the trade date. Gains and losses on securities sold are determined on the basis of identified cost. Dividend income is recognized on the ex-dividend date, and interest income is recognized on an accrual basis. Discounts and premiums on debt securities purchased are amortized over the life of the respective securities. It is the Fund's practice to include the portion of realized and unrealized gains and losses on investments denominated in foreign currencies as components of realized and unrealized gains and losses on investments and foreign currency.

Deposits with Financial Institutions

The Fund may, during the course of its operations, maintain account balances with financial institutions in excess of federally insured limits.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Fund's policy is to continue to comply with the provisions of the Internal Revenue Code that are applicable to regulated investment companies and to distribute all its taxable income to its stockholders. Under these provisions, the Fund is not subject to federal income tax on its taxable income and no federal tax provision is required.

The Fund has adopted a June 30 year-end for federal income tax purposes.

Distributions to Stockholders

Distributions to stockholders are recorded on the ex-dividend date. Income and capital gain distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America. For the six months ended December 31, 2005, a distribution from long-term capital gains of \$0.1748 per share was declared on November 16, 2005, payable on January 13, 2006 to shareholders of record December 31, 2005.

NOTE 2. NON-MARKETABLE SECURITY OWNED

Investments in securities include \$165,000 principal, 4.5%, 1977 Republic of Cuba bonds purchased for \$63,038. The bonds are listed on the New York Stock Exchange and had been trading in default since 1960. A "regulatory halt" on trading was imposed by the New York Stock Exchange in July, 1995. As of December 31, 2005, the position was valued at \$0 by the Board of Directors, which approximates the bonds' fair value.

NOTE 3. TRANSACTIONS WITH AFFILIATES

HERZFELD / CUBA (the "Advisor"), a division of Thomas J. Herzfeld Advisors, Inc., is the Fund's investment advisor and charges a monthly fee at the annual rate of 1.45% of the Fund's average daily net assets. Total fees for the six months ended December 31, 2005 amounted to \$93,430, of which \$47,232 was payable as of December 31, 2005.

During the six months ended December 31, 2005, the Fund paid \$3,968 of brokerage commissions to Thomas J. Herzfeld & Co., Inc., an affiliate of the Advisor.

NOTE 4. INVESTMENT TRANSACTIONS

During the six months ended December 31, 2005, purchases and sales of investment securities were \$1,475,080 and \$1,652,020, respectively.

At December 31, 2005, the Fund's investment portfolio had gross unrealized gains of \$6,107,676 and gross unrealized losses of \$474,007, resulting in a net unrealized gain of \$5,633,669 for financial statement purposes.

NOTE 5. INCOME TAX INFORMATION

The cost of securities owned for financial statement purposes is lower than the cost basis for income tax purposes by approximately \$19,280 due to wash sale adjustments.

The income tax basis of distributive earnings as of December 31, 2005, include \$1,425,429 of accumulated net investment loss, \$562,905 of accumulated net realized gain on investments and \$5,633,669 of net unrealized gain on investments.

For the six months ended December 31, 2005, the Fund had net realized gains of \$427,184.

NOTE 6: RESIGNATION OF AUDITOR

Kaufman, Rossin & Co., P.A. ("KRC"), the independent auditors and independent registered public accounting firm to Herzfeld Caribbean Basin Fund, Inc. (the "Registrant") informed the Registrant in a letter dated February 7, 2006 that it has resigned as independent auditors and independent registered public accounting firm to the Registrant.

KRC's reports on the Registrant's financial statements for the two most recent fiscal years contained no adverse opinion or disclaimer of opinion nor were they qualified or modified as to uncertainty, audit scope or accounting principles. During the Registrant's two most recent fiscal years and through February 7, 2006: (i) there were no disagreements with KRC on any matter of accounting principles, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of KRC, would have caused it to make reference to the subject matter of the disagreements in connection with its reports on the Registrant's financial statements for such years; and (ii) there were no "reportable events" of the kind described in Item 304(a)(1)(v) of Regulation S-K under the Securities Exchange Act of 1934, as amended.

Discussion Regarding the Approval of the Investment Advisory Agreement

The Fund's Board of Directors including a majority of those directors who are not "interested persons" as such term is defined in the 1940 Act ("Independent Directors") unanimously approved the continuance of the investment advisory agreement between the Fund and the Advisor (the "Agreement") at a meeting held on August 17, 2005.

Before meeting to determine whether to approve the Agreement, the Board had the opportunity to review written materials provided by the Advisor and by legal counsel to the Fund which contained information to help the Board evaluate the Agreement. The materials included (i) a memorandum from the Fund's legal counsel regarding the Directors' responsibilities in evaluating and approving the Agreement, (ii) a letter from the Advisor containing detailed information about the Advisor's services to the Fund, Fund performance, allocation of Fund transactions, compliance and administration information, and the compensation received by the Advisor from the Fund; (iii) a copy of the current investment advisory agreement between the Fund and the Advisor; (iv) audited financial statements for the Advisor for the year-ended December 31, 2004 and unaudited financial statements for the six months ended June 30, 2005; (v) the Advisor's Form ADV Parts I and II; (v) comparative performance data for the Fund relative to peer funds (small closed-end funds and foreign funds invested in the Latin American region); and (vi) comparative statistics and fee data for the Fund relative to peer funds.

