THE HERZFELD CARIBBEAN BASIN FUND, INC.

ANNUAL REPORT
JUNE 30, 2008

The Herzfeld Caribbean Basin Fund, Inc.
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HERZFELD/CUBA
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101 Montgomery Street, 22nd Floor
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The Herzfeld Caribbean Basin Fund Inc.'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 equity and equity-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

August 5, 2008

Thomas J. Herzfeld
Chairman and President

Dear Fellow Shareholders:

We are pleased to present our annual report for the period ended June 30, 2008. On that date the Fund's net asset value was $7.31 per share, which represents a loss of 13.12% for the one year period then ended (adjusted for distributions). The Fund's share price closed the fiscal year at $7.69 per share, down from $13.59 per share on June 30, 2007, and representing a 34.29% loss for the year (adjusted for distributions). A year-end distribution of $1.28 per share was paid in January 9, 2008, to shareholders of record December 12, 2007.

The first half of the calendar year was particularly challenging for both the U.S. and most foreign markets. As of the date of this writing, however, both the Fund's share price and net asset value have begun to recover, with particularly strong gains on days when oil prices are lower.

There have been no greater headwinds in the region than the rapid appreciation in crude oil prices. High oil prices affect nearly every industry in the Caribbean, including shipping, tourism and infrastructure. Many of our largest holdings, such as Royal Caribbean Cruises Ltd. (RCL), Carnival Corp. (CCL) and Copa Holdings, S.A. (CPA) have been especially hurt as their costs have increased as a result of rising oil prices. At current levels, we feel that much of the high price of oil is already reflected in the valuation of these companies, and any pullback in oil prices should benefit our portfolio.

In spite of the difficult market, the Fund traded at a premium to net asset value most of the fiscal year, reflecting continued interest by investors.

Letter to Stockholders (continued)

We continue to position the Fund's portfolio in companies we believe will benefit from resumption of U.S. trade with Cuba and continue to monitor the political situation in Cuba very closely. In February, Raul Castro was elected President by the National Assembly, officially taking power from his brother Fidel. Under Raul, the island nation has begun to show some changes. For instance, Cubans are now allowed to stay in hotels, buy electronic products, own cell phones, buy motorcycles and operate independent taxis. Additionally, the government is considering changing the wage laws and reviewing the currency. These developments could pave the way for further human rights advances. Violations of human rights have been one of the primary arguments in favor of keeping the U.S. Embargo against Cuba, and such positive developments, although small steps, could lead to a reevaluation of U.S. policy.

Largest Allocations

The following tables present our largest investment and geographic allocations as of June 30, 2008:

Geographic Allocation	*% of Net Assets*
USA	40.23%
Mexico	26.26%
Cayman Islands	7.02%
Panama	6.08%
Bahamas	5.76%
Colombia	3.99%
Latin American Regional	3.34%
Netherlands Antilles	2.52%
Puerto Rico	2.35%
Belize	0.71%
Venezuela	0.04%
Cuba	0.00%
Cash and other	1.70%

Largest Portfolio Positions	*% of Net Assets*
Seaboard Corporation	6.87%
Consolidated Water Co.	4.98%
Watsco Incorporated	4.78%
Carnival Corp.	4.56%
Norfolk Southern Corporation	4.16%
Coca Cola Femsa, S.A.B. de C.V. ADR	4.05%
Bancolombia, S.A.	3.99%
America Movil, S.A.B. de C.V. ADR	3.89%
Atlantic Tele-Network, Inc.	3.73%
Teekay Corporation	3.50%

Letter to Stockholders (continued)

Daily net asset values, annual and semi-annual reports as well as press releases and other SEC filings 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, 2008

