



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

*SEMI-ANNUAL REPORT
December 31, 2006*

The Herzfeld Caribbean Basin Fund, Inc.

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Investment Advisor

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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

January 23, 2007

Dear Fellow Shareholders:

We are pleased to present our semi-annual report for the period ended December 31, 2006. On that date, the net asset value of The Herzfeld Caribbean Basin Fund stood at \$8.05 per share, a gain of 12% for the six month period, adjusted for the \$1.00 per share capital gain distribution. Within the same time frame, the share price climbed 128.84% and on the last calendar day of 2006 stood at approximately a 98% premium to net asset value.



*Thomas J. Herzfeld
Chairman and President*

As of last night's closing price of \$17.40, as reported by Lipper, a Reuters Company, on the Closed-End Fund Association website, our Fund's share price gained 150.78% (adjusted for the distribution) which, according to their rankings, placed us number one in market return of all closed-end funds for the one year period then ended. Additionally, as I write this letter, the net asset value of our Fund is making a record high (adjusted for distributions) at \$8.24 per share.

Interest in the Fund remains high, and this is reflected in the Fund's ongoing premium to net asset value, which peaked at 121% in mid-January and currently stands at about 113%. This premium has placed the Fund in first position of the 600 or so closed-end funds covered by Lipper's Premium/Discount calculations as reported on the Closed-End Fund Association's website (www.cefa.com).

Portfolio Commentary

Our portfolio strategy remains unchanged. We seek to invest in companies that we believe will do well even if the trade embargo with Cuba is not lifted; but at the same time, we place emphasis on companies which will benefit from resumption of trade with that country. Once U.S. law permits, we will consider direct investment opportunities in Cuba--not only in the country's traditional industries, such

Letter to Stockholders (continued)

as sugar, rum, tobacco, mining, tourism and fisheries, but also in new areas, such as ethanol, for instance. Projects related to rebuilding the infrastructure of the country and new housing also seem particularly interesting. We continue to have wide-ranging discussions with Cuban-American businessmen in South Florida relating to all types of investment opportunities.

In August of last year, Fidel Castro was hospitalized and turned over control of his government to his brother Raul. At the time of writing this letter, Fidel Castro is reported to be in serious condition; there have even been several rumors of his death. When we formed the Fund, 14 years ago, we knew then, and continue to believe now that it is impossible to predict when the United States will lift the trade embargo with Cuba. I believe, however, that the death of Fidel Castro could be a significant development toward an eventual change in U.S. policy. It is noteworthy that in recent months Raul Castro has taken a more conciliatory posture towards the U.S. The key, in my view, is to see how far the Cuban government will go towards releasing Cuba's political prisoners, holding free elections, compensating U.S. citizens for confiscated property, and returning the country to capitalism.

In the meantime, as we await political change, the Fund's holdings have shown strong gains. During the past few months we have seen 13 new 12-month highs in the share prices of the companies in our portfolio. These include five of our ten largest holdings: **Florida East Coast Industries, Inc. (FLA)**, **Seaboard Corporation (SEB)**, **Garmin Ltd. (GRMN)**, **Orthofix International N.V. (OFIX)**, and **Grupo Televisa (TV)**. The eight other holdings posting new highs recently included: **The Mexico Fund (MXF)**, **Vitro Sociedad Anonima ADR (VTO)**, **Coca Cola Femsa S.A. de C.V. ADR (KOF)**, **Telefonos de Mexico S.A. de C.V. (TMX)**, **Grupo Radio Centro S.A. ADR (RC)**, **Grupo Casa Saba, S.A. ADR (SAB)**, **Atlantic Tele-Network (ATNI)**, and **Copa Holdings S.A. (CPA)**.

We have recently made a few notable changes to the Fund's portfolio. For instance, after the semi-annual period, our position in **The Mexico Fund (MXF)** was sold in January for approximately a 41% profit. Also, at the end of last year we added some speculative positions to the portfolio. One of these companies, **Fuego Entertainment (FUGO)**, is headed by Hugo Cancio, a prominent, highly regarded Cuban-American. In October, Fuego announced it has entered into an agreement to license a feature film depicting the story of Los Zafiros, a popular Cuban vocal quartet in the 1960's. Fuego is primarily engaged in the media and entertainment business.

