



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

*ANNUAL REPORT
JUNE 30, 2006*

The Herzfeld Caribbean Basin Fund, Inc.

The Herzfeld Building
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(305) 271-1900

Investment Advisor

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

Transfer Agent & Registrar

Investors Bank & Trust Company
200 Clarendon Street, 16th Floor
Boston, MA 02116
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Custodian

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

Counsel

Pepper Hamilton LLP
3000 Two Logan Square
18th and Arch Streets
Philadelphia, PA 19103

Independent Auditors

Rothstein Kass & Company, LLP
500 Ygnacio Valley Road, Suite 200
Walnut Creek, CA 94596

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

Listed NASDAQ Capital Market
Symbol: CUBA

Letter to Stockholders

July 24, 2006

Dear Fellow Stockholders:

We are pleased to present our annual report for the period ended June 30, 2006. On that date The Herzfeld Caribbean Basin Fund's net assets were \$13,553,493 and its net asset value per share was \$8.08, compared with \$12,291,956, or \$7.33 per share, at the beginning of the period. This represents a gain of 12.6% in net asset value and an increase of 22.9% in share price (adjusted for \$0.1748 per share distribution) from \$6.30 to \$7.57 per share.



*Thomas J. Herzfeld
Chairman and President*

2006, our 12th year of operations, proved to be yet another successful year. During the period both the net asset value and share price made record highs. For the benefit of putting things in long-term perspective, the Fund was launched in 1994 and underwritten by Thomas J. Herzfeld & Co., Inc, an affiliate of the Fund's advisor. The initial net asset value was \$5.00 per share and the IPO price was \$5.20, with net assets of \$8,364,180. Since then, the Fund has paid out \$1.686 per share, the equivalent of \$2.83 million and our net assets and share price on June 30, 2006 were \$13.55 million and \$7.57 per share. These figures represent a 95% gain in net asset value and 78% increase in share price from inception. Bear in mind, this was accomplished without the benefit of the U.S. embargo against Cuba being lifted, which we believe will be the key to significant growth in the region in which we invest.

At year-end we were 97% invested primarily in companies which we believe will do well, even if there is no political change in Cuba, but we also seek to invest in companies which we believe will benefit from resumption of U.S. trade with that country.

Our largest positions continue to be approximately the same as last year, with the exception of **the Latin American Equity Fund (LAQ)**, in which we took a rather

Letter to Stockholders (continued)

substantial profit. Part of our investment strategy is to seek short-term gains from trading opportunities. These profits help offset some of the expenses of the fund. For instance, during the fiscal year, our short-term trading generated approximately \$205,000, which offset about 45% of the total expenses of the Fund for the year.

As you are probably aware, due to the added requirements of the Sarbanes-Oxley Act, the expenses of public companies have increased. In my view these new regulations are unnecessary for the already highly regulated closed-end fund industry.

Largest Allocations

The following tables present our largest investments and geographic allocations as of June 30, 2006.

<i>Geographic Allocation</i>	<i>% of Net Assets</i>	<i>Largest Portfolio Positions</i>	<i>% of Net Assets</i>
USA	57.03%	Florida East Coast Industries, Inc.	18.73%
Mexico	13.44%	Consolidated Water Co.	8.57%
Cayman Islands	9.63%	Watsco Incorporated	6.62%
Panama	3.03%	Seaboard Corporation	6.61%
Netherlands Antilles	3.00%	Florida Rock Industries, Inc.	6.08%
Puerto Rico	2.57%	Royal Caribbean Cruises Ltd.	4.80%
Latin American Regional	2.02%	Carnival Corp.	4.31%
Colombia	1.51%	Garmin Ltd.	4.28%
Virgin Islands	1.42%	Orthofix International N.V.	3.00%
Belize	1.13%	Banco Latinoamericano de Exportaciones	2.53%
Costa Rica	0.27%		
Venezuela	0.05%		
Cuba	0.00%		

Premium/Discount

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

Letter to Stockholders (continued)

Further Information

Daily net asset values, quarterly, semi-annual and annual reports 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,

A handwritten signature in black ink, appearing to be 'TH' followed by a long horizontal stroke.

