

SEMI-ANNUAL REPORT
December 31, 2007

#### 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**

State Street Bank and Trust 200 Clarendon Street, 16th Floor Boston, MA 02116 (617) 443-6870

#### Custodian

State Street Bank and Trust 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**

Rothstein Kass & Company, LLP 101 Montgomery Street, 22nd Floor San Francisco, CA 94104

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 include, among others, 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, the United States and Venezuela ("Caribbean Basin Countries"). The fund invests at least 80% of its total assets in eauity and eauity-linked 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.

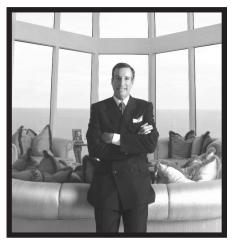
Listed NASDAQ Capital Market Symbol: CUBA

#### Letter to Stockholders

February 4, 2008

Dear Fellow Stockholders:

We are pleased to present our semi-annual report for the period ended December 31, 2007. On that date, the net asset value of The Herzfeld Caribbean Basin Fund, Inc. stood at \$8.23 per share, a gain of 18.72% for the calendar year, and a loss of 2.18% for the six month period, adjusted for the \$1.28 per share year-end stock distribution (unaudited). The Fund's large 98.51% premium to net asset value at the end of 2006 inverted to a small discount of -2.43% by the close of 2007. Accordingly, the share price declined 41.65% for the calendar year, and 31.39% for the six months ended



Thomas J. Herzfeld Chairman and President

December 31, 2007, adjusted for the \$1.28 per share year-end stock distribution (unaudited).

#### **Portfolio Commentary**

Since I wrote to you last year, there have been a number of significant changes in our portfolio. Florida East Coast Industries, for many years our largest position, was taken over by Fortress Investment Group LLC, resulting in a very substantial capital gain to the Fund. We also sold our holding of Florida Rock Industries, which was our fifth largest position at this time last year, after a takeover of that company was announced by Vulcan Materials Company. This, also, was a very profitable sale for us.

The cash proceeds from the two transactions, combined with the money raised through our October rights offering, was quite substantial and has allowed us to make a more diversified reallocation of the portfolio.

Since December 31, 2007, we have added four companies to the portfolio, including companies based in the Bahamas, the Cayman Islands and Puerto Rico. These companies are still under accumulation.

We maintained relatively high cash positions throughout the fall of 2007, and this level was increased by approximately \$18 million from the proceeds of our rights offering. Most of the markets where we are invested have been in a period of decline since November. We therefore invested at a very measured pace; the result was that our Fund's net asset value

# Letter to Stockholders (continued)

declined by less than the underlying markets in which we hold positions. As the markets began to look especially cheap in December and January, we became more aggressive in our buying, to the point where we have currently become almost fully invested and we did so at what we consider to be quite attractive prices. The result is that even though the stock markets in the U.S. and Caribbean are down substantially year-to-date, our net asset value is actually up a touch. As of the close on Friday, February 1, 2008, our net asset value stood at \$8.28 per share (unaudited), versus \$8.23 per share on December 31, 2007 (unaudited).

#### **Rights Offering**

The Fund conducted a non-transferable rights offering during the period. Stockholders of record September 26, 2007, were permitted to subscribe for one additional share for each share held at a price equal to 85% of the average volume-weighted closing share price on the expiration date of the offering and four preceding trading days. The offering was completed on October 26, 2007, and was fully subscribed. In my view, it was a very successful offering because it allowed our existing stockholders to acquire new shares at a discount to the market price; but at the same time, it was accretive to net asset value. Stockholders who subscribed got a bargain, and those who chose not to participate benefited from an increase in the net asset value per share. This two-pronged beneficial result is quite unusual in the closed-end fund industry.

I'm pleased to report that officers and directors of the Fund acquired stock through the offering. I personally purchased over \$1 million worth of shares for my own account. I'd like to thank the stockholders for their vote of confidence and participation.

Although the share price is currently lower than the \$10.04 per share price at which the rights offering was completed, I believe this is the result of three factors: 1) the Fund is trading ex- the year-end stock distribution of \$1.28; 2) the appearance of Fidel Castro on television with President Chavez of Venezuela seems to indicate that he is still alive, although many in Miami find this hard to believe; and 3) general doom and gloom in the equity markets have been widespread in recent months.