Letter to Stockholders (continued)

Other Developments

Late last year we launched a dividend reinvestment plan which gives our shareholders the opportunity to reinvest their distributions in additional shares at a favorable price. For the 2006 distribution, shareholders received new shares at \$11.90 per share, a 5% discount to the market price. Those who took the stock option rather than cash are currently ahead approximately \$5.50 per share, as of last night's close.

Largest Allocations

The following tables present our largest investment and geographic allocations as of December 31, 2006.

<i>Geographic Allocation</i>	<i>% of Net Assets</i>	<i>Largest Portfolio Positions</i>	<i>% of Net Assets</i>
USA	61.45%	Florida East Coast Industries, Inc.	21.42%
Mexico	18.63%	Seaboard Corporation	9.15%
Cayman Islands	9.90%	Consolidated Water Co.	8.73%
Panama	4.13%	Watsco Incorporated	5.59%
Netherlands Antilles	3.95%	Florida Rock Industries, Inc.	5.29%
Puerto Rico	2.71%	Garmin Ltd.	4.95%
Virgin Islands	2.01%	Royal Caribbean Cruises Ltd.	4.60%
Colombia	1.96%	Carnival Corp.	4.36%
Belize	0.88%	Orthofix International N.V.	3.95%
Costa Rica	0.55%	Grupo Televisa GDR	2.86%
Venezuela	0.06%		
Cuba	0.00%		
Other	4.12%		

Daily net asset values and press releases on the Fund are available on the Internet at www.herzfeld.com.

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

Sincerely,



Thomas J. Herzfeld
Chairman of the Board and President

Schedule of Investments as of December 31, 2006

Shares or Principal Amount	Description	Market Value
Common stocks - 110.35% of net assets		
Banking and finance - 5.97%		
8,500	Bancolombia, S.A.	\$ 264,775
21,920	Banco Latinoamericano de Exportaciones, S.A.	371,763
30,000	Doral Financial Corp.	86,100
16,400	Grupo Financiero Banorte, S.A. de C.V. Series O	63,996
9,900	Grupo Financiero Inbursa, S.A. de C.V. Series O	19,426
Communications - 15.65%		
35,600	América Móvil, S.A. de C.V. Series A	80,015
2,000	América Móvil, S.A. de C.V. Series L	90,440
12,500	América Telecom, S.A. de C.V. Series A1*	113,745
9,250	Atlantic Tele-Network, Inc.	271,025
11,900	Carso Global Telecom, S.A. de C.V. Series A1	42,545
93,800	Fuego Entertainment	18,760
12,000	Garmin Ltd.	667,920
725	Grupo Iusacell, S.A. de C.V. Series V*	5,526
16,800	Grupo Radio Centro, S.A. ADR	180,600
14,300	Grupo Televisa, S.A. ADR	386,243
13,400	Grupo Televisa, S.A. Series CPO	72,455
1,000	Telefonos de Mexico ADR Series L	28,240
23,800	Telefonos de Mexico, S.A. de C.V. Series A	33,420
78,600	Telefonos de Mexico, S.A. de C.V. Series L	111,243
13,900	TV Azteca, S.A. de C.V. Series CPO	10,529
Conglomerates - 2.28%		
250,000	Admiralty Holding Company	5,000
5,400	Alfa, S.A. de C.V. Series A	35,868
42,595	BB Holdings*	118,254
13,000	Carlisle Holdings, Inc.*	24,995
3,200	Corporación Interamericana de Entretenimiento, S.A. de C.V. Series B*	9,903
1,580	Desc, S.A. de C.V. Series B*	2,335
11,000	Grupo Carso, S.A. de C.V.	40,637
600	Grupo Imsa, S.A. de C.V., Series UBC	2,589
2,525	OneSource Services, Inc.	29,647
3,300	U.S. Commercial Corp., S.A. de C.V.*	460
2,900	Vitro, S.A. Series A	5,438
6,000	Vitro Sociedad Anonima ADR	33,240

*Non-income producing

See accompanying notes.

