



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

*SEMI-ANNUAL REPORT  
December 31, 2003*

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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.  
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**

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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**

Kaufman, Rossin & Co., P.A.  
2699 South Bayshore Drive  
Miami, FL 33133  
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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 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 2, 2004

Dear Fellow Stockholders:

We are pleased to present our semi-annual report for the period ending December 31, 2003. On that date The Herzfeld Caribbean Basin Fund's net assets were \$8,719,841 and its per share net asset value was \$5.20\*, compared with \$5,741,830 or \$3.42 per share a year earlier representing a gain in net asset value of 52.0% for the calendar year and 31.64% for the six month period ended December 31, 2003.



*Thomas J. Herzfeld  
Chairman and President*

When we formed The Herzfeld Caribbean Basin Fund 10 years ago, it appeared to us at the time that the U.S. may have been considering lifting the embargo with

Cuba. That event, however, has always been elusive. Knowing that, we positioned the Fund's investments in companies which we believed would do well if there were no change in U.S. policy towards Cuba; but at the same time, in companies we believe would benefit from the resumption of trade with that country. That strategy has worked quite well. For instance, our net asset value has reached a record high (adjusted for distributions) and our shares have recently been trading at a premium to net asset value. Many of our major holdings are experiencing good price performance.

Although the embargo with Cuba is still in place, it is interesting to note that the U.S. is Cuba's 8<sup>th</sup> largest trading partner. U.S. food sales to that country now account for 25% of Cuba's food imports.

The Cuban economy grew at 2.6% in 2003. Although sugar production dropped 40%, tourism was quite strong. Approximately 1.9 million foreigners visited the island, a 16% increase from the previous year.

We continue to believe that our portfolio is invested in companies throughout the Caribbean Basin which have great prospects--with or without the Cuban embargo. If trade is resumed, things should get very interesting.

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\*For those who like coincidences, 5/20 or May 20th is Cuban Independence Day and 5/20/04 will mark the tenth anniversary of our Fund's trading.

## Letter to Stockholders (continued)

### Largest Allocations

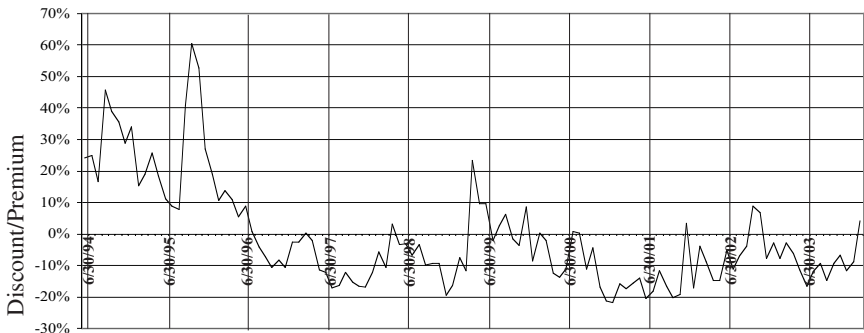
The following tables present our largest investment and geographic allocations as of December 31, 2003.

<i>Geographic Allocation</i>	<i>% of Net Assets</i>	<i>Largest Portfolio Positions</i>	<i>% of Net Assets</i>
USA	50.10%	Florida East Coast Industries Inc.	21.33%
Mexico	11.27%	Consolidated Water Co.	6.44%
Cayman Islands	8.34%	Florida Rock Industries	6.29%
Netherlands Antilles	4.02%	Royal Caribbean Cruises Ltd.	5.59%
Latin American Regional	3.87%	Orthofix International N.V.	4.02%
Puerto Rico	2.92%	Watsco Incorporated	3.91%
Panama	2.89%	Mastec, Inc.	3.56%
Belize	2.78%	Carnival Corp.	3.19%
Virgin Islands	0.80%	Margo Caribe Inc.	2.92%
Costa Rica	0.48%	Banco Latinoamericano de Exportaciones, S.A.	2.89%
Colombia	0.43%		
Dominican Republic	0.29%		
Venezuela	0.09%		
Cuba	0.00%		

### 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



## *Letter to Stockholders (continued)*

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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,

A handwritten signature in black ink, appearing to be 'TJ Herzfeld', with a long horizontal flourish extending to the right.

