

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

***SEMI-ANNUAL REPORT  
DECEMBER 31, 2002***

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**The Herzfeld Caribbean Basin Fund, Inc.**

The Herzfeld Building  
PO Box 161465  
Miami, FL 33116  
(305) 271-1900

**Investment Advisor**

HERZFELD/CUBA  
a division of Thomas J. Herzfeld Advisors, Inc.  
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(305) 271-1900

**Transfer Agent & Registrar**

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**Counsel**

Pepper Hamilton LLP  
3000 Two Logan Square  
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Philadelphia, PA 19103

**Independent Auditors**

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

*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 consists of Cuba, Jamaica, Trinidad and Tobago, the Bahamas, the Dominican Republic, Barbados, Aruba, Haiti, the Netherlands Antilles, the Commonwealth of Puerto Rico, Mexico, Honduras, Guatemala, Belize, Costa Rica, Panama, Colombia and Venezuela. The fund invests at least 80% of its total assets in a broad range of securities of issuers including U.S.-based companies, which engage in substantial trade with and derive substantial revenue from operations in the Caribbean Basin Countries.*

Listed NASDAQ SmallCap Market  
Symbol: CUBA

# *Letter to Stockholders*

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February 7, 2003

Dear Fellow Stockholders:

We are pleased to present our semi-annual report for the six months ended December 31, 2002.

The Fund paid a long-term capital gains distribution of 7.746¢ per share on January 15, 2003, to stockholders of record on December 31, 2002; the distribution is taxable to you for calendar year 2002. Adjusting for this payment, the Fund's per share price increased 0.89% for the twelve months and declined 2.30% for the six months ended December 31, 2002. The Fund's net asset value fell 14.1% for the twelve month period, and 10.8% for six months, also adjusted for the distribution.



*Thomas J. Herzfeld*  
*Chairman and President*

Performance was boosted by our second largest position, **PanAmerican Beverage Inc.** (PB), which is being acquired by **Coca Cola Femsa** (KOF), our 9th largest position. Shares of PB doubled from about \$10 per share to \$20 since the announcement in late December. In typical fashion, the shares of its acquirer, KOF, lost about 15% of their value over the same time period.

## **Embargo with Cuba**

It is hard to believe that the U.S. embargo against Cuba is now in its 43rd year. The only significant change in U.S. policy in regard to Cuba has been the Trade Sanctions Reform and Export Enhancement Act of 2000. Under this new law, food and agricultural products can be traded with Cuba as long as they are paid for in cash. We expect to see further easing as time goes by, and that belief is apparently held by others. According to the Miami Herald, "Representatives from more than 100 companies, trade associations and government organizations are preparing to attend the second annual U.S.-Cuba Business Conference in Cancun and Havana, Feb. 17-19, to discuss business options." We will be watching to see if the conference yields any new investment options for us. Because of current U.S. laws, however, we are very limited in what we can invest directly in Cuba; that is why our portfolio historically has been invested primarily in companies domiciled elsewhere but could benefit from the lifting of the embargo. For example, we hold significant positions in **Carnival Corp.** (CCL) and **Royal Caribbean Cruises Ltd.** (RCL). *CubaNews*, a monthly publication which tracks economic and political news surrounding Cuba, recently stated, "Once restrictions disappear, an estimated 3.5 million U.S. cruise visitors could be arriving annually on modern vessels operated by Carnival, Royal Caribbean Cruise Lines and P&O Princess, which together control 85% of all cruise traffic to the Caribbean."

## Letter to Stockholders (continued)

Pressure appears to be building for a lifting of the travel ban in 2003, says Larry Luxner, editor and publisher of *CubaNews*. “Next month [March], as many as 10 to 12 U.S. representatives will travel to Cuba as part of the House Cuba Working Group. That’ll be the largest Congressional delegation to visit the island since Fidel Castro came to power in 1959,” says Luxner. “While the embargo itself is extremely unlikely to be scrapped as long as President Bush is in power, increasing numbers of ordinary Americans are circumventing the laws and visiting Cuba anyway, and I believe it’s only a matter of a year or two before they’ll be able to visit legally.”