Schedule of Investments as of December 31, 2006 (continued)

Shares or Principal Amount	Description	Market Value
Construction and related - 9.64%		
46,718	Cemex, S.A. de C.V. Series CPO	\$ 158,005
4,000	Cemex, ADR	135,320
2,032	Ceramica Carabobo Class A ADR*	4,254
4,300	Consortio ARA, S.A. de C.V.*	29,197
3,583	Empresas ICA, Sociedad Controladora, S.A. de C.V.*	13,505
16,600	Florida Rock Industries, Inc.	714,630
800	Grupo Cementos de Chichuahua, S.A. de C.V.	3,843
20,950	Mastec, Inc.*	241,763
Consumer products and related manufacturing - 7.28%		
800,000	Atlas Electricas, S.A.	74,625
5,900	Grupo Casa Saba, S.A. ADR	153,400
16,000	Watsco Incorporated	754,560
Food, beverages and tobacco - 2.53%		
300	Aalsea, S.A. de C.V.	1,632
4,800	Coca Cola Femsa, S.A. de C.V. ADR	182,400
200	Coca Cola Femsa, S.A. de C.V., Series L	754
6,300	Fomento Económico Mexicano, S.A. de C.V., Series UBD	72,954
800	Gruma, S.A. de C.V., Series B	2,912
7,600	Grupo Bimbo, S.A. de C.V., Series A	37,913
7,700	Grupo Modelo, S.A. de C.V., Series C	42,538
Housing - 0.11%		
1,700	Corporación Geo, S.A. de C.V., Series B	8,496
100	Desarrolladora Homex, S.A. de C.V.	980
400	Sare Holding, S.A. de C.V., Series B	560
1,500	Urbi Desarrollos Urbanos, S.A. de C.V.	5,404
Investment companies - 4.89%		
4,000	The Mexico Fund, Inc.	158,160
19,000	Western Asset Worldwide Income Fund	260,300
13,575	Western Asset Emerging Markets Debt Fund	242,042

*Non-income producing

See accompanying notes.

Schedule of Investments as of December 31, 2006 (continued)

Shares or Principal Amount	Description	Market Value
Leisure - 8.96%		
12,000	Carnival Corp.	\$ 588,600
15,000	Royal Caribbean Cruises Ltd.	620,700
Medical - 4.14%		
8,386	Micromet Inc.	25,158
10,660	Orthofix International N.V.*	533,000
Mining - 0.03%		
1,200	Grupo México, S.A. de C.V., Series B	4,390
Pulp and paper - 0.21%		
6,100	Kimberly-Clark de México, S.A. de C.V. Series A	28,120
Railroad and landholdings - 21.42%		
48,500	Florida East Coast Industries, Inc.	2,890,600
Retail - 1.65%		
3,700	Controladora Comercial Mexicana, S.A. de C.V. Series UBC	9,571
1,380	Grupo Elektra, S.A. de C.V.	16,699
44,612	Wal-Mart de México, S.A. de C.V. Series V	195,887
Service - 0.02%		
700	Grupo Aeroportuario del Sureste, S.A. de C.V., Series B	2,962
100	Promotora Ambiental S.A. de C.V.	166
Trucking and marine freight - 12.09%		
14,800	Grupo TMM, S.A. ADR*	37,296
700	Seaboard Corporation	1,235,500
41,799	Trailer Bridge, Inc.*	359,471
Utilities - 9.97%		
12,000	Caribbean Utilities Ltd. Class A	158,280
47,241	Consolidated Water, Inc.	1,177,718
700	Cuban Electric	9,100

*Non-income producing

See accompanying notes.

Schedule of Investments as of December 31, 2006 (continued)

Shares or Principal Amount	Description	Market Value
Other - 3.51%		
4,000	Copa Holdings S.A.	\$ 186,240
55,921	Margo Caribe, Inc.*	279,605
100	Mexichem S.A. de C.V.	174
843	Siderurgica Venezolana Sivensa ADR	2,965
75	Siderurgica Venezolana Sivensa Series B	264
45,000	Xcelera, Inc.*	<u>4,500</u>
Total common stocks (cost \$8,546,640)		<u>\$14,894,245</u>
Bonds - 0% of net assets		
165,000	Republic of Cuba - 4.5%, 1977 - in default (cost \$63,038) (Note 2)*	\$ --
Other assets less liabilities - (0.81%) of net assets		<u>(\$1,397,049)</u>
Net assets - 100%		<u><u>\$13,497,196</u></u>

*Non-income producing

See accompanying notes.