As we have discussed in the past, in our view, the single most important economic and political development in the Caribbean would be U.S. resumption of trade with Cuba. The general belief is that the chances that the current embargo with that country being eased or lifted would be greatly enhanced should there be a new government there. Fidel Castro's health, therefore, bears directly on this issue.

#### **Year-End Distribution**

Although we do not generally pay a dividend from net investment income, the Fund has been able to pay nine capital gains distributions since its inception 15 years ago, including

# Letter to Stockholders (continued)

several large ones. For instance, in the past two years the Fund has distributed \$1.00 and \$1.223 per share from long-term gains, and as of December 31, 2007, the portfolio has about \$0.85 of net unrealized appreciation (unaudited).

Since inception our Board has elected to pay out these distributions; and the payments have been welcomed by stockholders. In 2007 we declared the distribution in stock rather than cash, at the suggestion of stockholders who requested that we make it easier to reinvest their year-end distributions. We expect to continue this policy.

#### **Largest Allocations**

The following tables present our largest investment and geographic allocations as of December 31, 2007.

Geographic % of N	et Assets
Allocation	
USA	25.68%
Mexico	17.77%
Cayman Islands	6.13%
Panama	3.90%
Latin American Regional	2.98%
Netherlands Antilles	2.75%
Colombia	1.95%
Bahamas	0.92%
Puerto Rico	0.81%
Belize	0.71%
Costa Rica	0.40%
Venezuela	0.05%
Cuba	0.00%
Other	2.18%

Largest Portfolio Positions	% of Net Assets
Consolidated Water Co.	5.62%
Seaboard Corporation	5.11%
Carnival Corp.	3.94%
Latin America Equity Fund	2.98%
Orthofix International N.V.	2.75%
Royal Caribbean Cruises Ltd.	2.73%
Atlantic Tele-Network, Inc.	2.34%
Watsco Incorporated	2.30%
Copa Holdings S.A.	2.22%
Trailer Bridge, Inc.	2.12%

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, 2007

Shares or P	Principal Amount Description	Ma	arket Value
Common s	tocks - 66.22% of net assets		
Banking an	nd finance - 4.38%		
16,500	Bancolombia, S.A.	\$	561,330
29,720	Banco Latinoamericano de Exportaciones, S.A.		484,733
2,500	Doral Financial Corp.*	45,100	
16,400	Grupo Financiero Banorte, S.A.B. de C.V. Series O	67,768	
9,900	Grupo Financiero Inbursa, S.A.B. de C.V. Series O		25,725
63,000	W Holding Co., Inc.		76,230
Communio	cations - 12.03%		
9,000	América Móvil, S.A.B. de C.V. ADR		552,510
35,600	América Móvil, S.A.B. de C.V. Series A		108,389
50,891	América Móvil, S.A.B. de C.V. Series L		156,203
19,950	Atlantic Tele-Network, Inc.		673,911
11,900	Carso Global Telecom, S.A.B. de C.V. Series A1*		55,715
141,000	Fuego Entertainment*		73,320
6,000	Garmin Ltd.		582,000
871	Grupo Iusacell, S.A.B. de C.V. Series V*		11,570
19,410	Grupo Radio Centro, S.A.B. ADR		246,507
20,400	Grupo Televisa, S.A.B. ADR		484,908
13,400	Grupo Televisa, S.A.B. Series CPO		63,953
39,320	Spanish Broadcasting System Inc.*		72,742
5,000	Telefonos de Mexico, S.A.B. de C.V. ADR Series L		184,200
23,800	Telefonos de Mexico, S.A.B. de C.V. Series A		44,245
78,600	Telefonos de Mexico, S.A.B. de C.V. Series L		145,472
13,900	TV Azteca, S.A. de C.V. Series CPO		8,342
	rates - 1.73%		
250,000	Admiralty Holding Company*		750
5,400	Alfa, S.A.B. de C.V. Series A		34,881
42,595	BB Holdings Ltd.*		203,495
13,000	Carlisle Holdings, Inc.*		32,735
13,000	Cockleshell Ltd. ord.		38,602
30,300	Corporación Interamericana de Entretenimiento, S.A.B. de	C.V.	
	Series B*		8,942
20	Dermet de Mexico, S.A.B. Series B		3
11,000	Grupo Carso, S.A.B. de C.V. Series A1		41,634