Shares or Principal Amount	Description	Market Value
Common stocks - 98.95% of net assets		
Banking and finance - 9.20%		
34,500	Bancolombia, S.A.	$ 1,082,955
44,420	Banco Latinoamericano de Exportaciones, S.A.	719,160
6,500	Doral Financial Corp.*	88,010
16,400	Grupo Financiero Banorte, S.A. de C.V. Series O	77,195
9,900	Grupo Financiero Inbursa, S.A. de C.V. Series O	36,511
50,000	Popular Inc.	329,500
192,200	W Holding Co. Inc.	163,370
Communications - 18.80%		
20,000	América Móvil, S.A.B. de C.V. ADR	1,055,000
35,600	América Móvil, S.A.B. de C.V. Series A	93,286
50,891	América Móvil, S.A.B. de C.V. Series L	134,590
36,819	Atlantic Tele-Network, Inc.	1,012,891
11,900	Carso Global Telecom, S.A.B. de C.V. Series A1*	65,276
176,000	Fuego Entertainment Inc.*	22,880
17,000	Garmin Ltd.	728,280
871	Grupo Iusacell, S.A. de C.V. Series V*	8,453
21,120	Grupo Radio Centro, S.A.B. ADR	248,160
32,400	Grupo Televisa, S.A.B. ADR	765,288
13,400	Grupo Televisa, S.A.B. Series CPO	63,503
80,304	Spanish Broadcasting System, Inc.*	91,547
15,000	Telefonos de Mexico, S.A.B. de C.V. ADR Series L	355,200
23,800	Telefonos de Mexico, S.A.B. de C.V. Series A	27,626
78,600	Telefonos de Mexico, S.A.B. de C.V. Series L	93,370
15,000	Telmex International, S.A.B. de C.V. ADR	241,500
23,800	Telmex International Series A	19,865
78,600	Telmex International Series L	63,772
13,900	TV Azteca, S.A.B. de C.V. Series CPO	8,890
Conglomerates and holding companies - 1.75%		
250,000	Admiralty Holding Company*	200
5,400	Alfa, S.A.B. de C.V. Series A	38,651
42,595	BB Holdings Ltd.*	192,853
30,300	Cockleshell Ltd. Ord.*	32,864
3,200	Corporación Interamericana de Entretenimiento, S.A.B. de C.V. Series B*	6,519

*Non-income producing

See accompanying notes.

Schedule of Investments as of June 30, 2008 (continued)

Shares or Principal Amount	Description	Market Value
Conglomerates and holding companies (continued)		
11,000	Grupo Carso, S.A.B. de C.V. Series A1	$ 51,350
1,580	Grupo Kuo S.A.B. de C.V.*	1,150
20	Grupo Pochteca, S.A.B. de C.V. *	9
3,250	Shellshock Ltd. Ord.*	4,237
2,900	Vitro, S.A.B. de C.V. Series A	4,931
27,918	Vitro, S.A.B. de C.V. ADR	142,382
Construction and related - 5.26%		
21,863	Cemex S.A.B. de C.V. ADR	540,016
49,599	Cemex S.A.B. de C.V. Series CPO	122,893
20	Ceramica Carabobo Class A ADR*	4,657
17,200	Consorcio ARA, S.A.B. de C.V.	15,892
1,580	Dine S.A.B. de C.V. Series B*	1,434
3,583	Empresas ICA, S.A.B. de C.V.*	22,457
800	Grupo Cementos de Chichuahua, S.A.B. de C.V.	4,346
67,132	Mastec, Inc.*	715,627
Consumer products and related manufacturing - 6.38%		
13,273	Grupo Casa Saba, S.A.B. de C.V. ADR	434,691
31,000	Watsco Incorporated	1,295,800
Food, beverages and tobacco - 6.41%		
1,219	Alsea, S.A.B. de C.V.	1,537
3,000	Chiquita Brands International Inc.*	45,510
19,500	Coca Cola Femsa, S.A.B. de C.V. ADR	1,099,605
200	Coca Cola Femsa, S.A.B. de C.V. Series L	1,133
18,900	Fomento Económico Mexicano, S.A.B. de C.V. Series UBD	86,101
17,500	Fresh Del Monte Produce Inc.*	412,475
800	Gruma, S.A.B. de C.V. Series B*	2,191
7,600	Grupo Bimbo, S.A.B. de C.V. Series A	50,082
7,700	Grupo Modelo, S.A.B. de C.V. Series C	39,226
Housing - 1.43%		
1,700	Corporación Geo S.A.B. de C.V. Series B*	5,694
100	Desarrolladora Homex, S.A.B. de C.V.*	975
30,500	Lennar Corporation	376,370
400	Sare Holding, S.A.B. de C.V. Series B*	524
1,500	Urbi Desarrollos Urbanos, S.A.B. de C.V.*	5,190

*Non-income producing

See accompanying notes.

