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HERZFELD CARIBBEAN BASIN FUND INC  
Form N-30D  
August 30, 2002

THE HERZFELD  
CARIBBEAN BASIN  
FUND, INC.

ANNUAL REPORT  
JUNE 30, 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.  
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  
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 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.

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Listed NASDAQ SmallCap Market  
Symbol: CUBA

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LETTER TO STOCKHOLDERS

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August 9, 2002

[PHOTO OMITTED]  
Thomas J. Herzfeld  
Chairman and President

Dear Fellow Stockholders:

We are pleased to present our annual report for the period ended June 30, 2002. On that date The Herzfeld Caribbean Basin Fund's net assets were \$6,568,076 and its net asset value per share was \$3.92 after payment of a distribution of \$0.1551 per share, compared with \$8,642,634 (net asset value at \$5.15 per share) at the beginning of the period. This represents a loss of 20.5% in net asset value after adjustment for the distribution, while our share price declined 13.45% (after adjustment for the distribution) from \$4.20 to \$3.48.

Although there was little change in the Fund's portfolio composition during the year, you will notice many new names in the list of securities. These changes are a result of our accepting a tender offer in THE MEXICO FUND, INC. (MXF) which allowed us to exchange MXF shares for that fund's underlying portfolio holdings at 98% of net asset value. MXF is also a closed-end fund, and we took advantage of the fact that it traded at wide discounts to its net asset value in mid-1999 to buy shares at bargain prices. At the time of our purchases, the fund traded at prices which represented between 22.5% and 24% discounts to net asset value per share. In 1999, we sold many of the Mexican securities we held in our portfolio and loaded up on MXF at deep discounts. In this way we have maintained our exposure to the Mexican market. The 2002 tender offer gave us an opportunity to reverse our 1999 switch by allowing us to reacquire many of the same Mexican securities, and since the tender permitted us to receive securities valued at 98% of net asset value, we gained the benefit of most of the discount.

The most potentially significant event for the Caribbean region is the eventual lifting of the U.S. embargo against Cuba. In that respect, today's Miami Herald had some interesting comments by House Majority leader Dick Armey, who states that he believes Congressional backing for the embargo is fading; and he predicts we may see less than a year of support for the restrictions on travel and trade. The White House, on the other hand, persists in backing the embargo. We continue to watch the political struggle with great interest.

3

LETTER TO SHAREHOLDERS (CONTINUED)

## LARGEST ALLOCATIONS

The following tables present our largest investments and geographic allocations as of June 30, 2002.

| GEOGRAPHIC ALLOCATION   | % OF NET ASSETS | LARGEST PORTFOLIO POSITIONS        | % OF NET ASSETS |
|-------------------------|-----------------|------------------------------------|-----------------|
| USA                     | 46.84%          | Florida East Coast Industries Inc. | 22.61%          |
| Mexico                  | 17.70%          | PanAmerican Beverage Inc., Class A | 7.55%           |
| Panama                  | 9.85%           | Consolidated Water Co. Ltd.        | 7.07%           |
| Cayman Islands          | 9.18%           | Florida Rock Industries, Inc.      | 5.72%           |
| Netherlands Antilles    | 4.29%           | Watsco Incorporated                | 4.68%           |
| Latin American Regional | 4.23%           | Orthofix International N.V.        | 4.28%           |
| Belize                  | 1.89%           | Carnival Corp.                     | 4.26%           |
| Puerto Rico             | 1.35%           | Coca Cola Femsa                    | 4.17%           |

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|                    |       |                              |       |
|--------------------|-------|------------------------------|-------|
| Virgin Islands     | 1.09% | Royal Caribbean Cruises Ltd. | 4.16% |
| Dominican Republic | 1.04% | Mastec, Inc.                 | 3.61% |
| Colombia           | 0.29% |                              |       |
| Venezuela          | 0.14% |                              |       |
| Cuba               | 0.00% |                              |       |

PREMIUM/DISCOUNT

As the graph below depicts, the Fund has traded at both premiums and discounts every year except its 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. Following this philosophy, I added to my personal holdings of The Herzfeld Caribbean Basin Fund several times during the year.