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

# Schedule of Investments as of December 31, 2007 (continued)

Shares or P	rincipal Amount Description	Ma	rket Value
Conglomer	rates (continued)		
1,580	Grupo Kuo, S.A.B. de C.V.	\$	1,666
3,250	Shellshock Ltd. ord.		4,108
2,900	Vitro, S.A.B. de C.V. Series A		6,377
19,000	Vitro, S.A.B. de C.V. ADR		125,020
Construction	on and related - 2.54%		
6,098	Cemex, S.A.B. de C.V. ADR		157,633
47,864	Cemex, S.A.B. de C.V. Series CPO		124,064
2,032	Ceramica Carabobo Class A ADR*		5,115
17,200	Consorcio ARA, S.A.B. de C.V.*		19,226
1,580	Dine S.A.B. de C.V. Series B*		1,737
3,583	Empresas ICA, S.A.B. de C.V.		26,633
800	Grupo Cementos de Chihuahua, S.A.B. de C.V.		5,058
38,950	Mastec, Inc.*		396,122
Consumer	products and related manufacturing - 4.34%		
800,000	Atlas Electricas, S.A.		115,635
11,973	Grupo Casa Saba, S.A.B. de C.V. ADR		472,934
18,000	Watsco Incorporated		661,680
Food, beve	rages and tobacco - 2.35%		
1,200	Alsea, S.A.B. de C.V.		1,682
10,500	Coca Cola Femsa, S.A.B. de C.V. ADR		517,440
200	Coca Cola Femsa, S.A.B. de C.V., Series L		983
18,900	Fomento Económico Mexicano, S.A.B. de C.V., Series UBD		72,315
800	Gruma, S.A.B. de C.V., Series B		2,676
7,600	Grupo Bimbo, S.A.B. de C.V., Series A		45,304
7,700	Grupo Modelo, S.A.B. de C.V., Series C		36,679
Housing - (	0.88%		
1,700	Corporación Geo, S.A.B. de. C.V., Series B*		4,891
100	Desarrolladora Homex, S.A.B. de C.V.		826
13,500	Lennar Corp		241,515
400	Sare Holding, S.A.B. de C.V., Series B*		545
1,500	Urbi Desarrollos Urbanos, S.A.B. de C.V.*		5,181

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

# Schedule of Investments as of December 31, 2007 (continued)

Shares or P	rincipal Amount Description	Ma	arket Value	
Investment	companies -7.82%			
8,000	iShares MSCI Mexico	\$	448,000	
10,500	The Mexico Fund, Inc.		368,550	
18,110	Latin America Equity Fund		856,784	
17,222	Western Asset Emerging Markets Debt Fund		306,379	
2,300	Western Asset Emerging Markets		26,772	
19,000	Western Asset Worldwide Income Fund		246,260	
Leisure - 7.	.59%			
25,500	Carnival Corp.		1,134,495	
18,500	Royal Caribbean Cruises Ltd.		785,140	
6,000	Steiner Leisure Ltd.*		264,960	
Medical - 2				
	Micromet Inc.*		17,275	
13,660	Orthofix International N.V.*		791,870	
Mining - 0.	03%			
1,200	Grupo México, S.A.B. de C.V., Series B		7,542	
Pulp and pa	aper - 0.09%			
6,100	Kimberly-Clark de México, S.A.B. de C.V. Series A		26,637	
Railroad ar	nd landholdings - 1.23%			
	Norfolk Southern Corporation		353,080	
Retail - 0.7	1%			
3,700	Controladora Comercial Mexicana, S.A.B. de C.V. Series UBo	С	9,323	
1,270	Grupo Elektra, S.A. de C.V. Series CPO		37,820	
45,111	Wal-Mart de México, S.A.B. de C.V. Series V		157,268	
Service - 0.02%				
700	Grupo Aeroportuario del Sureste, S.A.B. de C.V. Series B		4,284	
100	Promotora Ambiental S.A.B. de C.V.*		307	