Schedule of Investments as of June 30, 2008 (continued)

Shares or Principal Amount	Description	Market Value
Investment companies - 6.51%		
18,110	Latin America Equity Fund	$ 904,051
21,140	The Mexico Fund, Inc.	741,803
139	Western Asset Emerging Markets Debt Fund	2,403
9,000	Western Asset Worldwide Income Fund	116,820
Leisure - 8.78%		
37,500	Carnival Corp.	1,236,000
33,500	Royal Caribbean Cruises Ltd.	752,745
13,900	Steiner Leisure Ltd.*	394,065
Medical - 2.61%		
8,386	Micromet Inc.*	22,139
23,660	Orthofix International N.V.*	684,957
Mining - 0.03%		
3,600	Grupo México, S.A.B. de C.V. Series B	8,176
Pulp and paper - 0.09%		
6,100	Kimberly-Clark de México, S.A.B. de C.V. Series A	24,865
Railroad - 4.16%		
18,000	Norfolk Southern Corporation	1,128,060
Retail - 0.87%		
3,700	Controladora Comercial Mexicana, S.A.B. de C.V. Series UBC	11,114
1,270	Grupo Elektra, S.A.B. de C.V. Series CPO	46,776
45,111	Wal-Mart de México, S.A.B. de C.V. Series V	178,977
Service - 0.01%		
700	Grupo Aeroportuario del Sureste, S.A.B. de C.V. Series B	3,631
100	Promotora Ambiental, S.A.B. de C.V.*	243
Trucking and marine freight - 14.08%		
61,404	Grupo TMM, S.A.B. ADR*	114,825
1,201	Seaboard Corporation	1,862,751
21,000	Teekay Corporation	948,780
8,361	Teekay LNG Partners LP	220,145

*Non-income producing

See accompanying notes.

Schedule of Investments as of June 30, 2008 (continued)

Shares or Principal Amount	Description	Market Value
Trucking and marine freight (continued)		
66,797	Trailer Bridge, Inc.*	$ 384,751
23,000	Ultrapetrol Bahamas Ltd.*	290,030
Utilities - 8.84%		
12,000	Caribbean Utilities Ltd. Class A	141,120
68,241	Consolidated Water, Inc.	1,351,172
700	Cuban Electric Company*	14,000
41,500	Teco Energy Inc.	891,835
Other - 3.74%		
33,000	Copa Holdings S.A.	929,280
13,000	Impellam Grp.*	20,827
55,921	Margo Caribe, Inc.*	56,480
100	Mexichem S.A.B. de C.V.	809
843	Siderurgica Venezolana Sivensa, S.A. ADR	6,674
75	Siderurgica Venezolana Sivensa, S.A. Series B	594
45,000	Xcelera, Inc. (Note 2)*	--
Total common stocks (cost $27,410,900)		**$26,846,548**
Bonds - 0% of net assets		
$165,000	Republic of Cuba - 4.5%, 1977 - in default (cost $63,038) (Note 2)*	--
Other assets less liabilities - 1.05% of net assets		**$ 284,006**
Net assets - 100%		**$27,130,554**

The investments are concentrated in the following geographic regions (as percentages of net assets):

United States of America	40.23%
Mexico	26.26%
Cayman Islands	7.02%
Panama	6.08%
Bahamas	5.76%
Other, individually under 5%**	14.65%
	100.00%

*Non-income producing

**Amount includes other assets less liabilities of 1.05%

See accompanying notes.