Thomas J. Herzfeld
Chairman of the Board and President

Schedule of Investments as of June 30, 2006

Shares or Principal Amount	Description	Market Value
Common stocks - 97.23% of net assets		
Banking and finance - 4.81%		
8,500	Bancolombia, S.A.	\$ 204,850
21,920	Banco Latinoamericano de Exportaciones, S.A.	342,610
8,000	Doral Financial Corp.	51,280
16,400	Grupo Financiero Banorte, S.A. de C.V. Series O	38,182
9,900	Grupo Financiero Inbursa, S.A. de C.V. Series O	14,898
Communications - 11.61%		
35,600	América Móvil, S.A. de C.V. Series A	62,713
2,000	América Móvil, S.A. de C.V. Series L	66,520
12,500	América Telecom, S.A. de C.V. Series A1*	73,806
9,250	Atlantic Tele-Network, Inc.	192,678
11,900	Carso Global Telecom, S.A. de C.V. Series A1*	24,755
5,500	Garmin Ltd.	579,920
725	Grupo Iusacell, S.A. de C.V. Series V*	3,209
16,800	Grupo Radio Centro, S.A. ADR	104,832
14,300	Grupo Televisa, S.A. GDR	276,133
13,400	Grupo Televisa, S.A. Series CPO	52,193
1,000	Telefonos de Mexico ADR Series L	20,830
23,800	Telefonos de Mexico, S.A. de C.V. Series A	24,439
78,600	Telefonos de Mexico, S.A. de C.V. Series L	82,660
13,900	TV Azteca, S.A. de C.V. Series CPO	9,413
Conglomerates - 2.12%		
5,400	Alfa, S.A. de C.V. Series A	27,243
42,595	BB Holdings Ltd.	153,570
13,000	Carlisle Group Ltd.	20,911
3,200	Corporación Interamericana de Entretenimiento, S.A. de C.V. Series B*	5,071
1,580	Desc, S.A. de C.V. Series B*	1,280
11,000	Grupo Carso, S.A. de C.V. Series A1	25,512
600	Grupo Imsa, S.A. de C.V., Series UBC	2,071
2,525	OneSource Services, Inc.	33,146
3,300	U.S. Commercial Corp., S.A. de C.V.*	701
2,900	Vitro, S.A. Series A	2,467
6,000	Vitro Sociedad Anonima ADR	15,325

*Non-income producing

See accompanying notes.

Schedule of Investments as of June 30, 2006 (continued)

Shares or Principal Amount	Description	Market Value
Construction and related - 10.20%		
23,359	Cemex, S.A. de C.V. Series CPO	\$ 133,684
2,000	Cemex, S.A. de C.V. ADR	113,940
2,032	Ceramica Carabobo Class A ADR*	3,157
4,300	Consortio ARA, S.A. de C.V.*	17,776
3,583	Empresas ICA, Sociedad Controladora, S.A. de C.V.*	10,150
16,600	Florida Rock Industries, Inc.	824,522
800	Grupo Cementos de Chichuahua, S.A. de C.V.	2,755
20,950	Mastec, Inc.*	276,750
Consumer products and related manufacturing - 7.76%		
800,000	Atlas Electricas, S.A.	36,067
5,900	Grupo Casa Saba, S.A. ADR	117,882
15,000	Watsco Incorporated	897,300
Food, beverages and tobacco - 1.85%		
300	Alsea, S.A. de C.V.	1,062
4,800	Coca Cola Femsa, S.A. de C.V. ADR	141,696
200	Coca Cola Femsa, S.A. de C.V. Series L	595
6,300	Fomento Económico Mexicano, S.A. de C.V. Series UBD	52,981
800	Gruma, S.A. de C.V. Series B	2,195
7,600	Grupo Bimbo, S.A. de C.V. Series A	22,868
7,700	Grupo Modelo, S.A. de C.V. Series C	29,549
Housing - 0.07%		
1,700	Corporación Geo S.A. de C.V. Series B	5,655
100	Desarrolladora Homex, S.A. de C.V.	550
400	Sare Holding, S.A. de C.V. Series B	363
1,500	Urbi Desarrollos Urbanos, S.A. de C.V.	3,492
Investment companies - 4.66%		
2,000	iShares S&P Latin America 40 Index	273,440
4,000	The Mexico Fund, Inc.	122,800
19,000	Salomon Brothers Worldwide Income Fund	235,790
Leisure - 9.11%		
14,000	Carnival Corp.	584,360
17,000	Royal Caribbean Cruises Ltd.	650,250

*Non-income producing

See accompanying notes.