In addition, says Luxner, “U.S. companies may already export farm commodities to Cuba on a cash-only basis--and that includes not only food staples like wheat, corn and apples, but also consumer luxuries like Chardonnay wine and even non-food items such as fertilizer, lumber and Kentucky burley tobacco. In 2002, total U.S. farm sales to Cuba came to \$155 million, with \$230 million in agricultural commodities expected to be sold to Cuba this year. That’ll put Cuba among the top 50 importers of U.S. food--meaning that the embargo is already starting to unravel.”

### Largest Allocations

The following tables present our largest investment and geographic allocations as of December 31, 2002.

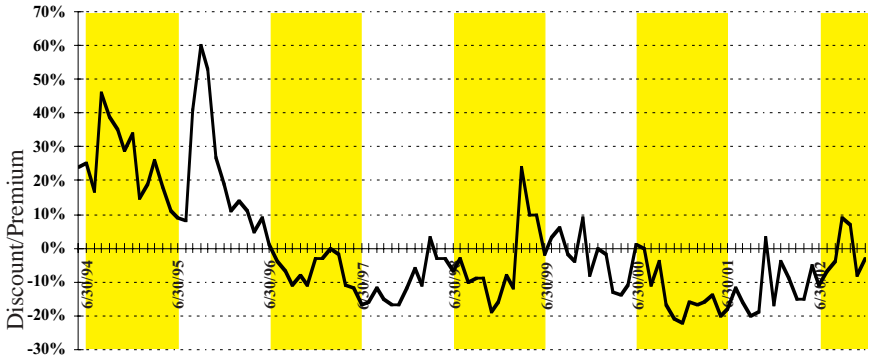
<i>Geographic Allocation</i>	<i>% of Net Assets</i>	<i>Largest Portfolio Positions</i>	<i>% of Net Assets</i>
USA	49.66%	Florida East Coast Industries Inc.	23.11%
Mexico	15.16%	PanAmerican Beverage Inc. Cl. A	8.61%
Cayman Islands	10.87%	Consolidated Water Co.	8.37%
Panama	9.56%	Florida Rock Industries	6.96%
Netherlands Antilles	3.92%	Watsco Incorporated	4.81%
Latin American Regional	3.29%	Carnival Corp.	4.39%
Puerto Rico	2.11%	Royal Caribbean Cruises Ltd.	4.07%
Belize	2.00%	Orthofix International N.V.	3.92%
Virgin Islands	1.19%	Coca Cola Femsa	3.55%
Dominican Republic	1.11%	Seaboard Corporation	3.34%
Costa Rica	0.81%		
Colombia	0.33%		
Venezuela	0.12%		
Cuba	0.00%		

# Letter to Stockholders (continued)

## Premium/Discount

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

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



Daily net asset values and press releases on the Fund are available on the Internet at [www.herzfeld.com](http://www.herzfeld.com).

I would like to thank the members of the Board of Directors for their hard work and guidance and also to thank my fellow stockholders for their continued support and suggestions.