PREMIUM/DISCOUNT OF THE HERZFELD CARIBBEAN BASIN FUND FROM INCEPTION

[CHART]

4

LETTER TO SHAREHOLDERS (CONTINUED)

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 Daily net asset values and press releases on the Fund are available on the Internet at WWW.HERZFELD.COM.

The Fund will hold its annual meeting of stockholders on November 13, 2002, in Miami, Florida. We hope you will be able to attend.

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

Sincerely,

/s/ Thomas J. Herzfeld

Thomas J. Herzfeld  
 Chairman of the Board and President

5

SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2002

=====  
 Shares or Principal Amount                      Description                      Value  
 -----    -----    -----

COMMON STOCKS - 100.71% OF NET ASSETS

|                             |  |           |
|-----------------------------|--|-----------|
| Banking and finance - 3.18% |  |           |
| 8,000                       | Bancolombia S.A.                                       | \$ 19,200 |
| 12,000                      | Banco Latinoamericano de Exportaciones, S.A.           | 150,600   |
| 28,300                      | Grupo Financiero BBVA Bancomer, S.A. de C.V. Series O* | 23,084    |
| 3,600                       | Grupo Financiero Banorte, S.A. de C.V. Series O*       | 8,296     |
| 8,400                       | Grupo Financiero Inbursa, S.A. de C.V. Series O*       | 7,636     |

Communications - 9.37%

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|                       |  |         |
|-----------------------|--|---------|
| 11,000                | America Movil, S.A. de C.V. Series A                                     | 7,470   |
| 43,800                | America Movil, S.A. de C.V. Series L                                     | 29,302  |
| 11,100                | America Telecom, S.A. de C.V. Series A1                                  | 6,646   |
| 4,400                 | Atlantic Tele-Network  | 66,880  |
| 72,000                | AT&T Latin America Corp.*  | 38,880  |
| 1,800                 | Bracknell Corp.*   | 2       |
| 11,100                | Carso Global Telecom, S.A. de C.V. Series A1*                            | 11,930  |
| 14,500                | Grupo Iusacell, S.A. de C.V. Series V*                                   | 2,433   |
| 19,000                | Grupo Radio Centro, S.A. ADR   | 57,950  |
| 5,500                 | Grupo Televisa, S.A. GDR*  | 205,590 |
| 12,100                | Grupo Televisa, S.A. Series CPO*   | 22,523  |
| 11,000                | Telefonos de Mexico, S.A. de C.V. Series A                               | 17,569  |
| 39,300                | Telefonos de Mexico, S.A. de C.V. Series L                               | 62,769  |
| 21,000                | Tricom S.A. ADR*   | 72,030  |
| 13,900                | TV Azteca, S.A. de C.V. Series CPO*                                      | 5,892   |
| 31,200                | WorldCom Inc.-WCOM*  | 7,176   |
| 724                   | WorldCom Inc.-MCI*   | 652     |
| Conglomerates - 3.04% |  |         |
| 4,900                 | Alfa, S.A. de C.V. Series A*   | 8,338   |
| 42,024                | Carlisle Holdings, Inc.*   | 123,971 |
| 3,100                 | Corporacion Interamericana de Entretenimiento,<br>S.A. de C.V. Series B* | 5,811   |
| 4,200                 | Desc, S.A. de C.V. Series B  | 2,342   |
| 3,300                 | Grupo Carso, S.A. de C.V. Series A1*                                     | 9,921   |
| 200                   | Grupo Imsa S.A.  | 2,480   |
| 2,600                 | Vitro, S.A. Series A   | 2,962   |
| 13,000                | Vitro Sociedad Anonima ADR   | 43,940  |

See accompanying notes.