***Statement of Assets and Liabilities as of
December 31, 2006 (unaudited)***

ASSETS

Investments in securities, at market value (cost \$8,609,678) (Note 2)	\$ 14,894,245
Cash	285,653
Dividends receivable	45,998
Other assets	<u>33,249</u>
TOTAL ASSETS	\$ <u>15,259,145</u>

LIABILITIES

Payable for investments purchased	\$ 1,980
Distributions payable	1,677,636
Accrued investment advisor fee (Note 3)	51,700
Other payables	<u>30,633</u>
TOTAL LIABILITIES	<u>1,761,949</u>

NET ASSETS (Equivalent to \$8.05 per share
based on 1,677,636 shares outstanding) **\$13,497,196**

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	7,234,230
Accumulated net investment loss	(1,667,054)
Accumulated net realized gain on investments	1,643,775
Net unrealized gain on investments	<u>6,284,567</u>
TOTAL	<u><u>\$13,497,196</u></u>

See accompanying notes.

***Statement of Operations Six Months
Ended December 31, 2006 (unaudited)***

INVESTMENT INCOME

Dividends \$ 133,773

EXPENSES

Investment advisor fees (Note 3) \$ 99,788

Professional fees 59,116

Custodian fees 27,000

Insurance 13,774

Transfer agent fees 8,775

Listing fees 7,500

CCO Expense 6,441

Proxy services 3,491

Printing and Postage 4,488

Director fees 3,900

Miscellaneous 6,718

Total investment expenses 240,991

INVESTMENT LOSS - NET (\$ 107,218)

REALIZED AND UNREALIZED GAIN

ON INVESTMENTS AND FOREIGN CURRENCY

Net realized gain on investments and foreign
currency 155,383

Change in unrealized gain on investments and
foreign currency 1,573,174

NET GAIN ON INVESTMENTS 1,728,557

**NET INCREASE IN NET ASSETS RESULTING
FROM OPERATIONS**

\$ 1,621,339

See accompanying notes.

Statements of Changes in Net Assets (unaudited)

	Six Months Ended 12/31/06 (unaudited)	Year Ended 6/30/06
INCREASE IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment loss	(\$ 107,218)	(\$ 264,847)
Net realized gain on investments and foreign currency	155,383	2,021,250
Change in unrealized gain on investments and foreign currency	<u>1,573,174</u>	<u>(201,615)</u>
Net increase in net assets resulting from operations	1,621,339	1,554,788
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Investment income and short-term realized gains	--	--
Realized gains - long-term	(1,677,636)	(293,251)
Total Distributions	<u>(1,677,636)</u>	<u>(293,251)</u>
NET INCREASE IN NET ASSETS	(\$ 56,296)	\$ 1,261,537
NET ASSETS:		
Beginning of period	\$ 13,553,493	\$12,291,956
End of period	<u>\$ 13,497,196</u>	<u>\$13,553,493</u>

See accompanying notes.

Financial Highlights

	Year Ended June 30			
	2006	2005	2004	2003
Six Months Ended 12/31/06 (unaudited)				
PER SHARE OPERATING PERFORMANCE				
(For a share of capital stock outstanding for each time period indicated)				
Net asset value, beginning of year	\$8.08	\$5.43	\$3.95	\$3.92
Operations:				
Net investment loss ¹	(0.06)	(0.09)	(0.07)	(0.11)
Net realized and unrealized gain (loss) on investment transactions ¹	1.03	1.99	1.55	0.22
Total from operations	9.05	1.90	1.48	0.11
Distributions:				
From net investment income	--	--	--	--
From net realized gains	(1.00)	--	--	(0.08)
Total distributions	(1.00)	--	--	(0.08)
Net asset value, end of year	\$8.05	\$7.33	\$5.43	\$3.95
Per share market value, end of year	\$15.98	\$6.30	\$4.87	\$3.49
Total investment return (loss) based on market value per share	128.84%	22.86%	39.54%	2.70%
RATIOS AND SUPPLEMENTAL DATA				
Net assets, end of year (in 000's)	\$13.497	\$12.292	\$9.109	\$6.626
Ratio of expenses to average net assets	3.51% ²	3.55%	3.67%	4.46%
Ratio of net investment loss to average net assets	(1.56%) ²	(1.47%)	(1.39%)	(3.15%)
Portfolio turnover rate	8%	30%	23%	3%

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

²This figure has been annualized; however, the percentage shown is not necessarily indicative of results for a full year.

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 December 31, 2006, the Fund had foreign investments in companies operating principally in Mexico and the Cayman Islands, representing approximately 18.63% and 9.90% 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 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, and interest income is recognized on an accrual basis. Discounts and premiums on debt securities purchased are amortized over the life of the respective securities. It is the Fund's practice to include the portion of realized and unrealized gains and losses on investments denominated in foreign currencies as components of realized and unrealized gains and losses on investments and foreign currency.

