



**THE HERZFELD
CARIBBEAN BASIN
FUND, INC.**

*ANNUAL REPORT
JUNE 30, 2007*

The Herzfeld Caribbean Basin Fund, Inc.

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Investment Advisor

HERZFELD/CUBA
a division of Thomas J. Herzfeld Advisors, Inc.
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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. The fund invests at least 80% of its total assets in a broad range of securities of issuers including U.S.-based companies, which engage in substantial trade with and derive substantial revenue from operations in the Caribbean Basin Countries.

Listed NASDAQ Capital Market
Symbol: CUBA

Letter to Stockholders

Dear Fellow Shareholders:

I'm pleased to report that our Fund's investments have been doing very well. As of June 30, 2007 the end of our fiscal year, the Fund's net asset value was \$9.77 per share, which represents a gain of 31.08% for the one year period then ended (adjusted for distributions). The Fund's share price closed the fiscal year at \$13.59 per share, up from \$7.57 per share on June 30, 2006 and representing a 94.61% gain for the year (adjusted for distributions). A long-term capital gains distribution of \$1.00 per share was paid in January, 2007 to shareholders of record December 15, 2006.



Thomas J. Herzfeld
Chairman and President

The Fund traded at a premium to net asset value most of the fiscal year, reflecting strong interest by investors. At the same time, events in the Caribbean, and especially in Cuba, have sparked interest in future investment opportunities in the region.

It is now a little over a year since Fidel Castro went into the hospital and turned over power to his brother Raul. Speculation, both publicly and privately, about Fidel's health as well as the future of Cuba's foreign policy towards the U.S., continues to vary greatly. In my view, any consideration of a change in U.S. policy is likely to take place toward the end of this year, especially if Cuba were to make the first gesture, i.e., release the political prisoners and/or announce plans for free elections.

We continue to position the Fund's portfolio in companies we believe will benefit from resumption of trade with Cuba and we have a very good working list of companies we would add to the portfolio once it appears the embargo will be lifted. In this regard, we believe it would be in the shareholders' best interest to have a larger pool of capital available for investment whenever these opportunities present themselves, rather than be forced to liquidate existing holdings. For this and other reasons, the Board of Directors has approved a rights offering.

Letter to Stockholders (continued)

Rights Offering

Very shortly you will be receiving information from the Fund regarding a rights offering. A rights offering allows current shareholders to buy additional shares of the Fund at a discount to the average market price of the shares on the expiration date of the offer. The rights will be non-transferable, meaning they cannot be sold and can only be used by shareholders of record to subscribe for new shares. It is expected that one right will be required to subscribe for each new share, and any shares not subscribed for will be made available to other shareholders through an over-subscription privilege. If the subscription price is higher than the Fund's net asset value on the pricing date, the Fund will also have the option of issuing additional new shares to fulfill over-subscription requests.

Please watch for mailings from the Fund as your response will be required before the expiration of the rights offer in order to participate. The shares issued in connection with the rights offering will be sold by prospectus only. The prospectus contains important information about the Fund including information about its investment objectives, risks, and charges and expenses.

Please read the prospectus carefully before you make your decision. A registration statement relating to the rights offering has been filed with the Securities and Exchange Commission, but has not yet become effective. The statements herein regarding the rights offering shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities to be offered in any state in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of any such state. We are available at 305-271-1900 if you have questions about the offer or how to participate.

Appointment of New Independent Director

I am pleased to announce that Kay W. Tatum, Ph.D., CPA has joined the Fund's Board of Directors as an independent director. Dr. Tatum replaces Albert L. Weintraub who retired from the Board in July at the age of 77. We thank Mr. Weintraub for his dedication to the Fund over the eight years he served on the board.

We are honored to have Dr. Tatum as part of the Board. She is currently Chair and Associate Professor of Accounting at the University of Miami's School of Business Administration. In addition, Dr. Tatum has served on the Public Company Accounting Oversight Board's initial Standing Advisory Group, and was a member of the American Institute of Public Accountant's International Auditing Standards Subcommittee. Her articles on audit-related topics have appeared in the *Journal of Accountancy* and *The CPA Journal*. Dr. Tatum is also a contributing author to the book *Audit Committees: A Guide for Directors, Management and Consultants*.