Statement of Assets and Liabilities as of June 30, 2008

ASSETS		
Investments in securities, at market value (cost $27,473,938) (Notes 1 and 2)		$26,846,548
Cash		168,626
Receivable for securities sold		175,374
Dividends receivable		38,279
Other assets		33,249
TOTAL ASSETS		27,262,076
LIABILITIES		
Accrued investment advisor fee (Note 3)	106,107	
Other payables	25,415	
TOTAL LIABILITIES		131,522
NET ASSETS (Equivalent to $7.31 per share based on 3,713,071 shares outstanding)		$27,130,554
Net assets consist of the following:		
Common stock, $.001 par value; 100,000,000 shares authorized; 3,713,071* shares issued and outstanding		$ 3,713
Additional paid-in capital		27,029,699
Undistributed net investment income		223,781
Accumulated net realized gain on investments		500,751
Net unrealized loss on investments (Notes 4 and 5)		(627,390)
NET ASSETS		$27,130,554

*213,222 shares issued through dividend reinvestment plan and 1,812,293 shares issued through rights offering (Note 6)

See accompanying notes.

Statement of Operations
Year Ended June 30, 2008

INVESTMENT INCOME AND EXPENSES		
Dividends and interest		$ 1,091,031
Investment advisor fees (Note 3)	$ 364,928	
Professional fees	79,535	
Custodian fees	54,000	
Insurance	46,665	
Printing and postage	28,220	
CCO salary	21,080	
Transfer agent fees	17,500	
Director fees	15,200	
Listing fees	15,000	
Proxy services	9,450	
Other	21,886	
Total investment expenses		673,464
NET INVESTMENT INCOME		417,567
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY		
Net realized gain on investments and foreign currency	3,127,940	
Net increase (decrease) in unrealized appreciation (depreciation) on investments and foreign currency	(8,184,478)	
NET LOSS ON INVESTMENTS		(5,056,538)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS		($4,638,971)

See accompanying notes.

Statements of Changes in Net Assets
Years Ended June 30, 2008 and 2007

	2008	2007
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment income (loss)	$ 417,567	($ 263,944)
Net realized gain on investments and foreign currency	3,127,940	1,894,365
Net increase (decrease) in unrealized appreciation (depreciation) on investments and foreign currency	(8,184,478)	2,866,877
NET INCREASE (DECREASE) IN NET ASSETS resulting from operations	(4,638,971)	4,497,298
DISTRIBUTIONS TO STOCKHOLDERS:		
Net investment income	(200,000)	--
Long-term realized gains	(4,279,807)	(1,677,636)
NET DISTRIBUTIONS TO STOCKHOLDERS	(4,479,807)	(1,677,636)
CAPITAL STOCK TRANSACTIONS:		
Shares issued in reinvestment of distribution (213,222 shares and 9,920 shares in 2008 and 2007, respectively) (Note 6)	1,692,977	108,062
Shares issued in rights offering net of rights offering costs (1,812,293 shares) (Note 6)	18,075,138	--
TOTAL INCREASE IN NET ASSETS	**10,649,337**	2,927,724
NET ASSETS:		
Beginning	16,481,217	13,553,493
Ending	$ 27,130,554	$16,481,217

See accompanying notes.