During its deliberations on whether to approve the continuance of the Agreement, the Board considered many factors. The Board considered the nature, extent and quality of the services to be provided by the Advisor and determined that such services will meet the needs of the Fund and its shareholders. The Board reviewed the services provided to the Fund by the Advisor as compared to services provided by other advisors, which manage investment companies with investment objectives, strategies and policies similar to those of the Fund. The Board concluded that the nature, extent and quality of the services provided by the Advisor were appropriate and consistent with the terms of the advisory agreement, that the quality of those services had been consistent with industry norms and that the Fund was likely to benefit from the continued provision of those services. The Board also concluded that the Advisor had sufficient personnel, with the appropriate education and experience, to serve the Fund effectively and had demonstrated its continuing ability to attract and retain qualified personnel

Both at the meeting and on an ongoing basis throughout the year, the Board considered and evaluated the investment performance of the Fund and reviewed the Fund's performance relative to other investment companies and funds with similar investment objectives, strategies and policies, and its respective benchmark index. The Board considered both the short-term and long-term performance of the Fund. They concluded that the performance of the Fund was within an acceptable range of performance relative to other funds with similar investment objectives, strategies and policies.

Discussion Regarding the Approval of the Investment Advisory Agreement (continued)

The Board considered the costs of the services provided by the Advisor, the compensation and benefits received by the Advisor providing services to the Fund, as well as the Advisor's profitability. In addition, the Board considered any direct or indirect revenues received by affiliates of the Advisor including the commissions paid to the Fund's affiliated broker/dealer, Thomas J. Herzfeld & Co., Inc. The Board considered the advisory fees paid to the Advisor by the Fund and relevant comparable fee data and statistics of a sampling of small closed-end funds and foreign funds invested in the Latin American region. The Board further discussed the services by the Advisor and concluded that the advisory services performed were efficient and satisfactory and that the fee charged was reasonable and not excessive. The Board concluded that the Advisor's fees and profits derived from its relationship with the Fund in light of its expenses, were reasonable in relation to the nature and quality of the services provided, taking into account the fees charged by other advisors for managing comparable funds with similar strategies. The Directors also concluded that the overall expense ratio of the Fund was reasonable, taking into account the size of the Fund, the quality of services provided by the Advisor, and the investment performance of the Fund.

The Board also considered the extent to which economies of scale would be realized relative to fee levels as the Fund grows, and whether the advisory fee levels reflect these economies of scale for the benefit of shareholders. The Board recognized that because of the closed-end structure of the Fund, and the fact that there is no influx of capital, this particular factor is less relevant to the Fund than it would be to an open-end fund. The Board concluded that only marginal economies of scale could be achieved through the growth of assets since the Fund is closed-ended.

The Board also considered its deliberations regarding the Advisor's services and performance from the regular Board meetings held throughout the year, including the Board's discussion of the Fund's investment objective, long-term performance, investment style and process. The Board noted the high level of diligence with which it reviews and evaluates the Advisor throughout the year and the extensive information provided with respect to Advisor's performance and the Fund's expenses on a quarterly basis. The Board also considered whether there have occurred any events that would constitute a reason not to renew the Agreement and concluded there were not.

After deliberation and further consideration of the factors discussed above and information presented at the August 17, 2005 meeting and at previous meetings of the Board, the Board and the Independent Directors determined to continue the Agreement for an additional one-year period. In arriving at this decision, the Board and the Independent Directors did not identify any single matter as controlling, but made their determination in light of all the circumstances. The Board and the Independent Directors did not consider any one of the factors and considerations identified above to be determinative. The Board based its decision to approve the Agreement on all the relevant factors in light of its reasonable business judgment, and with a view to future long-term considerations.

Results of November 10, 2005 Stockholder Meeting

The annual meeting of stockholders of the Fund was held on November 10, 2005. At the meeting two nominees for Director posts were elected as follows:

	Votes for	Votes withheld
Thomas J. Herzfeld	1,436,222	35,360
Michael A. Rubin	1,391,507	80,075

The terms of office as directors of Ann Lieff and Albert L. Weintraub continued after the meeting.

Proxy Voting Policies and Procedures

Information regarding how the Fund voted proxies relating to portfolio securities from July 1, 2004 to June 30, 2005, and a description of the policies and procedures used to determine how to vote proxies relating to portfolio securities is available without charge, upon request, by calling the Fund at 800-TJH-FUND, or by accessing the SEC's website at www.sec.gov.

Quarterly Portfolio Reports

The Fund files quarterly schedules of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year on Form N-Q. The Form N-Q is available by link on the Fund's website at www.herzfeld.com, by calling the Fund at 800-TJH-FUND, or on the SEC's EDGAR database at www.sec.gov. In addition, the Form N-Q can be reviewed and copied at the SEC's public reference room in Washington, D.C. More information about the SEC's website or the operation of the public reference room can be obtained by calling the SEC at 1-800-732-0330.

Privacy Policy

Information We Collect

We collect nonpublic information about you from applications or other account forms you complete, from your transactions with us, our affiliates or others through transactions and conversations over the telephone.

Information We Disclose

We do not disclose information about you, or our former customers, to our affiliates or to service providers or other third parties except on the limited basis permitted by law. For example, we may disclose nonpublic information about you to third parties to assist us in servicing your account with us and to send transaction confirmations, annual reports, prospectuses and tax forms to you. We may also disclose nonpublic information about you to government entities in response to subpoenas.

Our Security Procedures

To ensure the highest level of confidentiality and security, we maintain physical, electronic and procedural safeguards that comply with federal standards to guard your personal information. We also restrict access to your personal and account information to those employees who need to know that information to provide services to you.

Officers and Directors

Officers

THOMAS J. HERZFELD

Director, Chairman of the Board, President and Portfolio Manager

CECILIA GONDOR

Secretary, Treasurer, Chief Compliance Officer

Independent Directors

ANN S. LIEFF

Director

MICHAEL A. RUBIN

Director

ALBERT L. WEINTRAUB

Director

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