Letter to Stockholders (continued)

Largest Allocations

The following tables present our largest investment and geographic allocations as of June 30, 2007:

Geographic Allocation	% of Net Assets	Largest Portfolio Positions	% of Net Assets
USA	53.67%	Florida East Coast Industries, Inc.	20.54%
Mexico	21.15%	Seaboard Corporation	10.24%
Cayman Islands	8.40%	Consolidated Water Co.	7.51%
Panama	4.29%	Garmin Ltd.	4.49%
Multi-national	3.80%	Watsco Incorporated	3.96%
Netherlands Antilles	2.91%	Royal Caribbean Cruises Ltd.	3.52%
Colombia	1.89%	Trailer Bridge, Inc.	3.16%
Puerto Rico	1.74%	Carnival Corp.	3.11%
Belize	1.32%	Orthofix International N.V.	2.91%
Costa Rica	0.43%	Mexico Fund	2.42%
Venezuela	0.09%		
Cuba	0.00%		

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

This letter is intended to assist stockholders in understanding how the Fund performed during the fiscal year ended June 30, 2007 and reflects the views of Mr. Herzfeld at the time of its writing. Of course these views may change and they do not guarantee the future performance of the Fund or the markets.

Schedule of Investments as of June 30, 2007

Shares or Principal Amount	Description	Market Value
Common stocks - 99.70% of net assets		
Banking and finance - 4.96%		
9,500	Bancolombia, S.A.	\$ 311,885
19,720	Banco Latinoamericano de Exportaciones, S.A.	370,736
30,000	Doral Financial Corp.	35,400
16,400	Grupo Financiero Banorte, S.A. de C.V. Series O	75,209
9,900	Grupo Financiero Inbursa, S.A. de C.V. Series O	23,948
Communications - 15.01%		
2,000	América Móvil ADR	123,860
35,600	América Móvil, S.A. de C.V. Series A	109,972
50,891	América Móvil, S.A. de C.V. Series L	157,350
11,950	Atlantic Tele-Network, Inc.	342,248
11,900	Carso Global Telecom, S.A. de C.V. Series A1*	61,322
141,000	Fuego Entertainment Inc.*	21,150
10,000	Garmin Ltd.	739,700
725	Grupo Iusacell, S.A. de C.V. Series V	10,684
18,800	Grupo Radio Centro, S.A. ADR	233,120
12,900	Grupo Televisa, S.A. GDR	356,169
13,400	Grupo Televisa, S.A. Series CPO	74,144
1,000	Telefonos de Mexico ADR Series L	37,890
23,800	Telefonos de Mexico, S.A. de C.V. Series A	45,441
78,600	Telefonos de Mexico, S.A. de C.V. Series L	149,120
13,900	TV Azteca, S.A. de C.V. Series CPO	12,303
Conglomerates - 2.731%		
250,000	Admiralty Holding Company*	8,750
5,400	Alfa, S.A. de C.V. Series A	42,642
42,595	BB Holdings Ltd.*	217,897
13,000	Carlisle Group Ltd.*	37,033
3,200	Corporación Interamericana de Entretenimiento, S.A. de C.V. Series B*	9,256
11,000	Grupo Carso, S.A. de C.V. Series A1	42,614
600	Grupo Imsa, S.A. de C.V., Series UBC	3,844
1,580	Grupo Kuo S.A.B. de C.V.	1,479
2,525	OneSource Services, Inc.*	30,392
3,300	U.S. Commercial Corp., S.A. de C.V.*	376
2,900	Vitro, S.A. Series A	7,741
6,000	Vitro Sociedad Anonima ADR	47,460

*Non-income producing

See accompanying notes.