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

# Schedule of Investments as of December 31, 2007 (continued)

Shares or P	rincipal Amount Description	Market Value		
Trucking an	nd marine freight - 8.06%			
29,800	Grupo TMM, S.A.B. ADR*	\$ 67,050		
1,001	Seaboard Corporation	1,471,470		
52,045	Trailer Bridge, Inc.*	611,008		
10,000	<del>_</del>			
Utilities - 6	.97%			
12,000	Caribbean Utilities Ltd. Class A	146,640		
64,241	Consolidated Water, Inc.	1,618,231		
700		11,200		
13,500	Teco Energy Inc.	232,335		
Other - 2.64	4%			
17,000	Copa Holdings S.A.	638,690		
55,921	Margo Caribe, Inc.*	111,842		
100	Mexichem S.A.B. de C.V.	400		
843	Siderurgica Venezolana Sivensa, S.A. ADR	8,048		
75	Siderurgica Venezolana Sivensa, S.A. Series B	716		
45,000	Xcelera, Inc. (Note 2)*			
Total com	non stocks (cost \$16,033,580)	\$19,066,796		
Bonds - 0%	of net assets			
165,000	Republic of Cuba - 4.5%, 1977 - in default	\$		
Total bond	s (cost \$63,038) (Note 2)*	\$		
U.S. Treasu	ary Obligations - 34.69% of net assets			
\$5,000,000	U.S. Treasury Bills due 1/10/08, 0% coupon	\$ 4,997,900		
\$5,000,000	U.S. Treasury Bills due 1/24/08, 0% coupon	4,992,013		
Total U.S.	Treasury Bills (cost \$9,969,996)	\$ 9,989,913		
Other asse	ts less liabilities - (0.91%) of net assets	(\$ 262,320)		
Net assets	- 100%	\$28,794,390		

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

# Statement of Assets and Liabilities as of December 31, 2007 (unaudited)

ASSETS		
Investments in securities, at market value (cost \$26,066,61	4)	
(Note 2)	\$	29,056,709
Cash		4,868,499
Dividends receivable		262,203
Other assets		33,249
TOTAL ASSETS		34,220,660
LIABILITIES		
Payable for investments purchased	727,360	
Distributions payable	4,479,807	
Accrued investment advisor fee (Note 3)	93,249	
Other payables	125,854	
TOTAL LIABILITIES		5,426,270
NET ASSETS (Equivalent to \$8.23 per share		
based on 3,499,849 shares outstanding)		\$28,794,390
Net assets consist of the following:		
Common stock, \$.001 par value; 100,000,000		
shares authorized; 3,499,849 shares issued		
and outstanding		\$ 3,500
Additional paid-in capital		25,301,240
Accumulated net investment loss		(2,173,824)
Accumulated net realized gain on investments		2,673,379
Net unrealized gain on investments		2,990,095
TOTAL		\$28,794,390

# Statement of Operations Six Months Ended December 31, 2007 (unaudited)

INVESTMENT INCOME Dividends		\$	889,131
Dividends		Ψ	007,131
EXPENSES			
Investment advisor fees (Note 3)	\$ 152,003		
Professional fees	57,545		
Custodian fees	27,000		
Insurance	15,413		
Transfer agent fees	9,782		
Listing fees	7,500		
CCO Expense	7,625		
Proxy services	9,450		
Printing and Postage	9,550		
Director fees	6,600		
Miscellaneous	21,578		
Total investment expenses		_	324,046
INVESTMENT GAIN - NET			565,085
REALIZED AND UNREALIZED GAIN			
ON INVESTMENTS AND FOREIGN CURRENCY			
Net realized gain on investments and foreign			
currency	2,755,447		
Change in unrealized gain on investments and			
foreign currency	(4,566,994)		
NET GAIN (LOSS) ON INVESTMENTS		_(	1,811,547)
NET DECREASE IN NET ASSETS RESULTING			
FROM OPERATIONS		(\$	1,246,462)

# Statements of Changes in Net Assets (unaudited)

	Six Months Ended 12/31/07 (unaudited)	Year Ended 6/30/07
INCREASE IN NET ASSETS RESULTING FROM		
OPERATIONS:		
Net investment gain (loss)	\$ 565,085	(\$ 263,944)
Net realized gain on investments and foreign currency	2,755,447	1,894,365
Change in unrealized gain (loss) on investments	2,733,447	1,894,303
and foreign currency	( 4,566,994)	2,866,877
Net increase in net assets resulting from		
operations	( 1,246,462)	4,497,298
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Investment income and short-term realized gains	( 200,000)	
Realized gains - long-term	( 4,279,907)	
Total Distributions	( 4,479,807)	( 1,677,636)
CAPITAL STOCK TRANSACTIONS		
Effect due to shares issued in reinvestment of		
distribution (9,920 shares) (Note 6)		108,062
Net proceeds of rights offering (Note 6)	18,039,442	
Total Capital Stock Transactions	18,039,442	108,062
Total Capital Stock Transactions	10,039,442	108,002
NET INCREASE IN NET ASSETS	\$ 12,313,173	\$ 2,927,724
NET ASSETS:		
Beginning of period	16,481,217	13,553,493
End of period	\$ 28,794,390	\$16,481,217