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\*Non-income producing

6

SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2002 (CONTINUED)

| Shares or Principal Amount                           | Description   | Value   |
|--|---|---------|
| -----  | -----   | -----   |
| Construction and related - 9.19%                     |   |         |
| 12,000   | Bufete Industrial, S.A. ADR*                          | \$ 240  |
| 10,000   | Cemex, S.A. de C.V. Series CPO                        | 52,948  |
| 4,000  | Consortio ARA, S.A. de C.V., Series A1*               | 5,838   |
| 13,000   | Empresas ICA, Sociedad Controladora ADR*              | 20,150  |
| 5,200  | Empresas ICA, Sociedad Controladora,<br>S.A. de C.V.* | 1,332   |
| 10,500   | Florida Rock Industries, Inc.                         | 376,005 |
| 19,950   | Mastec, Inc.*   | 146,832 |
| Consumer products and related manufacturing - 10.67% |   |         |
| 800,000  | Atlas Electricas S.A.                                 | 55,719  |
| 1,918  | Buenos Aires Embotelladora S.A.*                      | 2       |
| 11,400   | Coca Cola Femsas S.A. de C.V. ADR                     | 273,600 |
| 6,400  | Grupo Casa Saba, S.A. ADR*                            | 59,520  |
| 1,500  | Savia S.A. ADR*                                       | 4,440   |
| 16,850   | Watsco Incorporated                                   | 307,513 |

Food, beverages and tobacco - 8.41%

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|                                    |  |           |
|------------------------------------|--|-----------|
| 5,800                              | Fomento Economico Mexicano, S.A.<br>de C.V. Series UBD | 22,752    |
| 7,300                              | Grupo Bimbo, S.A. de C.V. Series A                     | 16,345    |
| 7,300                              | Grupo Modelo, S.A. de C.V. Series C                    | 17,203    |
| 34,800                             | PanAmerican Beverage Inc. Class A                      | 495,900   |
| Investment companies - 3.63%       |  |           |
| 15,211                             | The Latin America Equity Fund, Inc.                    | 68,098    |
| 7,900                              | The Latin American Discovery Fund, Inc.                | 170,363   |
| Leisure - 8.42%                    |  |           |
| 10,100                             | Carnival Corp.   | 279,669   |
| 1,500                              | Grand Adventure Tour and Travel Publishing Corp.*      | 8         |
| 14,000                             | Royal Caribbean Cruises Ltd.                           | 273,000   |
| Medical - 4.28%                    |  |           |
| 8,000                              | Orthofix International N.V.*                           | 281,200   |
| Pulp and Paper - 0.23%             |  |           |
| 5,700                              | Kimberly-Clark de Mexico, S.A. de C.V. Series A        | 15,271    |
| Railroad and landholdings - 22.61% |  |           |
| 58,700                             | Florida East Coast Industries, Inc.                    | 1,485,110 |

See accompanying notes.

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\*Non-income producing

7

SCHEDULE OF INVESTMENTS AS OF JUNE 30, 2002 (CONTINUED)

| Shares or Principal Amount          | Description   | Value    |
|-------------------------------------|---|----------|
| -----                               | -----   | -----    |
| Retail - 0.95%                      |   |          |
| 3,700                               | Controladora Comercial Mexicana,<br>S.A. de C.V. Series UBC | \$ 2,189 |
| 3,900                               | Grupo Elektra, S.A. de C.V. Series CPO                      | 3,322    |
| 2,500                               | Little Switzerland, Inc.*                                   | 4,375    |
| 7,900                               | Wal-Mart de Mexico, S.A. de C.V. Series C*                  | 18,276   |
| 12,500                              | Wal-Mart de Mexico, S.A. de C.V. Series V*                  | 33,940   |
| Trucking and marine freight - 5.81% |   |          |
| 800                                 | Seaboard Corporation  | 198,760  |
| 46,600                              | Trailer Bridge, Inc.*                                       | 113,704  |
| 10,000                              | Transportacion Maritima Mexicana ADR*                       | 69,100   |
| Utilities - 9.17%                   |   |          |
| 12,000                              | Caribbean Utilities Ltd., Class A                           | 138,000  |
| 32,600                              | Consolidated Water, Inc.                                    | 464,550  |
| Other - 1.75%                       |   |          |
| 193                                 | Seabulk International, Inc., Class A warrants*              | 72       |
| 2,414                               | Mantex S.A.I.C.A.   | 9,022    |
| 32,120                              | Margo Caribe, Inc.*   | 88,651   |
| 833                                 | Siderurgica Venezolana Sivensa ADR                          | 109      |
| 20,000                              | Xcelera, Inc.*  | 17,000   |
|                                     |   | -----    |