Sincerely,

Thomas J. Herzfeld  
Chairman of the Board and President

## *Schedule of Investments as of December 31, 2002*

<u>Shares or Principal Amount</u>	<u>Description</u>	<u>Value</u>
Common stocks - 100.12% of net assets		
Banking and finance - 1.92%		
8,000	Bancolombia S.A.	\$ 18,720
12,000	Banco Latinoamericano de Exportaciones, S.A.	54,600
28,300	Grupo Financiero BBVA Bancomer, S.A. de C.V. Series O*	21,392
3,600	Grupo Financiero Banorte, S.A. de C.V. Series O*	8,773
8,400	Grupo Financiero Inbursa, S.A. de C.V. Series O*	6,984
Communications - 7.63%		
11,000	América Móvil, S.A. de C.V. Series A	7,832
43,800	América Móvil, S.A. de C.V. Series L	31,308
11,100	América Telecom, S.A. de C.V. Series A1*	6,471
72,000	AT&T Latin America Corp.*	15,120
4,400	Atlantic Tele-Network	68,200
11,100	Carso Global Telecom, S.A. de C.V., Series A1*	12,306
14,500	Grupo Iusacell, S.A. de C.V. Series V*	858
19,000	Grupo Radio Centro S.A. ADR	37,050
3,400	Grupo Televisa S.A. GDR*	94,962
12,100	Grupo Televisa, S.A., Series CPO*	16,767
11,000	Telefonos de Mexico, S.A. de C.V. Series A	17,503
39,300	Telefonos de Mexico, S.A. de C.V. Series L	62,534
21,000	Tricom S.A. ADR*	63,420
13,900	TV Azteca S.A. de C.V. Series CPO*	4,052
Conglomerates - 3.00%		
4,900	Alfa S.A. de C.V.	7,834
42,024	Carlisle Holdings Inc.*	115,146
3,100	Corporación Interamericana de Entretenimiento, S.A. de C.V. Series B*	5,096
4,200	Desc, S.A. de C.V. Series B	1,646
3,300	Grupo Carso, S.A. de C.V. Series A1*	8,073
3,300	U.S. Commercial Corp. S.A. de C.V.*	1,356
2,600	Vitro, S.A. Series A	1,988
13,000	Vitro Sociedad Anonima ADR	31,070

\*Non-income producing

*See accompanying notes.*

## *Schedule of Investments as of December 31, 2002 (continued)*

<u>Shares or Principal Amount</u>	<u>Description</u>	<u>Value</u>
Construction and related - 8.88%		
10,000	Cemex, S.A. de C.V. Series CPO	\$ 42,938
1,936	Ceramica Carabobo Cl. A ADR*	1,452
4,000	Consortio ARA, S.A. de C.V. Series A1*	5,925
5,200	Empresas ICA, Sociedad Controladora, S.A. de C.V.*	875
10,500	Florida Rock Industries, Inc.	399,525
19,950	Mastec, Inc.*	58,853
Consumer products and related manufacturing - 10.35%		
800,000	Atlas Electricas S.A.	46,488
1,918	Buenos Aires Embotelladora S.A.*	10
11,400	Coca Cola Femsa S.A. de C.V. ADR	204,060
6,400	Grupo Casa Saba S.A. ADR*	67,648
16,850	Watsco Incorporated	276,003
Food, beverages and tobacco - 9.48%		
5,800	Fomento Económico Mexicano, S.A. de C.V. Series UBD	21,024
7,300	Grupo Bimbo, S.A. de C.V. Series A	10,737
7,300	Grupo Modelo, S.A. de C.V. Series C	17,783
23,800	PanAmerican Beverage Inc. Class A	494,564
Investment companies - 3.02%		
11,745	The Latin America Equity Fund, Inc.	113,574
7,900	The Latin American Discovery Fund, Inc.	60,040
Leisure - 8.46%		
10,100	Carnival Corp.	251,995
14,000	Royal Caribbean Cruises Ltd.	233,800
Medical - 3.92%		
8,000	Orthofix International N.V.*	225,192
Pulp and paper - 0.23%		
5,700	Kimberly-Clark de México, S.A. de C.V. Series A	13,074
Railroad and landholdings - 23.11%		
57,200	Florida East Coast Industries, Inc.	1,327,040

\*Non-income producing

*See accompanying notes.*

## *Schedule of Investments as of December 31, 2002 (continued)*

<u>Shares or Principal Amount</u>	<u>Description</u>	<u>Value</u>
Retail - 0.85%		
3,700	Controladora Comercial Mexicana, S.A. de C.V. Series UBC	\$ 1,910
1,380	Grupo Elektra, S.A. de C.V. Series CPO	3,389
7,900	Walmart de México, S.A. de C.V. Series C	15,228
12,500	Walmart de México, S.A. de C.V. Series V	28,431
Trucking and marine freight - 5.98%		
800	Seaboard Corporation	192,000
46,600	Trailer Bridge, Inc.*	99,724
10,000	Grupo TMM S.A. ADR*	51,500
Utilities - 10.87%		
12,000	Caribbean Utilities Ltd., Class A	143,640
32,600	Consolidated Water, Inc.	480,524
Other - 2.42%		
2,414	Mantex S.A.I.C.A.*	5,013
32,120	Margo Caribe Inc.	121,092
833	Siderurgica Venezolana Sivensa ADR*	183
20,000	Xcelera, Inc.*	<u>12,600</u>
<b>Total common stocks (cost \$6,980,120)</b>		<b>\$ 5,748,895</b>
Bonds - 0% of net assets		
165,000	Republic of Cuba - 4.5%, 1977 - in default (cost \$63,038) (note 2)*	--
<b>Other assets less liabilities - (0.12%) of net assets</b>		<b><u>(\$ 7,065)</u></b>
<b>Net assets - 100% (a)</b>		<b><u>\$ 5,741,830</u></b>

