

### 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

### **Independent Auditors**

Kaufman, Rossin & Co., P.A. 2699 South Bayshore Drive Miami, FL 33133 www.kaufmanrossin.com

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 SmallCap Market Symbol: CUBA

### Letter to Stockholders

August 9, 2004

### Dear Fellow Stockholders:

We are pleased to present our annual report for the period ended June 30, 2004. On that date The Herzfeld Caribbean Basin Fund's net assets were \$9,109,162 and its net asset value per share was \$5.43, compared with \$6,626,004, or \$3.95 per share, at the beginning of the period. This represents a gain of 37.5% in net asset value and an increase of 39.5% in share price from \$3.49 to \$4.87 per share.



Thomas J. Herzfeld Chairman and President

### **Portfolio Commentary**

Our largest position continues to be **Florida East Coast Industries** (FLA). For the benefit of stockholders who are not familiar with the company, FLA is headquartered in St. Augustine, Florida, and has two main businesses: the Flagler Development Company (real estate) and the Florida East Coast Railroad. Just today, Florida East Coast Industries released its second quarter results, and they were quite favorable. For example, the railroad revenues increased by 11% and the operating profit was ahead 13%. During the same six month period, the real estate company's revenues increased 6%. I continue to believe that FLA would be favorably impacted by a lifting of the embargo with Cuba. The company's main rail business is a freight line operating between Jacksonville and Miami.

Following the end of our fiscal year, we added one speculative investment to the portfolio, CancerVax (CNVX), a U.S. company which just announced a business venture with Cuba. The deal was done with U.S. government approval and is related to the development of three cancer drugs developed in the Center for Molecular Immunology in Havana. To comply with U.S. regulations, CancerVax will pay for its investment with food and medical supplies rather than U.S. dollars. Since the U.S. government has now permitted this type of business arrangement with Cuba, we are reviewing the possibility of similar transactions.

# Letter to Stockholders (continued)

### **Largest Allocations**

The following tables present our largest investment and geographic allocations as of June 30, 2004.

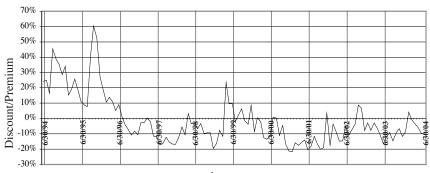
| Geographic % of Ne<br>Allocation | et Assets |
|----------------------------------|-----------|
| USA                              | 55.96%    |
| Mexico                           | 13.09%    |
| Cayman Islands                   | 9.27%     |
| Latin American Regional          | 7.38%     |
| Netherlands Antilles             | 4.30%     |
| Belize                           | 2.85%     |
| Panama                           | 2.77%     |
| Puerto Rico                      | 2.12%     |
| Virgin Islands                   | 1.06%     |
| Colombia                         | 0.51%     |
| Costa Rica                       | 0.39%     |
| Venezuela                        | 0.09%     |
| Dominican Republic               | 0.05%     |
| Cuba                             | 0.00%     |

| Largest Portfolio Positions % of N   | et Assets |
|--------------------------------------|-----------|
| Florida East Coast Industries, Inc.  | 22.91%    |
| Consolidated Water Co.               | 7.71%     |
| Royal Caribbean Cruises Ltd.         | 7.15%     |
| Florida Rock Industries, Inc.        | 6.94%     |
| The Latin American Equity Fund, Inc. | 5.10%     |
| Watsco Incorporated                  | 4.62%     |
| Orthofix International N.V.          | 4.30%     |
| Seaboard Corporation                 | 3.83%     |
| Carnival Corp.                       | 3.61%     |
| Carlisle Holdings, Inc.              | 2.85%     |

### Premium/Discount

As the graph below depicts, the Fund has traded at both premiums and discounts every year except the year of inception in which it traded only at a premium. As I have stated before, we believe that closed-end funds trading at discounts to net asset value represent good value.