Deposits with Financial Institutions

The Fund may, during the course of its operations, maintain account balances with financial institutions in excess of federally insured limits.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Fund's policy is to continue to comply with the provisions of the Internal Revenue Code that are applicable to regulated investment companies and to distribute all its taxable income to its stockholders. Under these provisions, the Fund is not subject to federal income tax on its taxable income and no federal tax provision is required.

The Fund has adopted a June 30 year-end for federal income tax purposes.

Distributions to Stockholders

Distributions to stockholders are recorded on the ex-dividend date. Income and capital gain distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America. For the six months ended December 31, 2006, a distribution from long-term capital gains of \$1.00 per share was declared on November 15, 2006, payable on January 12, 2007 to shareholders of record December 15, 2006.

Notes to Financial Statements

NOTE 2. NON-MARKETABLE SECURITY OWNED

Investments in securities 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 and trading in the bonds was suspended as of December 28, 2006. The New York Stock Exchange has stated that following the suspension of trading, application will be made to the Securities and Exchange Commission to delist the issue. As of December 31, 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 advisory fees for the six months ended December 31, 2006 amounted to \$99,788, of which \$51,700 was payable as of December 31, 2006.

During the six months ended December 31, 2006, the Fund paid \$4,228 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, 2006, purchases and sales of investment securities were \$1,049,927 and \$1,205,470, respectively.

At December 31, 2006, the Fund’s investment portfolio had gross unrealized gains of \$6,868,496 and gross unrealized losses of \$583,929, resulting in a net unrealized gain of \$6,284,567 for financial statement purposes.

NOTE 5. INCOME TAX INFORMATION

The cost of securities owned for financial statement purposes is lower than the cost basis for income tax purposes by approximately \$7,002 due to wash sale adjustments.

For the six months ended December 31, 2006, the Fund had net realized gains of \$155,383.

Dividend Reinvestment Plan

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

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

Dividend Reinvestment Plan (continued)

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

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

Dividend Reinvestment Plan (continued)

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

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

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

Dividend Reinvestment Plan (continued)

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

Dated: November 22, 2006

Discussion Regarding the Approval of the Investment Advisory Agreement

The Fund's Board of Directors including a majority of those directors who are not "interested persons" as such term is defined in the 1940 Act ("Independent Directors") unanimously approved the continuance of the investment advisory agreement between the Fund and the Advisor (the "Agreement") at a meeting held on August 17, 2006.

Before meeting to determine whether to approve the Agreement, the Board had the opportunity to review written materials provided by the Advisor and by legal counsel to the Fund which contained information to help the Board evaluate the Agreement. The materials included (i) a memorandum from the Fund's legal counsel regarding the Directors' responsibilities in evaluating and approving the Agreement, (ii) a letter from the Advisor containing detailed information about the Advisor's services to the Fund, Fund performance, allocation of Fund transactions, compliance and administration information, and the compensation received by the Advisor from the Fund; (iii) a copy of the current investment advisory agreement between the Fund and the Advisor; (iv) audited financial statements for the Advisor for the year-ended December 31, 2005 and unaudited financial statements for the six months ended June 30, 2006; (v) the Advisor's Form ADV Parts I and II; (vi) comparative performance data for the Fund relative to peer funds (small closed-end funds and foreign funds invested in the Latin American region); and (vii) comparative statistics and fee data for the Fund relative to peer funds.

During its deliberations on whether to approve the continuance of the Agreement, the Board considered many factors. The Board considered the nature, extent and quality of the services to be provided by the Advisor and determined that such services will meet the needs of the Fund and its shareholders. The Board reviewed the services provided to the Fund by the Advisor as compared to services provided by other advisors, which manage

Discussion Regarding the Approval of the Investment Advisory Agreement (continued)

investment companies with investment objectives, strategies and policies similar to those of the Fund. The Board concluded that the nature, extent and quality of the services provided by the Advisor were appropriate and consistent with the terms of the advisory agreement, that the quality of those services had been consistent with industry norms and that the Fund was likely to benefit from the continued provision of those services. The Board also concluded that the Advisor had sufficient personnel, with the appropriate education and experience, to serve the Fund effectively and had demonstrated its continuing ability to attract and retain qualified personnel

Both at the meeting and on an ongoing basis throughout the year, the Board considered and evaluated the investment performance of the Fund and reviewed the Fund's performance relative to other investment companies and funds with similar investment objectives, strategies and policies, and its respective benchmark index. The Board considered both the short-term and long-term performance of the Fund. They concluded that the performance of the Fund was within an acceptable range of performance relative to other funds with similar investment objectives, strategies and policies.