*(a) The cost for federal income tax purposes was \$7,043,158. At December 31, 2002, net unrealized loss for all securities based on tax cost was \$1,294,263. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost of \$976,310 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$2,270,573.*

\*Non-income producing

*See accompanying notes.*

## *Statement of Assets and Liabilities as of December 31, 2002*

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### **ASSETS**

Investment in securities, at value (cost \$7,043,158) (Note 2)	\$ 5,748,895
Cash	157,683
Dividends and interest receivable	9,587
Other assets	33,249
	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 5,949,414</b>

### **LIABILITIES**

Dividends payable	\$ 129,950
Accrued investment advisor fee (Note 3)	34,643
Other payables	42,991
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<b>TOTAL LIABILITIES</b>	<b>207,584</b>

<b>NET ASSETS</b> (Equivalent to \$3.42 per share based on 1,677,636 shares outstanding)	<b>\$ 5,741,830</b>
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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	8,362,502
Undistributed net investment loss	(1,054,335)
Undistributed net realized loss on investments	(273,752)
Net unrealized loss on investments	(1,294,263)
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<b>TOTAL</b>	<b>\$ 5,741,830</b>
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*See accompanying notes.*

# ***Statement of Operations***

## ***Six Months Ended December 31, 2002***

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### **INVESTMENT INCOME**

Dividends		\$ 36,984
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### **EXPENSES**

Investment advisor fee (Note 3)	\$ 46,055	
Custodian fees	27,519	
Professional fees	18,345	
Insurance	12,812	
Transfer agent	8,919	
Printing	6,485	
Listing fees	4,077	
Director fees	3,975	
Postage	3,058	
Proxy services	1,363	
Miscellaneous	14,816	
Total expenses	<u>147,424</u>	

<b>INVESTMENT LOSS - NET</b>	<b>(110,440)</b>
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### **REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS**

Net realized loss on investments	(616,149)	
Change in unrealized gain on investments	<u>30,293</u>	

<b>NET LOSS ON INVESTMENTS</b>	<b><u>(585,856)</u></b>
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### **NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS**

	<b><u>(\$ 696,296)</u></b>
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*See accompanying notes.*

## *Statement of Changes in Net Assets*

	Six Months Ended 12/31/02 (unaudited)	Year Ended 6/30/02
<b>INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS:</b>		
Investment loss - net	(\$ 110,440)	(\$ 176,134)
Net realized gain (loss) on investments	( 616,149)	129,946
Change in unrealized loss on investments	<u>30,293</u>	<u>( 1,768,169)</u>
Net increase (decrease) in net assets from operations	( 696,296)	( 1,814,357)
<b>DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>		
Investment income and short-term realized gains	--	( 170,448)
Realized gains - long-term	( 129,950)	( 89,753)
Total distributions	( 129,950)	( 260,201)
<b>TOTAL DECREASE IN NET ASSETS</b>	(\$ 826,246)	(\$2,074,558)
<b>NET ASSETS:</b>		
Beginning of year	<u>\$ 6,568,076</u>	<u>\$ 8,642,634</u>
End of year	<u>\$ 5,741,830</u>	<u>\$ 6,568,076</u>

*See accompanying notes.*

## *Results of November 13, 2002 Stockholder Meeting*

The annual meeting of stockholders of the Fund was held on November 13, 2002. At the meeting two nominees for Director were elected as follows:

	<b>Votes for</b>	<b>Votes withheld</b>
Thomas J. Herzfeld	1,386,245	31,123
Michael A. Rubin	1,340,444	76,924

The terms of office as directors of Cecilia Gondor, Ann S. Lieff and Albert L. Weintraub continued after the meeting.