Thomas J. Herzfeld  
Chairman of the Board and President

## *Schedule of Investments as of December 31, 2003*

<u>Shares or Principal Amount</u>	<u>Description</u>	<u>Market Value</u>
Common stocks - 88.28% of net assets		
Banking and finance - 3.85%		
7,000	Bancolombia S.A.	\$ 37,380
13,120	Banco Latinoamericano de Exportaciones, S.A.	252,298
28,300	Grupo Financiero BBVA Bancomer, S.A. de C.V. Series O*	24,177
3,600	Grupo Financiero Banorte, S.A. de C.V. Series O*	12,494
8,400	Grupo Financiero Inbursa, S.A. de C.V. Series O*	9,112
Communications - 5.92%		
11,000	América Móvil, S.A. de C.V. Series A	15,026
43,800	América Móvil, S.A. de C.V. Series L	60,259
11,100	América Telecom, S.A. de C.V. Series A1	14,332
2,500	Atlantic Tele-Network, Inc.	70,125
11,100	Carso Global Telecom, S.A. de C.V., Series A1*	15,547
1,000	Garmin Ltd.	54,480
725	Grupo Iusacell, S.A. de C.V. Series V*	1,348
15,000	Grupo Radio Centro, S.A. ADR	104,700
1,000	Grupo Televisa S.A. GDR	39,860
12,100	Grupo Televisa, S.A. Series CPO*	24,152
11,000	Telefonos de Mexico, S.A. de C.V. Series A	18,158
39,300	Telefonos de Mexico, S.A. de C.V. Series L	65,049
18,000	Tricom, S.A. ADR*	25,560
13,900	TV Azteca, S.A. de C.V. Series CPO	7,941
Conglomerates - 3.48%		
4,900	Alfa, S.A. de C.V. Series A*	14,695
39,400	Carlisle Holdings, Inc.*	242,310
3,100	Corporación Interamericana de Entretenimiento, S.A. de C.V. Series B*	5,873
4,200	Desc, S.A. de C.V. Series B	1,446
3,300	Grupo Carso, S.A. de C.V. Series A1*	11,600
3,300	U.S. Commercial Corp., S.A. de C.V.*	1,365
2,600	Vitro, S.A. Series A	2,547
8,000	Vitro Sociedad Anonima ADR	23,200

\*Non-income producing

*See accompanying notes.*

## *Schedule of Investments as of December 31, 2003 (continued)*

<u>Shares or Principal Amount</u>	<u>Description</u>	<u>Market Value</u>
Construction and related - 10.64%		
10,000	Cemex, S.A. de C.V. Series CPO	\$ 52,281
1,936	Ceramica Carabobo Class A ADR*	2,892
4,000	Consortio ARA, S.A. de C.V. Series A1*	9,938
15,600	Empresas ICA, Sociedad Controladora, S.A. de C.V.*	3,623
10,500	Florida Rock Industries, Inc.	548,500
20,950	Mastec, Inc.*	310,270
Consumer products and related manufacturing - 5.11%		
800,000	Atlas Electricas, S.A.	42,031
5,400	Grupo Casa Saba, S.A. ADR*	62,370
15,000	Watsco Incorporated	340,950
Food, beverages and tobacco - 3.04%		
10,000	Coca Cola Fensa, S.A. de C.V. ADR	212,400
5,800	Fomento Económico Mexicano, S.A. de C.V. Series UBD	21,410
7,300	Grupo Bimbo, S.A. de C.V. Series A	13,700
7,300	Grupo Modelo, S.A. de C.V. Series C	17,475
Investment companies - 3.87%		
15,345	The Latin America Equity Fund, Inc.	234,165
8,100	The Latin American Discovery Fund, Inc.	103,599
Leisure - 8.78%		
7,000	Carnival Corp.	278,110
14,000	Royal Caribbean Cruises Ltd.	487,060
Medical - 4.02%		
7,160	Orthofix International N.V.*	350,697
Pulp and paper - 0.17%		
5,700	Kimberly-Clark de México, S.A. de C.V. Series A	14,609
Railroad and landholdings - 21.33%		
56,200	Florida East Coast Industries, Inc.	1,860,220