# Financial Highlights

Siz	Six Months Ended		Year Ende	Year Ended June 30	
	12/31/07 (unaudited)	2007	2006	2005	2004
PER SHARE OPERATING PERFORMANCE (For a share of canital stock outstanding for each time neriod indicated)	neriod indicated)				
Net asset value, beginning of year	<u>\$9.77</u>	8.08	\$7.33	\$5.43	\$3.95
Operations:					
Net investment gain (loss) <sup>1</sup>	0.16	(0.14)	(0.16)	(0.00)	(0.07)
Net realized and unrealized gain (loss) on investment					
transactions <sup>1</sup>	(0.51)	2.83	1.08	1.99	1.55
Total from operations	(0.35)	2.69	0.92	1.90	1.48
Distributions:					
From net investment income	(0.057)	;	1	1	1
From net realized gains	(1.223)	(1.00)	(0.17)	;	1
Total distributions	(1.280)	(1.00)	(0.17)	1	1
Effect of rights offering	0.09	1	1	1	1
Net asset value, end of year	\$8.23	89.77	\$8.08	\$7.33	\$5.43
Per share market value, end of year	\$8.03	\$13.59	\$7.57	\$6.30	\$4.87
Total investment return (loss) based on	(71 200/)	910	70,000	2000	707 2 00
market value per share	(31.39%)	94.61%	22.86%	29.36%	39.54%
RATIOS AND SUPPLEMENTAL DATA	100	017 401	C 4 4 C F G	000	001
Net assets, end of year (in 000's) Ratio of expenses to average net assets	$\frac{$28,794}{3.16\%^2}$	3.28%	3.37%	3.55%	3.67%
Ratio of net investment gain (loss)					
to average net assets	$5.51\%^{2}$	(1.83%)	(1.95%)	(1.47%)	(1.39%)
Portfolio turnover rate	22%	28%	40%	30%	23%

<sup>&</sup>lt;sup>2</sup>This figure has been annualized; however, the percentage shown is not necessarily indicative of results for a full year. each time period presented.

<sup>1</sup>Computed by dividing the respective period's amounts from the Statement of Operations by the average outstanding shares for

#### 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 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 (collectively, "Caribbean Basin Companies"). Under normal conditions, the Fund invests at least 80% of its total assets in equity and equity-linked securities of Caribbean Basin Companies. 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, 2007, the Fund had foreign investments in companies operating principally in Mexico and the Cayman Islands, representing approximately 17.77% and 6.13% of the Fund's net assets, respectively.

The Fund's custodian and transfer agent is State Street Bank and Trust Company ("SSBT"), 200 Clarendon Street, PO Box 9130, Boston, Massachusetts 02117.

#### **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.

In September, 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in

accordance with generally accepted accounting principals and expands disclosure about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact the adoption of SFAS No. 157 will have on the Fund's financial statement disclosures.

In February, 2007, FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115" (SFAS No. 159). SFAS No. 159 permits entities to elect to measure certain financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each subsequent reporting date. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. Management is currently evaluating the impact the adoption of SFAS No. 159 wil have on the Fund's 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, or in the case of certain foreign securities, as soon as the Fund is notified, and interest income is recognized on an accrual basis. Pursuant to a custodian agreement, SSBT receives a fee reduced by credits which are determined based on the average daily cash balance the Fund maintains with SSBT. Credit balances used to reduce the Fund's custodian fees for the six months ended December 31, 2007, were approximately \$2,169. 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, 2007, a distribution from long-term capital gains of \$1.223 per share and an income distribution of \$0.057 per share was declared on November 26, 2007, payable on January 9, 2008 to shareholders of record December 12, 2007. The distribution was paid in stock, unless an election to receive cash was made by the stockholder. Shares were issued at a reinvestment price of \$7.94 per share which was equal to the net asset value of the common shares on the payable date of the distribution, January 9, 2008.