### Premium/Discount of The Herzfeld Caribbean Basin Fund from Inception



# Letter to Stockholders (continued)

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 June 30, 2004

| Shares or F | Principal Amount Description                                | Ma | arket Value |
|-------------|---|----|-------------|
| Common s    | tocks - 99.84% of net assets                                |    |             |
| Banking ar  | nd finance - 3.56%  |    |             |
| 7,000       | Bancolombia, S.A.   | \$ | 46,760      |
| 16,120      | Banco Latinoamericano de Exportaciones, S.A.                |    | 252,762     |
| 3,600       | Grupo Financiero Banorte, S.A. de C.V. Series O             |    | 12,729      |
| 8,400       | Grupo Financiero Inbursa, S.A. de C.V. Series O             |    | 11,788      |
| Communic    | eations - 10.12%  |    |             |
| 11,000      | América Móvil, S.A. de C.V. Series A                        |    | 19,929      |
| 43,800      | América Móvil, S.A. de C.V. Series L                        |    | 79,541      |
| 1,000       | América Móvil ADR Series L                                  |    | 36,370      |
| 11,100      | América Telecom, S.A. de C.V. Series A1*                    |    | 21,361      |
| 3,000       | Atlantic Tele-Network, Inc.                                 |    | 96,300      |
| 11,100      | Carso Global Telecom, S.A. de C.V. Series A1                |    | 16,261      |
| 7,000       | Garmin Ltd.   |    | 259,280     |
| 725         | Grupo Iusacell, S.A. de C.V. Series V*                      |    | 880         |
| 16,800      | Grupo Radio Centro, S.A. ADR                                |    | 99,792      |
| 3,000       | Grupo Televisa, S.A. GDR                                    |    | 135,810     |
| 12,100      | Grupo Televisa, S.A. Series CPO                             |    | 27,176      |
| 1,000       | Telefonos de Mexico ADR Series L                            |    | 33,270      |
| 11,000      | Telefonos de Mexico, S.A. de C.V. Series A                  |    | 18,174      |
| 39,300      | Telefonos de Mexico, S.A. de C.V. Series L                  |    | 65,306      |
| 18,000      | Tricom, S.A. ADR*   |    | 4,500       |
| 13,900      | TV Azteca, S.A. de C.V. Series CPO                          |    | 7,470       |
| Conglomer   | rates - 3.51%   |    |             |
| 4,900       | Alfa, S.A. de C.V. Series A                                 |    | 16,440      |
| 39,400      | Carlisle Holdings, Inc.*                                    |    | 259,646     |
| 3,100       | Corporación Interamericana de Entretenimiento, S.A. de C.V. |    |             |
|             | Series B*   |    | 6,584       |
| 7,000       | Desc, S.A. de C.V. Series B*                                |    | 1,984       |
| 3,300       | Grupo Carso, S.A. de C.V. Series A1                         |    | 13,447      |
| 3,300       | U.S. Commercial Corp., S.A. de C.V.*                        |    | 1,716       |
| 2,600       | Vitro, S.A. Series A  |    | 2,531       |
| 6,000       | Vitro Sociedad Anonima ADR                                  |    | 17,640      |