\*Non-income producing

*See accompanying notes.*

## *Schedule of Investments as of December 31, 2003 (continued)*

<u>Shares or Principal Amount</u>	<u>Description</u>	<u>Market Value</u>
Retail - 0.78%		
3,700	Controladora Comercial Mexicana, S.A. de C.V. Series UBC	\$ 3,721
1,380	Grupo Elektra, S.A. de C.V. Series CPO	7,307
7,900	Wal-Mart de México, S.A. de C.V. Series C	21,125
12,500	Wal-Mart de México, S.A. de C.V. Series V	35,629
Trucking and marine freight - 5.16%		
700	Seaboard Corporation	197,400
39,600	Trailer Bridge, Inc.*	218,552
8,000	Grupo TMM, S.A. ADR*	33,920
Utilities - 8.33%		
12,000	Caribbean Utilities Ltd., Class A	165,480
28,000	Consolidated Water, Inc.	561,400
Other - 3.80%		
2,414	Mantex S.A.I.C.A.*	3,936
39,120	Margo Caribe Inc.*	254,280
843	Siderurgica Venezolana Sivensa ADR*	639
75	Siderurgica Venezolana Sivensa Series B	56
35,000	Xcelera, Inc.*	<u>72,800</u>
<b>Total common stocks (cost \$5,833,311)</b>		<b>\$ 7,697,579</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 - 11.72% of net assets</b>		<b>\$ 1,022,262</b>
<b>Net assets - 100% (a)</b>		<b>\$ 8,719,841</b>

\*Non-income producing

(a) The cost for federal income tax purposes was \$5,896,349. At December 31, 2003, net unrealized gain for all securities based on tax cost was \$1,864,268. This consisted of aggregate gross unrealized appreciation for all securities in which there was an excess value over tax cost of \$2,709,461 and aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value of \$845,193.

See accompanying notes.

## ***Statement of Assets and Liabilities as of December 31, 2003***

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### **ASSETS**

Investment in securities, at market value (cost \$5,833,311) (Note 2)	\$ 7,697,579
Cash	681,953
Dividends receivable	11,497
Receivable for investments sold	381,615
Other assets	<u>33,249</u>

**TOTAL ASSETS** \$ 8,805,893

### **LIABILITIES**

Payable for investments purchased	\$ 9,650
Accrued investment advisor fee (Note 3)	23,213
Other payables	<u>53,189</u>

**TOTAL LIABILITIES** 86,052

**NET ASSETS** (Equivalent to \$5.20 per share  
based on 1,677,636 shares outstanding) \$ 8,719,841

### **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
Accumulated net investment loss	(1,138,632)
Accumulated net realized loss on investments	(369,975)
Net unrealized gain on investments	<u>1,864,268</u>

**TOTAL** \$ 8,719,841

*See accompanying notes.*

***Statement of Operations***  
***Six Months Ended December 31, 2003***

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**INVESTMENT INCOME**

Dividends \$ 133,344

**EXPENSES**

Investment advisor fee (Note 3)	\$ 56,269	
Custodian fees	27,000	
Professional fees	16,402	
Insurance	13,186	
Transfer agent fees	8,750	
Listing fees	7,500	
Printing	3,758	
Director fees	3,900	
Postage	3,772	
Miscellaneous	<u>9,997</u>	
Total expenses		<u>150,534</u>

**INVESTMENT LOSS - NET** (\$ 17,190)

**REALIZED AND UNREALIZED GAIN  
ON INVESTMENTS AND FOREIGN CURRENCY**

Net realized gain on investments and foreign currency	259,490	
Change in unrealized gain on investments and foreign currency		<u>1,851,537</u>