Schedule of Investments as of June 30, 2007 (continued)

Shares or Principal Amount	Description	Market Value
Construction and related - 5.25%		
4,098	Cemex, S.A. de C.V. ADR	\$ 151,216
47,864	Cemex, S.A. de C.V. Series CPO	176,071
2,032	Ceramica Carabobo Class A ADR*	6,319
17,200	Consorcio ARA, S.A. de C.V.*	27,737
1,580	Dine S.A.B. de C.V.*	1,565
3,583	Empresas ICA, Sociedad Controladora, S.A. de C.V.*	18,198
800	Grupo Cementos de Chichuahua, S.A. de C.V.	5,858
4,000	Lennar Corp.	146,240
20,950	Mastec, Inc.*	331,429
Consumer products and related manufacturing - 5.49%		
800,000	Atlas Electricas, S.A.	70,187
5,900	Grupo Casa Saba, S.A. ADR	181,956
12,000	Watsco Incorporated	652,800
Food, beverages and tobacco - 2.24%		
1,200	Alsea, S.A. de C.V.	2,113
4,500	Coca Cola Femsa, S.A. de C.V. ADR	199,260
200	Coca Cola Femsa, S.A. de C.V. Series L	886
18,900	Fomento Económico Mexicano, S.A. de C.V. Series UBD	74,185
800	Gruma, S.A. de C.V. Series B	2,665
7,600	Grupo Bimbo, S.A. de C.V. Series A	47,898
7,700	Grupo Modelo, S.A. de C.V. Series C	41,999
Housing - 0.11%		
1,700	Corporación Geo S.A. de C.V. Series B*	9,350
100	Desarrolladora Homex, S.A. de C.V.*	1,007
400	Sare Holding, S.A. de C.V. Series B*	660
1,500	Urbi Desarrollos Urbanos, S.A. de C.V.	6,916
Investment companies - 5.81%		
9,500	The Mexico Fund, Inc.	398,905
16,728	Western Asset Emerging Markets Debt Fund	298,929
19,000	Western Asset Worldwide Income Fund	260,300
Leisure - 6.63%		
10,500	Carnival Corp.	512,085
13,500	Royal Caribbean Cruises Ltd.	580,230

*Non-income producing

See accompanying notes.

Schedule of Investments as of June 30, 2007 (continued)

Shares or Principal Amount	Description	Market Value
Medical - 3.03%		
8,386	Micromet Inc.	\$ 19,120
10,660	Orthofix International N.V.*	479,380
Mining - 0.05%		
1,200	Grupo México, S.A. de C.V. Series B	7,385
Pulp and paper - 0.16%		
6,100	Kimberly-Clark de México, S.A. de C.V. Series A	26,572
Railroad and landholdings - 20.54%		
40,800	Florida East Coast Industries, Inc.	3,385,584
Retail - 1.24%		
3,700	Controladora Comercial Mexicana, S.A. de C.V. Series UBC	9,533
1,380	Grupo Elektra, S.A. de C.V. Series CPO	24,033
45,111	Wal-Mart de México, S.A. de C.V. Series V	171,422
Service - 0.02%		
700	Grupo Aeroportuario del Sureste, S.A. de C.V. Series B	3,685
100	Promotora Ambiental, S.A. de C.V.*	278
Trucking and marine freight - 13.71%		
14,800	Grupo TMM, S.A. ADR*	50,172
720	Seaboard Corporation	1,688,400
42,699	Trailer Bridge, Inc.*	521,355
Utilities - 9.10%		
12,000	Caribbean Utilities Ltd. Class A	147,000
42,241	Consolidated Water, Inc.	1,238,084
700	Cuban Electric Company*	11,900
6,000	Teco Energy Inc.	103,080

*Non-income producing

See accompanying notes.

Schedule of Investments as of June 30, 2007 (continued)

Shares or Principal Amount	Description	Market Value
Other - 3.62%		
5,000	Copa Holdings S.A.	\$ 336,200
55,921	Margo Caribe, Inc.	251,645
100	Mexichem S.A. de C.V.	329
843	Siderurgica Venezolana Sivensa ADR	7,118
75	Siderurgica Venezolana Sivensa Series B	640
45,000	Xcelera, Inc.*	--
Total common stocks (cost \$8,810,888)		\$16,431,014
Bonds - 0% of net assets		
\$165,000	Republic of Cuba - 4.5%, 1977 - in default (cost \$63,038) (Note 2)*	--
Other assets less liabilities - 0.30% of net assets		\$ 50,203
Net assets - 100%		<u>\$16,481,217</u>
The above investments are concentrated in the following geographic regions (as percentages of net assets):		
United States of America		53.67%
Mexico		21.15%
Cayman Islands		8.40%
Other, individually under 5%		16.78%
		<u>100.00%</u>

*Non-income producing

See accompanying notes.