<sup>\*</sup>Non-income producing

# Schedule of Investments as of June 30, 2004 (continued)

| Shares or F            | Principal Amount Description                        | Ma | arket Value |  |  |  |
|------------------------|---|----|-------------|--|--|--|
| Construction           | on and related - 9.15%                              |    |             |  |  |  |
| 12,000                 | Bufete Industrial S.A. ADR*                         | \$ | 600         |  |  |  |
| 10,442                 | Cemex, S.A. de C.V. Series CPO                      |    | 60,464      |  |  |  |
| 1,936                  | Ceramica Carabobo Class A ADR*                      |    | 2,382       |  |  |  |
| 4,000                  | Consorcio ARA, S.A. de C.V. Series A1*              |    | 11,512      |  |  |  |
| 15,600                 | Empresas ICA, Sociedad Controladora, S.A. de C.V.*  |    | 4,773       |  |  |  |
| 15,000                 | Florida Rock Industries, Inc.                       |    | 632,550     |  |  |  |
| 1,665                  | Hylsamex S.A. CPO*                                  |    | 2,425       |  |  |  |
| 21,950                 | Mastec, Inc.*                                       |    | 119,188     |  |  |  |
| Consumer               | products and related manufacturing - 5.77%          |    |             |  |  |  |
| 800,000                | Atlas Electricas, S.A.                              |    | 35,840      |  |  |  |
| 5,400                  | Grupo Casa Saba, S.A. ADR                           |    | 68,828      |  |  |  |
| 15,000                 | Watsco Incorporated                                 |    | 421,050     |  |  |  |
| Food, beve             | rages and tobacco - 3.17%                           |    |             |  |  |  |
| 10,300                 | Coca Cola Femsa, S.A. de C.V. ADR                   |    | 228,557     |  |  |  |
| 5,800                  | Fomento Económico Mexicano, S.A. de C.V. Series UBD |    | 26,515      |  |  |  |
| 7,300                  | Grupo Bimbo, S.A. de C.V. Series A                  |    | 15,377      |  |  |  |
| 7,300                  | Grupo Modelo, S.A. de C.V. Series C                 |    | 18,275      |  |  |  |
| Investment             | companies - 7.38%                                   |    |             |  |  |  |
|                        | The Latin American Discovery Fund, Inc.             |    | 208,167     |  |  |  |
| 32,345                 | The Latin America Equity Fund, Inc.                 |    | 464,474     |  |  |  |
| Leisure - 1            | 0.76%   |    |             |  |  |  |
| 7,000                  | Carnival Corp.                                      |    | 329,000     |  |  |  |
| 15,000                 | Royal Caribbean Cruises Ltd.                        |    | 651,150     |  |  |  |
| Medical - 4            | Medical - 4.30%                                     |    |             |  |  |  |
| 9,160                  | Orthofix International N.V.*                        |    | 391,407     |  |  |  |
| Pulp and paper - 0.17% |   |    |             |  |  |  |
| 5,700                  | Kimberly-Clark de México, S.A. de C.V. Series A     |    | 15,515      |  |  |  |

<sup>\*</sup>Non-income producing

# Schedule of Investments as of June 30, 2004 (continued)

| Shares or P   | rincipal Amount Description                                   | Market Value |
|---------------|---|--------------|
| Railroad an   | nd landholdings - 22.91%                                      |              |
| 54,000        | Florida East Coast Industries, Inc.                           | \$ 2,087,100 |
| Retail - 0.8  | 1%  |              |
| 3,700         | Controladora Comercial Mexicana, S.A. de C.V. Series UBO      | C 4,073      |
| 1,380         | Grupo Elektra, S.A. de C.V. Series CPO                        | 8,136        |
| 20,669        | Wal-Mart de México, S.A. de C.V. Series V                     | 61,274       |
| Trucking as   | nd marine freight - 6.22%                                     |              |
| 8,000         | Grupo TMM, S.A. ADR*  | 19,600       |
| 700           | Seaboard Corporation  | 348,565      |
| 39,600        | Trailer Bridge, Inc.*   | 198,396      |
| Utilities - 9 | .27%  |              |
| 12,000        | Caribbean Utilities Ltd. Class A                              | 142,200      |
| 27,000        | Consolidated Water, Inc.                                      | 702,540      |
| Other - 2.74  | 4%  |              |
| 2,414         | Mantex S.A.I.C.A*   | 4,872        |
| 39,620        | Margo Caribe, Inc.*   | 193,147      |
| 843           |   | 762          |
| 75            | Siderurgica Venezolana Sivensa Series B                       | 68           |
| 35,000        | Xcelera, Inc.*  | 50,750       |
| Total com     | non stocks (cost \$6,778,698)                                 | \$ 9,094,979 |
| Bonds - 0%    | of net assets   |              |
| 165,000       | Republic of Cuba - 4.5%, 1977 - in default (cost \$63,038) (1 | Note 2)*     |
| Other asse    | ts less liabilities - 0.16% of net assets                     | \$ 14,183    |
| Net assets    | - 100%  | \$ 9,109,162 |