Schedule of Investments as of June 30, 2006 (continued)

Shares or Principal Amount	Description	Market Value
Medical - 3.26%		
8,386	Micromet Inc.*	\$ 35,892
10,660	Orthofix International N.V.*	406,466
Mining - 0.03%		
1,200	Grupo México, S.A. de C.V. Series B*	3,442
Pulp and paper - 0.14%		
6,100	Kimberly-Clark de México, S.A. de C.V. Series A	19,396
Railroad and landholdings - 18.73%		
48,500	Florida East Coast Industries, Inc.	2,538,005
Retail - 1.07%		
3,700	Controladora Comercial Mexicana, S.A. de C.V. Series UBC	6,295
1,380	Grupo Elektra, S.A. de C.V. Series CPO	13,070
44,612	Wal-Mart de México, S.A. de C.V. Series V	125,189
Service - 0.02%		
700	Grupo Aeroportuario del Sureste, S.A. de C.V. Series B	2,373
100	Promotora Ambiental, S.A. de C.V.	96
Trucking and marine freight - 9.29%		
14,800	Grupo TMM, S.A. ADR*	60,236
700	Seaboard Corporation	896,000
41,799	Trailer Bridge, Inc.*	303,043
Utilities - 9.68%		
12,000	Caribbean Utilities Ltd. Class A	143,160
47,241	Consolidated Water, Inc.	1,161,656
700	Cuban Electric Company	7,700

*Non-income producing

See accompanying notes.

Schedule of Investments as of June 30, 2006 (continued)

Shares or Principal Amount	Description	Market Value
Other - 2.82%		
3,000	Copa Holdings S.A.	\$ 67,950
55,921	Margo Caribe, Inc.	297,500
100	Mexichem S.A. de C.V.	119
843	Siderurgica Venezolana Sivensa ADR	3,016
75	Siderurgica Venezolana Sivensa Series B	268
45,000	Xcelera, Inc.*	12,600
Total common stocks (cost \$8,425,070)		\$13,178,319
Bonds - 0% of net assets		
\$165,000	Republic of Cuba - 4.5%, 1977 - in default (cost \$63,038) (Note 2)*	--
Other assets less liabilities - 2.77% of net assets		\$ 375,174
Net assets - 100%		<u>\$13,553,493</u>
The above investments are concentrated in the following geographic regions (as percentages of net assets):		
United States of America		57.03%
Mexico		13.44%
Cayman Islands		9.63%
Other, individually under 5%		19.90%
		<u>100.00%</u>

*Non-income producing

See accompanying notes.

Statement of Assets and Liabilities as of June 30, 2006

ASSETS

Investments in securities, at market value (cost \$8,488,108) (Notes 2 and 5)	\$ 13,178,319
Cash	313,755
Receivable for securities sold	98,977
Dividends receivable	15,215
Other assets	<u>33,250</u>
TOTAL ASSETS	13,639,516

LIABILITIES

Accrued investment advisor fee (Note 3)	51,935
Other payables	<u>34,088</u>
TOTAL LIABILITIES	<u>86,023</u>

NET ASSETS (Equivalent to \$8.08 per share based on 1,677,636 shares outstanding)	<u>\$ 13,553,493</u>
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Net assets consist of the following:

Common stock, \$.001 par value; 100,000,000 shares authorized; 1,677,636 shares issued and outstanding	\$ 1,678
Additional paid-in capital	7,255,413
Accumulated net realized gain on investments (Note 5)	1,606,191
Net unrealized gain on investments (Notes 4 and 5)	<u>4,690,211</u>
TOTAL	<u>\$ 13,553,493</u>

See accompanying notes.

Statement of Operations

Year Ended June 30, 2006

INVESTMENT INCOME

Dividends		\$ 193,657
Interest		<u>183</u>
Total investment income		193,840

EXPENSES

Investment advisor fees (Note 3)	\$ 196,852	
Professional fees	95,440	
Custodian fees	54,000	
Insurance	27,624	
Transfer agent fees	17,500	
Printing, postage and proxy services	15,638	
Listing fees	15,000	
Salaries	12,918	
Director fees	7,000	
Other	<u>16,715</u>	
Total investment expenses		<u>458,687</u>

INVESTMENT LOSS - NET (264,847)

REALIZED AND UNREALIZED GAIN ON INVESTMENTS AND FOREIGN CURRENCY

Net realized gain on investments and foreign currency	2,021,250	
Net increase (decrease) in unrealized appreciation (depreciation) on investments and foreign currency	(<u>201,615</u>)	

NET GAIN ON INVESTMENTS 1,819,635

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS

\$ 1,554,788

See accompanying notes.