The Board considered the costs of the services provided by the Advisor, the compensation and benefits received by the Advisor providing services to the Fund, as well as the Advisor's profitability. In addition, the Board considered any direct or indirect revenues received by affiliates of the Advisor including the commissions paid to the Fund's affiliated broker/dealer, Thomas J. Herzfeld & Co., Inc. The Board considered the advisory fees paid to the Advisor by the Fund and relevant comparable fee data and statistics of a sampling of small closed-end funds and foreign funds invested in the Latin American region. The Board further discussed the services by the Advisor and concluded that the advisory services performed were efficient and satisfactory and that the fee charged was reasonable and not excessive. The Board concluded that the Advisor's fees and profits derived from its relationship with the Fund in light of its expenses, were reasonable in relation to the nature and quality of the services provided, taking into account the fees charged by other advisors for managing comparable funds with similar strategies. The Directors also concluded that the overall expense ratio of the Fund was reasonable, taking into account the size of the Fund, the quality of services provided by the Advisor, and the investment performance of the Fund.

The Board also considered the extent to which economies of scale would be realized relative to fee levels as the Fund grows, and whether the advisory fee levels reflect these economies of scale for the benefit of shareholders. The Board recognized that because of the closed-end structure of the Fund, and the fact that there is no influx of capital, this particular factor is less relevant to the Fund than it would be to an open-end fund. The Board concluded that only marginal economies of scale could be achieved through the growth of assets since the Fund is closed-ended.

The Board also considered its deliberations regarding the Advisor's services and performance from the regular Board meetings held throughout the year, including the Board's discussion

Discussion Regarding the Approval of the Investment Advisory Agreement (continued)

of the Fund's investment objective, long-term performance, investment style and process. The Board noted the high level of diligence with which it reviews and evaluates the Advisor throughout the year and the extensive information provided with respect to Advisor's performance and the Fund's expenses on a quarterly basis. The Board also considered whether there have occurred any events that would constitute a reason not to renew the Agreement and concluded there were not.

After deliberation and further consideration of the factors discussed above and information presented at the August 17, 2006 meeting and at previous meetings of the Board, the Board and the Independent Directors determined to continue the Agreement for an additional one-year period. In arriving at this decision, the Board and the Independent Directors did not identify any single matter as controlling, but made their determination in light of all the circumstances. The Board and the Independent Directors did not consider any one of the factors and considerations identified above to be determinative. The Board based its decision to approve the Agreement on all the relevant factors in light of its reasonable business judgment, and with a view to future long-term considerations.

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 Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year on Form N-Q. The Form N-Q is available by link on the Fund's website at www.herzfeld.com, by calling the Fund at 800-TJH-FUND, or on the SEC's EDGAR database at www.sec.gov. In addition, the Form N-Q can be reviewed and copied at the SEC's public reference room in Washington, D.C. More information about the SEC's website or the operation of the public reference room can be obtained by calling the SEC at 1-800-732-0330.

Proxy Voting Policies and Procedures

Information regarding how the Fund voted proxies relating to portfolio securities from July 1, 2005 to June 30, 2006, and a description of the policies and procedures used to determine how to vote proxies relating to portfolio securities is available without charge, upon request, by calling the Fund at 800-TJH-FUND, or by accessing the SEC's website at www.sec.gov.

Results of November 15, 2006 Stockholder Meeting

The annual meeting of stockholders of the Fund was held on November 15, 2006. At the meeting one nominee for a Director post was elected as follows:

	Votes for	Votes withheld
Albert L. Weintraub	1,214,503	103,905

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

Officers and Directors

Officers

THOMAS J. HERZFELD

Director, Chairman of the Board, President and Portfolio Manager

CECILIA GONDOR

Secretary, Treasurer, Chief Compliance Officer

Independent Directors

ANN S. LIEFF

Director

MICHAEL A. RUBIN

Director

ALBERT L. WEINTRAUB

Director

THE HERZFELD CARIBBEAN BASIN FUND, INC.

The Herzfeld Building

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