<sup>\*</sup>Non-income producing

# Statement of Assets and Liabilities as of June 30, 2004

| ASSETS  |  |
|---|--|
| Investments in securities, at market value (cost \$6,841,736) (Notes 2 and 5) Cash Dividends receivable Other assets  | \$ 9,094,979<br>13,146<br>12,266<br>55,749                     |
| TOTAL ASSETS  | \$ 9,176,140   |
| LIABILITIES   |  |
| Accrued investment advisor fee (Note 3) \$ 31,974 Other payables \$ 35,004  |  |
| TOTAL LIABILITIES   | 66,978   |
| <b>NET ASSETS</b> (Equivalent to \$5.43 per share based on 1,677,636 shares outstanding)  | \$ 9,109,162   |
| 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 Accumulated net investment loss (Note 5) Accumulated net realized loss on investments (Note 5) Net unrealized gain on investments (Notes 4 and 5) | \$ 1,678<br>8,362,502<br>(1,244,987)<br>(263,274)<br>2,253,243 |
| TOTAL   | \$ 9,109,162   |

# Statement of Operations Year Ended June 30, 2004

| INVESTMENT INCOME Dividends Interest Total investment income  |    |           | \$   | 188,886<br>134<br>189,020 |
|---|----|-----------|------|---------------------------|
| EXPENSES  |    |           |      |                           |
| Investment advisor fees (Note 3)  | \$ | 120,864   |      |                           |
| Custodian fees  |    | 54,000    |      |                           |
| Professional fees   |    | 44,333    |      |                           |
| Insurance   |    | 27,618    |      |                           |
| Transfer agent fees   |    | 17,500    |      |                           |
| Listing fees  |    | 15,000    |      |                           |
| Director fees   |    | 7,800     |      |                           |
| Printing  |    | 7,087     |      |                           |
| Postage   |    | 4,943     |      |                           |
| Miscellaneous   | _  | 4,960     |      |                           |
| Total investment expenses   |    |           |      | 304,105                   |
| INVESTMENT LOSS - NET   |    |           | (\$  | 115,085)                  |
| REALIZED AND UNREALIZED GAIN  |    |           |      |                           |
| ON INVESTMENTS AND FOREIGN CURRENCY   |    | 250 421   |      |                           |
| Net realized gain on investments and foreign currency<br>Change in unrealized gain on investments and |    | 358,431   |      |                           |
| foreign currency  | _  | 2,239,812 |      |                           |
| NET GAIN ON INVESTMENTS   |    |           | _2   | 2,598,243                 |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS  |    |           | \$ 2 | 2,483,158                 |

# Statements of Changes in Net Assets Years Ended June 30, 2004 and 2003

|  |     | 2004      |      | 2003      |
|--|-----|-----------|------|-----------|
| INCREASE IN NET ASSETS RESULTING FROM  |     |           |      |           |
| OPERATIONS:  |     |           |      |           |
| Net investment loss  | (\$ | 115,085)  | (\$  | 186,014)  |
| Net realized gain (loss) on investments and foreign currency  Change in unrealized gain on investments |     | 358,431   | (    | 964,095)  |
| and foreign currency   |     | 2,239,812 | 1    | .337.987  |
| Net increase in net assets resulting from operations   | _   | 2,483,158 |      | 187,878   |
| DISTRIBUTIONS TO STOCKHOLDERS FROM:  |     |           |      |           |
| Long-term realized gains   | _   |           | (_   | 129,950)  |
| NET INCREASE IN NET ASSETS   | \$  | 2,483,158 | \$   | 57,928    |
| NET ASSETS:  |     |           |      |           |
| Beginning of year  | \$_ | 6,626,004 | \$ 6 | 5,568,076 |
| End of year  | \$_ | 9,109,162 | \$6  | 5,626,004 |