Statements of Changes in Net Assets
Years Ended June 30, 2006 and 2005

	2006	2005
INCREASE IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment loss	(\$ 264,847)	(\$ 155,794)
Net realized gain on investments and foreign currency	2,021,250	700,005
Net increase (decrease) in unrealized appreciation (depreciation) on investments and foreign currency	(201,615)	<u>2,638,583</u>
NET INCREASE IN NET ASSETS resulting from operations	1,554,788	3,182,794
DISTRIBUTIONS TO SHAREHOLDERS:		
Long-term realized gains	(293,251)	<u>--</u>
TOTAL INCREASE IN NET ASSETS	1,261,537	3,182,794
NET ASSETS:		
Beginning of year	<u>12,291,956</u>	<u>9,109,162</u>
End of year	<u>\$ 13,553,493</u>	<u>\$12,291,956</u>

See accompanying notes.

Financial Highlights

Years Ended June 30, 2002 through 2006

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
PER SHARE OPERATING PERFORMANCE					
(For a share of capital stock outstanding for the year)					
Net asset value, beginning of year	<u>\$7.33</u>	<u>\$5.43</u>	<u>\$3.95</u>	<u>\$3.92</u>	<u>\$5.15</u>
Operations:					
Net investment loss ¹	<u>(0.16)</u>	<u>(0.09)</u>	<u>(0.07)</u>	<u>(0.11)</u>	<u>(0.10)</u>
Net realized and unrealized gain (loss) on investment transactions ¹	<u>1.08</u>	<u>1.99</u>	<u>1.55</u>	<u>0.22</u>	<u>(0.98)</u>
Total from operations	<u>0.92</u>	<u>1.90</u>	<u>1.48</u>	<u>0.11</u>	<u>(1.08)</u>
Distributions:					
From net investment income	--	--	--	--	<u>(0.10)</u>
From net realized gains	<u>(0.17)</u>	--	--	<u>(0.08)</u>	<u>(0.05)</u>
Total distributions	<u>(0.17)</u>	--	--	<u>(0.08)</u>	<u>(0.15)</u>
Net asset value, end of year	<u>\$8.08</u>	<u>\$7.33</u>	<u>\$5.43</u>	<u>\$3.95</u>	<u>\$3.92</u>
Per share market value, end of year	<u>\$7.57</u>	<u>\$6.30</u>	<u>\$4.87</u>	<u>\$3.49</u>	<u>\$3.48</u>
Total investment return (loss) based on market value per share	<u>22.86%</u>	<u>29.36%</u>	<u>39.54%</u>	<u>2.70%</u>	<u>(13.45%)</u>
RATIOS AND SUPPLEMENTAL DATA					
Net assets, end of year (in 000's)	<u>\$13,553</u>	<u>\$12,292</u>	<u>\$9,109</u>	<u>\$6,626</u>	<u>\$6,568</u>
Ratio of expenses to average net assets	<u>3.37%</u>	<u>3.55%</u>	<u>3.67%</u>	<u>4.46%</u>	<u>3.77%</u>
Ratio of net investment loss to average net assets	<u>(1.95%)</u>	<u>(1.47%)</u>	<u>(1.39%)</u>	<u>(3.15%)</u>	<u>(2.45%)</u>
Portfolio turnover rate	<u>40%</u>	<u>30%</u>	<u>23%</u>	<u>3%</u>	<u>18%</u>

¹ Computed 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, 2006, the Fund had foreign investments in companies operating principally in Mexico and the Cayman Islands representing approximately 13% and 10% of the Fund's net assets, respectively.

The Fund's custodian and transfer agent is Investors Bank & Trust Company ("IBTC"), 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.

Notes to Financial Statements

Income Recognition

Security transactions are recorded on the trade date. Gains and losses on securities sold are determined on the basis of identified cost. Dividend income is recognized on the ex-dividend date, 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, IBTC receives a fee reduced by credits which are determined based on the average daily cash balance the Fund maintains with IBTC. Credit balances used to reduce the Fund's custodian fees for the year ended June 30, 2006, were approximately \$4,700. 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.

Notes to Financial Statements

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 \$165,000 principal, 4.5%, 1977 Republic of Cuba bonds purchased for \$63,038. The bonds are listed on the New York Stock Exchange and had been trading in default since 1960. A “regulatory halt” on trading was imposed by the New York Stock Exchange in July 1995. As of June 30, 2006, the position was valued at \$0 by the Board of Directors, which approximates the bonds’ fair value.