Statement of Assets and Liabilities as of June 30, 2007

ASSETS

Investments in securities, at market value (cost \$8,873,926) (Notes 1 and 2)	\$ 16,431,014
Cash	267,239
Receivable for securities sold	82,869
Dividends receivable	16,802
Other assets	<u>33,249</u>
TOTAL ASSETS	16,831,173

LIABILITIES

Payable for securities purchased	276,930
Accrued investment advisor fee (Note 3)	57,753
Other payables	<u>15,273</u>
TOTAL LIABILITIES	<u>349,956</u>

NET ASSETS (Equivalent to \$9.77 per share
based on 1,687,556 shares outstanding) \$ 16,481,217

Net assets consist of the following:

Common stock, \$.001 par value; 100,000,000 shares authorized; 1,687,556* shares issued and outstanding	\$ 1,688
Additional paid-in capital	7,263,609
Accumulated net realized gain on investments (Note 5)	1,658,832
Net unrealized gain on investments (Notes 4 and 5)	<u>7,557,088</u>
TOTAL	<u>\$ 16,481,217</u>

*9,920 shares issued through dividend reinvestment plan

See accompanying notes.

Statement of Operations

Year Ended June 30, 2007

INVESTMENT INCOME AND EXPENSES

Dividends		\$ 200,748
Interest		198
Other		<u>7,091</u>
Total investment income		208,037

Investment advisor fees (Note 3)	\$ 208,505	
Professional fees	108,232	
Custodian fees	54,000	
Insurance	27,548	
Transfer agent fees	17,500	
Printing, postage and proxy services	15,957	
Listing fees	15,000	
Salaries	12,918	
Director fees	7,800	
Other	<u>4,521</u>	
Total investment expenses		<u>471,981</u>

INVESTMENT LOSS - NET (263,944)

REALIZED AND UNREALIZED GAIN ON INVESTMENTS AND FOREIGN CURRENCY

Net realized gain on investments and foreign currency	1,894,365
Net increase (decrease) in unrealized appreciation (depreciation) on investments and foreign currency	<u>2,866,877</u>

NET GAIN ON INVESTMENTS 4,761,242

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS

\$ 4,497,298

See accompanying notes.

Statements of Changes in Net Assets Years Ended June 30, 2007 and 2006

	2007	2006
INCREASE IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment loss	(\$ 263,944)	(\$ 264,847)
Net realized gain on investments and foreign currency	1,894,365	2,021,250
Net increase (decrease) in unrealized appreciation (depreciation) on investments and foreign currency	<u>2,866,877</u>	<u>(201,615)</u>
NET INCREASE IN NET ASSETS resulting from operations	4,497,298	1,554,788
DISTRIBUTIONS TO SHAREHOLDERS:		
Long-term realized gains (Note 5)	(<u>1,677,636</u>)	(<u>293,251</u>)
CAPITAL STOCK TRANSACTIONS:		
Effect due to shares issued in reinvestment of distributions (9,920 shares) (Note 6)	<u>108,062</u>	<u>--</u>
TOTAL INCREASE IN NET ASSETS	2,927,724	1,261,537
NET ASSETS:		
Beginning of year	13,553,493	12,291,956
End of year	<u>\$ 16,481,217</u>	<u>\$13,553,493</u>

See accompanying notes.