# Financial Highlights Years Ended June 30, 2000 through 2004

|   | 2004                | 2003                | 2002           | 2001                | 2000            |
|---|---------------------|---------------------|----------------|---------------------|-----------------|
| PER SHARE OPERATING PERFORMANCE (For a share of capital stock outstanding for the year)   |                     |                     |                |                     |                 |
| Net asset value, beginning of year  | \$3.95              | \$3.92              | \$5.15         | \$5.02              | \$6.12          |
| operations.  Not investment loss!  Not realized and unrealized sain (loss) on investment  | (0.07)              | (0.11)              | (0.10)         | (0.07)              | (0.10)          |
| transactions <sup>1</sup> Total from operations   | $\frac{1.55}{1.48}$ | $\frac{0.22}{0.11}$ | (0.98)         | $\frac{0.20}{0.13}$ | (1.00) $(1.10)$ |
| Distributions:<br>From net investment income  | ı                   | 1                   | (0.10)         | 1                   | ;               |
| From net realized gains   | !                   | (0.08)              | (0.05)         | 1                   | 1               |
| Total distributions   | ŀ                   | (0.08)              | (0.15)         | 1                   | 1               |
| Net asset value, end of year  | \$5.43              | \$3.95              | \$3.92         | \$5.15              | \$5.02          |
| Per share market value, end of year   | 84.87               | \$3.49              | \$3.48         | \$4.20              | \$5.06          |
| Total investment return (loss) based on market value per share  | 39.54%              | 2.70%               | (13.45%)       | (17.04%)            | (15.63%)        |
| RATIOS AND SUPPLEMENTAL DATA<br>Net assets, end of year (in 000's)  | 89,109              | \$6,626             | 86,568         | \$8,643             | \$8,424         |
| Ratio of expenses to average net assets   | 3.67%               | 4.46%               | 3.77%          | 3.11%               | 3.11%           |
| Ratio of net investment loss to average net assets  | (1.39%)             | (3.15%)             | (2.45%)        | (1.33%)             | (1.76%)         |
| Portfolio turnover rate   | 23%                 | 3%                  | 18%            | 27%                 | 10%             |
| <sup>1</sup> Computed by dividing the respective year's amounts from the Statement of Operations by the average outstanding shares for each | he Statement        | of Operations       | by the average | outstanding sh      | nares for each  |

See accompanying notes.

year presented.

## Notes to Financial Statements

### 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 SmallCap 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 June 30, 2004, the Fund had foreign investments in companies operating principally in Mexico and the Cayman Islands representing approximately 13% and 9% 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 SmallCap 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.

# Notes to Financial Statements

### **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 year ended June 30, 2004, no distributions were declared or paid to stockholders.

# Notes to Financial Statements

### 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 June 30, 2004, 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 year ended June 30, 2004 amounted to \$120,864 of which \$31,974 is payable at year end.

During the year ended June 30, 2004, the Fund paid \$6,012 of brokerage commissions to Thomas J. Herzfeld & Co., Inc., an affiliate of the Advisor.

### NOTE 4. INVESTMENT TRANSACTIONS

During the year ended June 30, 2004, purchases and sales of investment securities were \$2,032,151 and \$1,826,148, respectively.

At June 30, 2004, the Fund's investment portfolio had gross unrealized gains of \$3,423,176 and gross unrealized losses of \$1,169,933, resulting in a net unrealized gain of \$2,253,243 for both financial statement and income tax purposes.

### NOTE 5. INCOME TAX INFORMATION

The cost of securities owned for financial statement purposes equals the cost basis for income tax purposes.