#### NOTE 2. NON-MARKETABLE SECURITIES OWNED

Investments in securities include \$165,000 principal, 4.5%, 1977 Republic of Cuba bonds purchased for \$63,038. The bonds were 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 and trading in the bonds was suspended as of December 28, 2006. The New York Stock Exchange has stated that following the suspension of trading, application will be made to the Securities and Exchange Commission to delist the issue. As of December 31, 2007, the position was valued at \$0 by the Board of Directors, which approximates the bonds' fair value.

Investments in securities also include 45,000 shares of Xcelera, Inc. The security traded on the Pink Sheets until the first quarter of 2007 when trading was discontinued. As of December 31, 2007, the position was valued at \$0 by the Board of Directors, which approximates the position's 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 advisory fees for the six months ended December 31, 2007 amounted to \$152,003, of which \$93,249 was payable as of December 31, 2007.

During the six months ended December 31, 2007, the Fund paid \$19,061 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, 2007, purchases and sales of investment securities were \$9,590,837 and \$3,176,999, respectively.

At December 31, 2007, the Fund's investment portfolio had gross unrealized gains of \$4,287,150 and gross unrealized losses of \$1,297,055, resulting in a net unrealized gain of \$2,990,095 for financial statement purposes.

#### NOTE 5. INCOME TAX INFORMATION

For the six months ended December 31, 2007, the Fund had net realized gains of \$2,755,447.

#### NOTE 6: CAPITAL SHARE TRANSACTIONS

#### Rights Offering

On October 26, 2007 the Fund issued 1,812,293 common shares in connection with a rights offering. Stockholders of record September 26, 2007 were issued one non-transferable right for every share owned on that date. The rights entitled the stockholders to purchase one new common share for every right held. In addition, the Fund had the discretion to increase the number of shares of common stock subject to subscription by up to 100% of the shares offered, or up to an additional 1,678,556 additional shares of common stock.

The subscription price was equal to 85% of the average volume-weighted sales price per share of the Fund's common stock on the NASDAQ Capital Market on October 26, 2007 and the four preceding trading days. The final subscription price was \$10.04 per share. Net proceeds to the Fund were \$18,039,442 after deducting rights offering costs of \$155,979. The net aset value of the Fund's common shares was increased by approximately \$0.09 per share as a result of the share issuance.

#### 2006 Year-End Distribution

For the year ended June 30, 2007, the Fund issued 9,920 shares for reinvestment of distributions. The net effect of the reinvestment of distributions resulted in an increase in net assets of \$108,062.

#### NOTE 7: SUBSEQUENT EVENT

On January 9, 2008, the Fund issued 213,211 common shares in connection with a year-end distribution of \$1.28 per share paid in stock. Stockholders were also given the option of receiving the payment in cash. Shares were issued at \$7.94 per share, equal to the net asset value of the Fund on the payable date of January 9, 2008.

#### Dividend Reinvestment Plan

Registered holders ("Stockholders") of shares of common stock, \$0.001 par value ("Common Stock") of Herzfeld Caribbean Basin Fund, Inc. (the "Fund") will automatically be enrolled ("Participants") in the Fund's Dividend Reinvestment Plan (the "Plan") and are advised as follows:

- State Street Bank & Trust Company (the "Agent") will act as agent for each Participant.
  The Agent will open an account for each registered shareholder as a Participant under
  the Plan in the same name in which such Participant's shares of Common Stock are
  registered.
- 2. CASH OPTION. Pursuant to the Fund's Plan, unless a holder of Common Stock otherwise elects, all dividend and capital gains distributions payable in cash ("Distributions") will be automatically reinvested by the Agent in additional Common Stock of the Fund. Stockholders who elect not to participate in the Plan will receive all cash distributions in cash paid by check mailed directly to the shareholder of record (or, if the shares are held in street or other nominee name then to such nominee) by the Agent, as dividend paying agent. Stockholders and Participants may elect not to participate in the Plan and to receive all cash distributions of dividends and capital gains in cash by sending written instructions to the Agent, as dividend paying agent, at the address set forth below.
- 3. MARKET PREMIUM ISSUANCES. If on the payment date for a Distribution, the net asset value per Common Stock is equal to or less than the market price per Common Stock plus estimated brokerage commissions, the Agent shall receive newly issued Common Stock ("Additional Common Stock") from the Fund for each Participant's account. The number of Additional Common Stock to be credited shall be determined by dividing the dollar amount of the Distribution by the greater of (i) the net asset value per Common Share on the payment date, or (ii) 95% of the market price per Common Share on the payment date.
- 4 MARKET DISCOUNT PURCHASES. If the net asset value per Common Stock exceeds the market price plus estimated brokerage commissions on the payment date for a Distribution, the Agent (or a broker-dealer selected by the Agent) shall endeavor to apply the amount of such Distribution on each Participant's Common Stock to purchase Common Stock on the open market. In the event of a market discount on the payment date, the Agent will have 30 days after the dividend payment date (the "last purchase date") to invest the dividend amount in shares acquired in open-market purchases. The weighted average price (including brokerage commissions) of all Common Stock purchased by the Agent as Agent shall be the price per Common Stock allocable to each Participant. If, before the Agent has completed its purchases, the market price plus estimated brokerage commissions exceeds the net asset value of the Common Stock as of the payment date, the purchase price paid by Agent may exceed the net asset value of the Common Stock, resulting in the acquisition of fewer Common Stock than if such Distribution had been paid in Common Stock issued by the Fund. Because of the foregoing difficulty with respect to open-market purchases, the Plan provides that if the Plan Agent is unable to invest the full dividend amount in open-market purchases during the purchase period or