Financial Highlights

Years Ended June 30, 2003 through 2007

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
PER SHARE OPERATING PERFORMANCE (For a share of capital stock outstanding for the year)					
Net asset value, beginning of year	<u>\$8.08</u>	<u>\$7.33</u>	<u>\$5.43</u>	<u>\$3.95</u>	<u>\$3.92</u>
Operations:					
Net investment loss ¹	(0.14)	(0.16)	(0.09)	(0.07)	(0.11)
Net realized and unrealized gain (loss) on investment transactions ¹	<u>2.83</u>	<u>1.08</u>	<u>1.99</u>	<u>1.55</u>	<u>0.22</u>
Total from operations	<u>2.69</u>	<u>0.92</u>	<u>1.90</u>	<u>1.48</u>	<u>0.11</u>
Distributions:					
From net investment income	--	--	--	--	--
From net realized gains	<u>(1.00)</u>	<u>(0.17)</u>	--	--	<u>(0.08)</u>
Total distributions	<u>(1.00)</u>	<u>(0.17)</u>	--	--	<u>(0.08)</u>
Net asset value, end of year	<u>9.77</u>	<u>\$8.08</u>	<u>\$7.33</u>	<u>\$5.43</u>	<u>\$3.95</u>
Per share market value, end of year	<u>13.59</u>	<u>\$7.57</u>	<u>\$6.30</u>	<u>\$4.87</u>	<u>\$3.49</u>
Total investment return (loss) based on market value per share	<u>94.61%</u>	<u>22.86%</u>	<u>29.36%</u>	<u>39.54%</u>	<u>2.70%</u>
RATIOS AND SUPPLEMENTAL DATA					
Net assets, end of year (in 000's)	<u>\$16,481</u>	<u>\$13,553</u>	<u>\$12,292</u>	<u>\$9,109</u>	<u>\$6,626</u>
Ratio of expenses to average net assets	<u>3.28%</u>	<u>3.37%</u>	<u>3.55%</u>	<u>3.67%</u>	<u>4.46%</u>
Ratio of net investment loss to average net assets	<u>(1.83%)</u>	<u>(1.95%)</u>	<u>(1.47%)</u>	<u>(1.39%)</u>	<u>(3.15%)</u>
Portfolio turnover rate	<u>28%</u>	<u>40%</u>	<u>30%</u>	<u>23%</u>	<u>3%</u>

¹Computed by dividing the respective year's amounts from the Statement of Operations by the average outstanding shares for each year presented.

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 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, 2007, the Fund had foreign investments in companies operating principally in Mexico and the Cayman Islands representing approximately 21% and 8% of the Fund’s net assets, respectively.

The Fund’s custodian and transfer agent is State Street Bank & Trust Company (“SSBT”), based in Boston, Massachusetts.

Security Valuation

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

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

Notes to Financial Statements

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 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, 2007, were approximately \$8,927. 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

Notes to Financial Statements

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.

NOTE 2. NON-MARKETABLE SECURITY OWNED

Investments in securities, at market value include 45,000 common shares of Xcelera, Inc. purchased for \$73,890 and \$165,000 principal, 4.5%, 1977 Republic of Cuba bonds purchased for \$63,038. Shares of Xcelera are no longer being traded in over-the-counter markets. 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, 2007, these positions were valued at \$0 by the Board of Directors, which approximates the positions' 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, 2007 amounted to \$208,505 of which \$57,753 is payable at year end.

During the year ended June 30, 2007, the Fund paid approximately \$12,000 of brokerage commissions to Thomas J. Herzfeld & Co., Inc., an affiliate of the Advisor, at an average cost per share of \$0.036.

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.

Notes to Financial Statements

NOTE 4. INVESTMENT TRANSACTIONS

During the year ended June 30, 2007, purchases and sales of investment securities were \$3,999,212 and \$5,476,205, respectively.

At June 30, 2007, the Fund's investment portfolio had gross unrealized gains of \$7,999,350 and gross unrealized losses of \$442,262, resulting in a net unrealized gain of \$7,557,088.

NOTE 5. INCOME TAX INFORMATION

On November 16, 2006, a long-term capital gain distribution of \$1,677,636 (\$1.00 per share) was declared. The distribution was paid on January 12, 2007 to shareholders of record on December 15, 2006.

For financial statement purposes, the Fund's net investment loss for the year ended June 30, 2007 differs from the net investment loss for tax purposes due to the tax characterization of certain dividends received by the Fund. Realized gains differ for financial statement and tax purposes primarily due to differing treatments of wash sales.

The cost basis of securities owned for financial statement purposes is lower than the cost basis for income tax purposes by \$11,339 due to wash sale adjustments.

As of June 30, 2007, undistributed realized gains were \$1,670,170, gross unrealized gains were \$7,988,011, and gross unrealized losses were \$442,262 for income tax purposes.