The income tax basis of distributive earnings as of June 30, 2004 include \$1,244,987 of accumulated net investment loss, \$263,274 of accumulated net realized loss on investments and \$2,253,243 of net unrealized gain on investments.

For the year ended June 30, 2004, the Fund utilized a capital loss carryover of \$358,431, of a total cost loss carryover available of \$964,095. The remaining capital loss carryover of \$605,664 expires in the tax year ended June 30, 2008.

# Directors and Officers of the Fund

| Name<br>Address<br>Age   | Position(s)<br>Held<br>with Fund     | Term of Office and<br>Lenth of Time Served |
|--|--------------------------------------|--|
| <u>Officers</u>  |                                      |  |
| Thomas J. Herzfeld<br>PO Box 161465<br>Miami, FL 33116<br>Age: 59  | President,<br>Chairman,<br>Director  | three years;<br>1993 to present            |
| Cecilia L. Gondor<br>PO Box 161465<br>Maimi, FL 33116<br>Age: 42   | Secretary,<br>Treasurer,<br>Director | three years;<br>1993 to present            |
| Independent Directors  |                                      |  |
| Ann S. Lieff<br>c/o The Herzfeld Caribbean<br>Basin Fund, Inc.<br>PO Box 161465<br>Miami, FL 33116<br>Age: 52        | Director                             | three years;<br>1998 to present            |
| Michael A. Rubin<br>c/o The Herzfeld Caribbean<br>Basin Fund, Inc.<br>PO Box 161465<br>Miami, FL 33116<br>Age: 62    | Director                             | three years;<br>2002 to present            |
| Albert L. Weintraub<br>c/o The Herzfeld Caribbean<br>Basin Fund, Inc.<br>PO Box 161465<br>Miami, FL 33116<br>Age: 74 | Director                             | three years;<br>1999 to present            |

| Principal Occupation(s) During Past 5 Years   | Number of Portfolios<br>In Complex Overseen<br>By Director | Public<br>Directorships   |
|---|--|---|
| Chairman and President of<br>Thomas J. Herzfeld & Co., Inc.,<br>a broker dealer, and Thomas J.<br>Herzfeld Advisors, Inc.   | 2  | The Cuba Fund, Inc. (in registration)   |
| Executive Vice President of<br>Thomas J. Herzfeld & Co., Inc.,<br>a broker dealer, and Thomas J.<br>Herzfeld Advisors, Inc.   | 2  | The Cuba Fund, Inc. (in registration)   |
| President of the Lieff Company, a management consulting firm that offers business solutions, strategies and CEO mentoring to corporations and women/family-owned businesses, 1998-present; former CEO Spec's Music 1980-199 a retailer of recorded music. | 1<br>98,   | Hastings<br>Entertainment, Inc.;<br>Claire's Stores, Inc.;<br>Mayors Jewelers, Inc. |
| Partner of Michael A. Rubin P.A.,<br>attorney at law; Broker, Oaks<br>Management & Real Estate Corp.,<br>a real estate corporation  | 1  | Margo Caribe, Inc.  |
| Senior Partner of Weintraub,<br>Weintraub; of counsel Orshan<br>et al, attornies; Chairman of<br>E-Lysium Transaction Systems, Inc<br>an application service provider of<br>transaction processing, billing<br>and payment systems                        | .,   | None  |



To the Board of Directors and Stockholders The Herzfeld Caribbean Basin Fund, Inc.

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of The Herzfeld Caribbean Basin Fund, Inc. as of June 30, 2004, 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 each of the five years in the period then ended. 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 of America). 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures include confirmation of securities owned as of June 30, 2004, by correspondence with the custodian and brokers. 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 The Herzfeld Caribbean Basin Fund, Inc. as of June 30, 2004, and the results of its operations for the year then ended, the changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Romin Co.

Miami, Florida July 15, 2004

# 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.

# **Proxy Voting Policies and Procedures**

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.

# THE HERZFELD CARIBBEAN BASIN FUND, INC.

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Miami, FL 33116