## Dividend Reinvestment Plan (continued)

if the market discount shifts to a market premium during the purchase period, the Plan Agent may cease making open-market purchases and may invest the uninvested portion of the dividend amount in newly issued Common Stock at the net asset value per Common Stock at the close of business on the last purchase date. Participants should note that they will not be able to instruct the Agent to purchase Common Stock at a specific time or at a specific price. Open-market purchases may be made on any securities exchange where Common Stock are traded, in the over-the-counter market or in negotiated transactions, and may be on such terms as to price, delivery and otherwise as the Agent shall determine. Each Participant's uninvested funds held by the Agent will not bear interest. The Agent shall have no liability in connection with any inability to purchase Common Stock within the time provided, or with the timing of any purchases effected. The Agent shall have no responsibility for the value of Common Stock acquired. The Agent may commingle Participants' funds to be used for open-market purchases of the Fund's shares and the price per share allocable to each Participant in connection with such purchases shall be the average price (including brokerage commissions and other related costs) of all Fund shares purchased by Agent. The rules and regulations of the Securities and Exchange Commission may require the Agent to limit the Agent's market purchases or temporarily cease making market purchases for Participants.

- 5. The market price of Common Stock on a particular date shall be the last sales price on the securities exchange where the Common Stock are listed on that date (currently the NASDAQ Capital Market)(the "Exchange"), or, if there is no sale on the Exchange on that date, then the average between the closing bid and asked quotations on the Exchange on such date will be used. The net asset value per Common Stock on, a particular date shall be the amount calculated on that date (or if not calculated on such date, the amount most recently calculated) by or on behalf of the Fund.
- 6. Whenever the Agent receives or purchases shares or fractional interests for a Participant's account, the Agent will send such Participant a notification of the transaction as soon as practicable. The Agent will hold such shares and fractional interests as such Participant's agent and may hold them in the Agent's name or the name of the Agent's nominee. The Agent will not send a Participant stock certificates for shares unless a Participants so requests in writing or unless a Participant's account is terminated as stated below. The Agent will vote any shares so held for a Participant in accordance with any proxy returned to the Fund by such Participant in respect of the shares of which such Participant is the record holder.
- 7. There is presently no service charge for the Agent serving as Participants' agent and maintaining Participants' accounts. The Agent may, however, charge Participants for extra services performed at their request. The Plan may be amended in the future to impose a service charge. In acting as Participants' agent under the Plan, the Agent shall be liable only for acts, omissions, losses, damages or expenses caused by the Agent's willful misconduct or gross negligence. In addition, the Agent shall not be liable for any taxes, assessments or governmental charges which may be levied or assessed on any basis whatsoever in connection with the administration of the Plan.