Permanent differences accounted for during the year ended June 30, 2007 result from differences between book and tax accounting. Such amounts have been reclassified as follows:

	Accumulated Net Investment Loss	Accumulated Net Realized Gain on Investments	Additional Paid in Capital
Year ended June 30, 2007	\$ 263,944	\$ (164,089)	\$ (99,855)

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. The Fund is currently evaluating the impact of applying the various provisions of FIN 48.

Notes to Financial Statements

NOTE 6. CAPITAL SHARE TRANSACTIONS

During the year ended June 30, 2007, the Board of Directors of the Fund adopted a Dividend Reinvestment Plan (the “Plan”). Under the Plan, dividends and distributions to shareholders who participate in the Plan are automatically reinvested in shares of common stock. The Plan provides for the payment of dividends to participants in the Plan with either (i) newly issued shares of common stock of the Fund in the event the market price of the common stock is trading on the open market at a premium to net asset value, or (ii) shares purchased on the open market in the event the market price of the shares are traded at a discount to net asset value.

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 EVENTS

Rights Offering

On July 24, 2007, the Fund announced plans for a non-transferable rights offering and filed a registration statement on Form N-2 with the SEC to register shares in connection with the rights offering. The rights will entitle the holder to subscribe for one additional share of the Fund’s common stock for each right at a subscription price equal to a discount to the market price. Record date stockholders who fully exercise their rights may participate in an over-subscription privilege subject to certain limitations and allotment. Final terms of the proposed offering, including the record date, subscription price and subscription period, will be announced at a later date. The rights offering will be made only by means of a prospectus. Subject to making the necessary filings with the SEC and such filings becoming effective, it is expected that the rights offering will be conducted in September or October of 2007.

Notes to Financial Statements

New Independent Director

On August 7, 2007 the Fund announced the appointment of Kay W. Tatum, Ph.D., CPA to the Board of Directors. Dr. Tatum replaces Albert L. Weintraub who retired from the Board in July, 2007. Dr. Tatum will also serve as Chair of the Audit Committee and as the audit committee financial expert.

On July 30, 2007, the Fund notified the staff of Nasdaq that due to Mr. Weintraub's retirement, the Fund no longer complied with the Nasdaq's audit committee composition requirements as set forth in Marketplace Rule 4350(d)(2) requiring an audit committee comprised of three independent directors. On July 31, 2007, the Nasdaq provided notice to the Fund acknowledging the Fund's notification of its non-compliance and apprising the Fund of the cure period provided by Marketplace Rules 4350(c)(1) and 4350(d)(4). Upon notification to Nasdaq of Dr. Tatum's appointment, the Nasdaq staff issued a letter on August 7, 2007 stating that the Fund now complies with the Marketplace Rule 4350 and that the matter is closed.

Directors and Officers of the Fund

Name Address and Age	Position(s) Held with Fund	Term of Office and Lenth of Time Served
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Interested Directors

Thomas J. Herzfeld* PO Box 161465 Miami, FL 33116 Age: 62	President, Chairman, Director	three years; 1993 to present
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Independent Directors

Ann S. Loeff c/o The Herzfeld Caribbean Basin Fund, Inc. PO Box 161465 Miami, FL 33116 Age: 55	Director	three years; 1998 to present
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Michael A. Rubin c/o The Herzfeld Caribbean Basin Fund, Inc. PO Box 161465 Miami, FL 33116 Age: 65	Director	three years; 2002 to present
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Kay W. Tatum, Ph.D., CPA c/o The Herzfeld Caribbean Basin Fund, Inc. PO Box 161465 Miami, FL 33116 Age: 55	Director	three years; 2007 to present
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Officers

Cecilia L. Gondor PO Box 161465 Miami, FL 33116 Age: 45	Secretary, Treasurer	1993 to present
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*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 brokerage 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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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, 2007, and the related statement of operations for the year then ended, and the statement of changes in net assets and financials highlights for each of the two 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 three-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, 2007, 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, 2007, 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 two 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 20, 2007

Affiliated Offices Worldwide



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, 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 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.

THE HERZFELD CARIBBEAN BASIN FUND, INC.

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