Financial Highlights
Years Ended June 30, 2004 through 2008

	2008	2007	2006	2005	2004
PER SHARE OPERATING PERFORMANCE					
(For a share of capital stock outstanding for the year)					
Net asset value, beginning of year	**$9.77**	$8.08	$7.33	$5.43	$3.95
Operations:					
Net investment income (loss)[1]	**0.22**	(0.14)	(0.16)	(0.09)	(0.07)
Net realized and unrealized gain (loss) on investment transactions[1]	**(1.40)**	2.83	1.08	1.99	1.55
Total from operations	**(1.18)**	2.69	0.92	1.90	1.48
Distributions:					
From net investment income	**(0.06)**	--	--	--	--
From net realized gains	**(1.22)**	(1.00)	(0.17)	--	--
Total distributions	**(1.28)**	(1.00)	(0.17)	--	--
Net asset value, end of year	**$7.31**	$9.77	$8.08	$7.33	$5.43
Per share market value, end of year	**$7.69**	13.59	$7.57	$6.30	$4.87
Total investment return (loss) based on market value per share	**(34.29%)**	94.61%	22.86%	29.36%	39.54%
RATIOS AND SUPPLEMENTAL DATA					
Net assets, end of year (in 000's)	**$27,131**	$16,481	$13,553	$12,292	$9,109
Ratio of expenses to average net assets	**2.74%**	3.28%	3.37%	3.55%	3.67%
Ratio of net investment income (loss) to average net assets	**1.70%**	(1.83%)	(1.95%)	(1.47%)	(1.39%)
Portfolio turnover rate	**25%**	28%	40%	30%	23%

[1]Computed by dividing the respective year's amounts from the Statement of Operations by the average outstanding shares for each year presented. For 2008, amounts were computed using the weighted average outstanding shares due to the significant one-time increase in shares from the rights offering.

See accompanying notes.

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 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 Countries. This 80% policy may be changed without stockholder approval upon sixty days written notice to stockholders. 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, 2008, the Fund had foreign investments in companies operating principally in Mexico and the Cayman Islands representing approximately 26% and 7% of the Fund's net assets, respectively.

The Fund's custodian and transfer agent is State Street Bank & 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 principles 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 statements.

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 will 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 year ended June 30, 2008 were approximately $2,362. 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, 2008, a distribution from long-term capital gains of $1.223 per share and a net investment income distribtuion of $0.057 per share was declared on November 26, 2007, payable on January 9, 2008 to stockholders 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 SECURITY OWNED

Investments in securities, at market value 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 bond 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 June 30, 2008, 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 June 30, 2008, 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 fees for the year ended June 30, 2008 amounted to $364,928, of which $106,107 is payable as of June 30, 2008.

During the year ended June 30, 2008, the Fund paid $34,866 of brokerage commissions to Thomas J. Herzfeld & Co., Inc., an affiliate of the Advisor, at an average cost per share of $0.04.

A director of the Fund serves on the Board of Directors of Margo Caribe, Inc., a company in which the Fund has an investment.

A director of the Fund is the owner of the Advisor and Thomas J. Herzfeld & Co., Inc.

The Fund reimbursed the Advisor in the amount of $21,080 for the portion of the chief compliance officer's (the "CCO") salary determined to be attributable to the services provided as CCO of the Fund.

NOTE 4. INVESTMENT TRANSACTIONS

During the year ended June 30, 2008, purchases and sales of investment securities were $23,986,609 and $5,237,623, respectively.

At June 30, 2008, the Fund's investment portfolio had gross unrealized gains of $3,552,023 and gross unrealized losses of $4,179,413, resulting in a net unrealized loss of $627,390 for financial statement purposes.

NOTE 5. INCOME TAX INFORMATION

For financial statement purposes, the Fund's net investment income for the year ended June 30, 2008 differs from the net investment income for tax purposes due to the tax characterization of foreign currency income received by the Fund. Realized gains differ for financial statement and tax purposes primarily due to differing treatments of wash sales.

As of June 30, 2008, for tax purposes the Fund's undistributed net investment income was $223,781 and its undistributed realized gain on investments was $556,468.

The cost basis of securities owned for financial statement purposes is lower than the cost basis for income tax purposes by $55,717 due to wash sale adjustments. As of June 30, 2008, gross unrealized gains were $3,496,306 and gross unrealized losses were $4,179,413 for income tax purposes.

Permanent differences accounted for during the year ended June 30, 2008 result from differences between book and tax accounting for foreign currency income. Such amounts have been reclassified as follows:

	Accumlated Net Investment Income	Accumulated Net Realized Gain on Investments	Additional Paid in Capital
Year ended June 30, 2008	$ 6,214	$ (6,214)	$ --

In June, 2006, FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes -- an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, and was adopted by the Fund on July 1, 2007. The adoption had no effect on the Fund's financial statements.