# Financial Highlights

	Six Months Ended	Year Ended June 30			
	12/31/02 (unaudited)	2002	2001	2000	1999
<b>PER SHARE OPERATING PERFORMANCE</b>					
Net asset value, beginning of period	\$3.92	\$5.15	\$5.02	\$6.12	\$6.43
Operations:					
Net investment loss	(0.07)	(0.10)	(0.07)	(0.10)	(0.11)
Net realized and unrealized gain (loss) on investments	(0.35)	(0.98)	0.20	(1.00)	0.51
Total from (to) operations	(0.42)	(1.08)	0.13	(1.10)	0.40
Distributions:					
From investment income net	--	(0.10)	--	--	--
From net realized gains	(0.08)	(0.05)	--	--	(0.71)
Total distributions	(0.08)	(0.15)	--	--	(0.71)
Net asset value, end of period	\$3.42	\$3.92	\$5.15	\$5.02	\$6.12
Per share market value, end of period	\$3.32	\$3.48	\$4.20	\$5.06	\$6.00
Total investment return (loss) based on market value per share	(4.61%) <sup>1</sup>	(13.45%)	(17.04%)	(15.63%)	11.83%
<b>RATIOS AND SUPPLEMENTAL DATA</b>					
Net assets, end of period (in 000's)	\$5,742	\$6,568	\$8,643	\$8,424	\$10,272
Ratio of expenses to average net assets	5.06% <sup>1</sup>	3.77%	3.11%	3.11%	3.30%
Ratio of investment loss - net to average net assets	(3.79%) <sup>1</sup>	(2.45%)	(1.33%) <sup>1</sup>	(1.76%)	(1.95%)
Portfolio turnover rate	0%	18%	27%	10%	59%

<sup>1</sup>This ratio has been annualized, however, the percentage shown is not necessarily indicative of results for a full year.

See accompanying notes.

# *Notes to Financial Statements*

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## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Organization and Related Matters**

The Herzfeld Caribbean Basin Fund, Inc. (the Fund) is a non-diversified, closed-end management investment company incorporated under the laws of the State of Maryland on March 10, 1992, and registered under the Investment Company Act of 1940. The Fund commenced investing activities in January, 1994. The Fund is listed on the NASDAQ SmallCap Market and trades under the symbol "CUBA".

The Fund's investment 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 December 31, 2002, the Fund had investments in companies operating principally in Mexico, The Cayman Islands and Panama, representing approximately 15%, 11% and 10% of the Fund's net assets, respectively.

The Fund's custodian and transfer agent is Investors Bank & Trust Company, based in Boston, Massachusetts.

### **Security Valuation**

Investments in securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation; 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. Short-term notes are stated at amortized cost, which is equivalent to value. Restricted securities and other securities for which quotations are not readily available are valued at fair value as determined by the Board of Directors.

### **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-

## ***Notes to Financial Statements***

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dividend date, and interest income is recognized on an accrual basis. Discounts and premiums on securities purchased are amortized over the life of the respective securities.

### **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 qualifies as a “regulated investment company” and as such (and by complying with the applicable provisions of the Internal Revenue Code of 1986, as amended) is not subject to federal income tax on taxable income (including realized capital gains) that is distributed to shareholders.

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.

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

Investment in securities includes \$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 December 31, 2002, the position was valued at \$0 by the Board of Directors, which approximates the bonds’ fair value.

## *Notes to Financial Statements*

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### **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.

During the six months ended December 31, 2002, the Fund paid \$180 of brokerage commissions to Thomas J. Herzfeld & Co., Inc., an affiliate of the Advisor.

### **NOTE 4. INVESTMENT TRANSACTIONS**

During the six months ended December 31, 2002, purchases and sales of investment securities were \$0 and \$236,219, respectively.

At December 31, 2002, the Fund's investment portfolio had gross unrealized gains of \$976,310 and gross unrealized losses of \$2,270,573, resulting in a net unrealized loss of \$1,294,263.

## *Privacy Policy*

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### **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.

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