**NET GAIN ON INVESTMENTS** 2,111,027

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

\$ 2,093,837

*See accompanying notes.*

## *Statements of Changes in Net Assets*

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	<b>Six Months Ended 12/31/03 (unaudited)</b>	<b>Year 6/30/03</b>
<b>INCREASE IN NET ASSETS FROM OPERATIONS:</b>		
Investment loss - net	(\$ 17,190)	(\$ 186,014)
Net realized gain (loss) on investments and foreign currency	259,490	( 964,095)
Change in unrealized gain on investments and foreign currency	<u>1,851,537</u>	<u>1,337,987</u>
Net increase in net assets from operations	2,093,837	187,878
<b>DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>		
Investment income and short-term realized gains	--	--
Realized gains - long-term	<u>--</u>	<u>( 129,950)</u>
Total distributions	--	( 129,950)
<b>TOTAL INCREASE IN NET ASSETS</b>	<b>\$ 2,093,837</b>	<b>\$ 57,928</b>
<b>NET ASSETS:</b>		
Beginning of period	<u>\$ 6,626,004</u>	<u>\$ 6,568,076</u>
End of period	<u>\$ 8,719,841</u>	<u>\$ 6,626,004</u>

*See accompanying notes.*

# Financial Highlights

	Year Ended June 30			
	2003	2002	2001	2000
<b>Six Months Ended</b>				
<b>12/31/03</b>				
<b>(unaudited)</b>				
<b>PER SHARE OPERATING PERFORMANCE</b>				
Net asset value, beginning of period	<u>\$3.95</u>	<u>\$5.15</u>	<u>\$5.02</u>	<u>\$6.12</u>
Operations:				
Net investment loss	(0.01)	(0.10)	(0.07)	(0.10)
Net realized and unrealized gain (loss) on investments	<u>1.26</u>	<u>(0.98)</u>	<u>0.20</u>	<u>(1.00)</u>
Total from (to) operations	<u>1.25</u>	<u>(1.08)</u>	<u>0.13</u>	<u>(1.10)</u>
Distributions:				
From investment income net	--	<u>(0.10)</u>	--	--
From net realized gains	--	<u>(0.05)</u>	--	--
Total distributions	--	<u>(0.15)</u>	--	--
Net asset value, end of period	<u>\$5.20</u>	<u>\$3.92</u>	<u>\$5.15</u>	<u>\$5.02</u>
Per share market value, end of period	<u>\$4.75</u>	<u>\$3.48</u>	<u>\$4.20</u>	<u>\$5.06</u>
Total investment return (loss) based on market value per share	<u>72.21%</u> <sup>1</sup>	<u>(13.45%)</u>	<u>(17.04%)</u>	<u>(15.63%)</u>
<b>RATIOS AND SUPPLEMENTAL DATA</b>				
Net assets, end of period (in 000's)	<u>\$8,720</u>	<u>\$6,568</u>	<u>\$8,643</u>	<u>\$8,424</u>
Ratio of expenses to average net assets	<u>3.90%</u> <sup>1</sup>	<u>3.77%</u>	<u>3.11%</u>	<u>3.11%</u>
Ratio of investment loss - net to average net assets	<u>(0.45%)</u> <sup>1</sup>	<u>(2.45%)</u>	<u>(1.33%)</u>	<u>(1.76%)</u>
Portfolio turnover rate	<u>12%</u>	<u>18%</u>	<u>27%</u>	<u>10%</u>

<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 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, 2003, the Fund had investments in companies operating principally in Mexico and the Cayman Islands, representing approximately 11% and 8% 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 are stated at the last reported sales price and official closing price, respectively, 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.

# *Notes to Financial Statements*

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## **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 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 of America.

## *Notes to Financial Statements*

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

Investment 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. As of December 31, 2003, 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 six months ended December 31, 2003 amounted to \$56,269.

During the six months ended December 31, 2003, the Fund paid \$3,335 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, 2003, purchases and sales of investment securities were \$889,492 and \$1,605,489, respectively.

At December 31, 2003, the Fund’s investment portfolio had gross unrealized gains of \$2,709,461 and gross unrealized losses of \$845,193, resulting in a net unrealized gain of \$1,864,268.

# *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.

## ***Results of November 12, 2003 Stockholder Meeting***

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The annual meeting of stockholders of the Fund was held on November 12, 2003. At the meeting one nominee for Director was elected as follows:

	<b>Votes for</b>	<b>Votes withheld</b>
Albert L. Weintraub	1,284,736	5,265

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

## ***Proxy Voting Policies and Procedures***

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A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available without charge, upon request, by calling 800-TJH-FUND and on the Securities and Exchange Commission's website at <http://www.sec.gov>.

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