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 $18,075,138 after deducting rights offering costs of $120,284. The net asset value of the Fund's common shares was increased by approximately $0.09 per share as a result of the share issuance.

Year-End Distributions

On January 9, 2008, the Fund issued 213,222 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. New shares were issued at net asset value per share, therefore the reinvestment of distributions had no effect on net asset value.

On January 12, 2007, the Fund issued 9,920 common shares in connection with the 2006 year-end distribution of $1.00 per share. The distribution was paid on January 12, 2007 to shareholders of record December 15, 2006.

Directors and Officers of the Fund

Name Address and Age	Position(s) Held with Fund	Term of Office and Lenth of Time Served
Interested Directors		
Thomas J. Herzfeld* PO Box 161465 Miami, FL 33116 Age: 63	President, Chairman, Director	three years; 1993 to present
Independent Directors		
Ann S. Lieff c/o The Herzfeld Caribbean Basin Fund, Inc. PO Box 161465 Miami, FL 33116 Age: 56	Director	three years; 1998 to present
Michael A. Rubin c/o The Herzfeld Caribbean Basin Fund, Inc. PO Box 161465 Miami, FL 33116 Age: 66	Director	three years; 2002 to present
Kay W. Tatum, Ph.D., CPA c/o The Herzfeld Caribbean Basin Fund, Inc. PO Box 161465 Miami, FL 33116 Age: 56	Director	three years; 2007 to present
Officers		
Cecilia L. Gondor PO Box 161465 Miami, FL 33116 Age: 46	Secretary, Treasurer	1993 to present

*Mr. Herzfeld is considered an "interested person" of the Fund, as defined in Section 2(a)(19) of the 1940 Act and the rules thereunder because of his position with the Advisor.

Principal Occupation(s) During Past 5 Years	Number of Portfolios In Complex Overseen By Director	Other Directorships Held by Director
Chairman and President of Thomas J. Herzfeld & Co., Inc., a broker dealer, and Thomas J. Herzfeld Advisors, Inc.	2	The Cuba Fund, Inc. (in registration)
President of the Lieff Company, a management consulting firm that offers ongoing advisory services as a corporate director to several leading regional and national retail operations, 1998-present; former CEO Spec's Music 1980-1998, a retailer of recorded music.	1	Hastings Entertainment, Inc.; Birks & Mayors, Inc.
Partner of Michael A. Rubin P.A., attorney at law; Broker, Oaks Management & Real Estate Corp., a real estate corporation	1	Margo Caribe, Inc.
Chair and Associate Professor of Accounting, University of Miami School of Business Administration, 2004-present; Associate Professor of Accounting, University of Miami 1992-present; Assistant Professor of Accounting, University of Miami, 1986-1992.	1	None
Executive Vice President of Thomas J. Herzfeld & Co., Inc., a broker dealer, and Thomas J. Herzfeld Advisors, Inc.		N/A

Certified
Public
Accountants

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Denver
Grand Cayman
New York
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San Francisco
Walnut Creek

Rothstein Kass

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of 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. (the "Fund") as of June 30, 2008, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years then ended, and financials highlights for each of the three 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. The financial highlights for each of the years in the two-year period ended June 30, 2005 were audited by an independent registered public accounting firm whose report dated July 14, 2005 expressed an unqualified opinion on those financial highlights.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of June 30, 2008, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of The Herzfeld Caribbean Basin Fund, Inc. as of June 30, 2008, 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 three years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Rothstein, Kass & Company, LLP

San Francisco, California
August 14, 2008

An independent firm associated with AGN International Ltd

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.

Quarterly Portfolio Reports

The Fund files quarterly schedules of portfolio holdings with the 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/cuba.htm, 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 800-732-0330.

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.

Information on how the investment adviser voted proxies on the Fund's behalf for the twelve month period ended June 30 is provided in the Fund's Form N-PX which is is available on the SEC's EDGAR database at www.sec.gov. In addition, the Form N-PX 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 800-732-0330.

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