NOTE 3. TRANSACTIONS WITH AFFILIATES

HERZFELD / CUBA (the “Advisor”), a division of Thomas J. Herzfeld Advisors, Inc., is the Fund’s investment advisor and charges a monthly fee at the annual rate of 1.45% of the Fund’s average daily net assets. Total fees for the year ended June 30, 2006 amounted to \$196,852 of which \$51,935 is payable at year end.

During the year ended June 30, 2006, the Fund paid approximately \$15,800 of brokerage commissions to Thomas J. Herzfeld & Co., Inc., an affiliate of the Advisor, at an average cost per share of \$0.06.

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

NOTE 4. INVESTMENT TRANSACTIONS

During the year ended June 30, 2006, purchases and sales of investment securities were \$5,381,331 and \$4,542,209, respectively.

At June 30, 2006, the Fund’s investment portfolio had gross unrealized gains of \$5,258,688 and gross unrealized losses of \$568,477, resulting in a net unrealized gain of \$4,690,211.

Notes to Financial Statements

NOTE 5. INCOME TAX INFORMATION

On November 10, 2005, a long-term capital gain distribution of \$293,251 (\$0.1748 per share) was declared. The distribution was paid on January 13, 2006 to shareholders of record on December 30, 2005.

For financial statement purposes, the Fund's net investment loss for the year ended June 30, 2006 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 and the tax characterization of certain dividends received by the Fund.

The cost basis of securities owned for financial statement purposes is lower than the cost basis for income tax purposes by \$10,908 due to wash sale adjustments.

As of June 30, 2006, undistributed realized gains were \$1,617,099, gross unrealized gains were \$5,247,780, and gross unrealized losses were \$568,477 for income tax purposes.

Permanent differences accounted for during the year ended June 30, 2006 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, 2006	\$ 264,847	\$ (216,144)	\$ (48,703)
Prior period	1,400,781	(342,395)	(1,058,386)

Directors and Officers of the Fund

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

Thomas J. Herzfeld PO Box 161465 Miami, FL 33116 Age: 61	President, Chairman, Director	three years; 1993 to present
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Cecilia L. Gondor PO Box 161465 Miami, FL 33116 Age: 44	Secretary, Treasurer	1993 to present
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Independent Directors

Ann S. Lieff c/o The Herzfeld Caribbean Basin Fund, Inc. PO Box 161465 Miami, FL 33116 Age: 54	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: 64	Director	three years; 2002 to present
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Albert L. Weintraub c/o The Herzfeld Caribbean Basin Fund, Inc. PO Box 161465 Miami, FL 33116 Age: 76	Director	three years; 1999 to present
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Principal Occupation(s) During Past 5 Years	Number of Portfolios In Complex Overseen By Director	Public Directorships
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)
Executive Vice President of Thomas J. Herzfeld & Co., Inc., a broker dealer, and Thomas J. Herzfeld Advisors, Inc.		N/A
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.; Claire's Stores, 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.
Senior Partner of Weintraub, Weintraub; of counsel Orshan et al, attornies; Chairman of E-Lysium Transaction Systems, Inc., an application service provider of transaction processing, billing and payment systems	1	None

Certified
Public
Accountants

Rothstein, Kass & Company, LLP
500 Ygnacio Valley Road, Suite 200
Walnut Creek, CA 94596
tel 925.946.1300
fax 925.947.1700
www.rkco.com

Beverly Hills
Dallas
Denver
Grand Cayman
New York
Roseland
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, 2006, and the related statements of operations and changes in net assets and the financial highlights for the year 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 audit. The statements of changes in net assets and the financial highlights for the year ended June 30, 2005 and the financial highlights for each of the years in the four-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 statements and the financial highlights.

We conducted our audit 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. An audit includes 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, 2006, 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2006 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, 2006, and the results of its operations, changes in net assets and financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Rothstein, Kass & Company, LLP

Walnut Creek, California
July 14, 2006

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.

Change in Certifying Accountant

On February 14, 2006, the Audit Committee approved Rothstein, Kass & Company LLP to serve as the Fund's independent registered public accounting firm for the fiscal year ending June 30, 2006, replacing Kaufman, Rossin & Co. P.A., the Fund's prior independent registered public accounting firm, which resigned on February 7, 2006.

THE HERZFELD CARIBBEAN BASIN FUND, INC.

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