## Dividend Reinvestment Plan (continued)

8. The Agent may hold each Participant's Common Stock acquired pursuant to the Plan together with the Common Stock of other Stockholders of the Fund acquired pursuant to the Plan in non-certificated form in the Agent's name or that of the Agent's nominee. Each Participant will be sent a confirmation by the Agent of each acquisition made for his or her account as soon as practicable, but in no event later than 60 days, after the date thereof. Upon a Participant's request, the Agent will deliver to the Participant, without charge, a certificate or certificates for the full Common Stock. Although each Participant may from time to time have an undivided fractional interest in a Common Share of the Fund, no certificates for a fractional share will be issued. Similarly, Participants may request to sell a portion of the Common Stock held by the Agent in their Plan accounts by calling the Agent, writing to the Agent, or completing and returning the transaction form attached to each Plan statement. The Agent will sell such Common Stock through a broker-dealer selected by the Agent within 5 business days of receipt of the request. The sale price will equal the weighted average price of all Common Stock sold through the Plan on the day of the sale, less brokerage commissions. Participants should note that the Agent is unable to accept instructions to sell on a specific date or at a specific price. Any share dividends or split shares distributed by the Fund on Common Stock held by the Agent for Participants will be credited to their accounts. In the event that the Fund makes available to its Stockholders rights to purchase additional Common Stock, the Common Stock held for each Participant under the Plan will be added to other Common Stock held by the Participant in calculating the number of rights to be issued to each Participant.

If a Participant holds more than one Common Stock Certificate registered in similar but not identical names or if more than one address is shown for a Participant on the Fund's records, all of such Participant's shares of Common Stock must be put into the same name and address if all of them are to be covered by one account. Additional shares subsequently acquired by a Participant otherwise than through the Plan will be covered by the Plan.

- 9. The reinvestment of Distributions does not relieve Participants of any federal, state or local taxes which may be payable (or required to be withheld on Distributions.) Participants will receive tax information annually for their personal records and to help them prepare their federal income tax return. For further information as to tax consequences of participation in the Plan, Participants should consult with their own tax advisors.
- 10. Each registered Participant may terminate his or her account under the Plan by notifying the Agent in writing at State Street Bank and Trust, P.O. Box 642, Boston, MA 02117-0642, or by calling the Agent at (617) 937-6870. Such termination will be effective with respect to a particular Distribution if the Participant's notice is received by the Agent prior to such Distribution record date. The Plan may be terminated by the Agent or the Fund upon notice in writing mailed to each Participant at least 60 days prior to the effective date of the termination. Upon any termination, the Agent will cause a certificate or certificates to be issued for the full shares held for each Participant under the Plan and cash adjustment for any fraction of a Common Share at the then current market value of the Common Shares to be delivered to him. If preferred, a Participant may request the sale of all of

# Dividend Reinvestment Plan (continued)

the Common Shares held by the Agent in his or her Plan account in order to terminate participation in the Plan. If any Participant elects in advance of such termination to have Agent sell part or all of his shares, Agent is authorized to deduct from the proceeds the brokerage commissions incurred for the transaction. If a Participant has terminated his or her participation in the Plan but continues to have Common Shares registered in his or her name, he or she may re-enroll in the Plan at any time by notifying the Agent in writing at the address above.

- 11. These terms and conditions may be amended by the Agent or the Fund at any time but, except when necessary or appropriate to comply with applicable law or the rules or policies of the Securities and Exchange Commission or any other regulatory authority, only by mailing to each Participant appropriate written notice at least 30 days prior to the effective date thereof. The amendment shall be deemed to be accepted by each Participant unless, prior to the effective date thereof, the Agent receives notice of the termination of the Participant's account under the Plan. Any such amendment may include an appointment by the Agent of a successor Agent, subject to the prior written approval of the successor Agent by the Fund.
- 12. These terms and conditions shall be governed by the laws of the State of Maryland.

Dated: November 22, 2006

# 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, 2007.

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, 2006 and unaudited financial statements for the six months ended June 30, 2007; (v) the Advisor's Form ADV Parts I and II; (vi) comparative performance data for the Fund relative to peer funds (small closed-end funds and foreign funds invested in the Latin American region); and (vii) 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, 2007 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, factor or consideration as controlling, but made their determination in light of all the circumstances. 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 14, 2007 Stockholder Meeting

The annual meeting of stockholders of the Fund was held on November 14, 2007. At the meeting two nominees for Director posts were elected as follows:

	Votes for	Votes withheld
Ann S. Lieff	1,289,802	39,314
Kay W. Tatum	1,294,657	34,460

The terms of office as directors of Thomas J. Herzfeld and Michael A. Rubin continued after the meeting.

# 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.

# **Proxy Voting Policies and Procedures**

Information regarding how the Fund voted proxies relating to portfolio securities from July 1, 2006 to June 30, 2007, 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.

# **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
KAY W. TATUM
Director

# THE HERZFELD CARIBBEAN BASIN FUND, INC.

The Herzfeld Building P.O. Box 161465 Miami, FL 33116