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|   |             |
|---|-------------|
| TOTAL COMMON STOCKS (COST \$7,938,959)  | \$6,614,403 |
| Bonds - 0% of net assets  |             |
| 165,000 Republic of Cuba - 4.5%, 1977 - in default<br>(cost \$63,038) (note 2)* | --          |
| OTHER ASSETS LESS LIABILITIES - (0.71%) OF NET ASSETS                           | (\$46,327)  |
|   | -----       |
| NET ASSETS - 100%   | \$6,568,076 |
|   | =====       |

See accompanying notes.

\*Non-income producing  
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8

STATEMENT OF ASSETS AND LIABILITIES AS OF JUNE 30, 2002

ASSETS

|   |              |
|---|--------------|
| Investment in securities, at value<br>(cost \$7,938,959) (Note 2) | \$ 6,614,403 |
| Dividends and interest receivable                                 | 10,568       |
| Other assets  | 33,249       |
| TOTAL ASSETS  | 6,658,220    |

LIABILITIES

|   |           |
|---|-----------|
| Due to bank                             | \$ 27,770 |
| Accrued investment advisor fee (Note 3) | 26,019    |
| Other payables                          | 36,355    |
|   | -----     |
| TOTAL LIABILITIES                       | 90,144    |
|   | -----     |

|  |              |
|--|--------------|
| NET ASSETS (Equivalent to \$3.92 per share<br>based on 1,677,636 shares outstanding) | \$ 6,568,076 |
|  | =====        |

Net assets consist of the following:

|  |              |
|--|--------------|
| Common stock, \$.001 par value; 100,000,000<br>shares authorized; 1,677,636 shares issued<br>and outstanding | \$ 1,678     |
| Additional paid-in capital   | 8,362,502    |
| Undistributed net investment loss  | (943,888)    |
| Undistributed net realized gain on investments   | 472,340      |
| Net unrealized loss on investments   | (1,324,556)  |
|  | -----        |
| TOTAL  | \$ 6,568,076 |
|  | =====        |

See accompanying notes.

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9

STATEMENT OF OPERATIONS YEAR ENDED JUNE 30, 2002

|  |             |              |
|--|-------------|--------------|
| =====                                    |             |              |
| INVESTMENT INCOME                        |             |              |
| Dividends                                |             | \$ 94,191    |
| Interest                                 |             | 1,201        |
|  |             | -----        |
| Total income                             |             | 95,392       |
| <br>                                     |             |              |
| EXPENSES                                 |             |              |
| Investment advisor fee (Note 3)          | \$ 103,509  |              |
| Custodian fees                           | 53,934      |              |
| Professional fees                        | 38,048      |              |
| Insurance                                | 19,917      |              |
| Transfer agent                           | 17,060      |              |
| Directors fees                           | 8,600       |              |
| Postage                                  | 7,940       |              |
| Listing fees                             | 6,000       |              |
| Printing                                 | 5,242       |              |
| Miscellaneous                            | 11,276      |              |
|  | -----       |              |
| Total expenses                           |             | 271,526      |
|  |             | -----        |
| INVESTMENT LOSS - NET                    |             | (176,134)    |
| <br>                                     |             |              |
| REALIZED AND UNREALIZED GAIN             |             |              |
| (LOSS) ON INVESTMENTS                    |             |              |
| Net realized gain on investments         | 129,946     |              |
| Change in unrealized loss on investments | (1,768,169) |              |
|  | -----       |              |
| NET LOSS ON INVESTMENTS                  |             | (1,638,223)  |
|  |             | -----        |
| <br>                                     |             |              |
| NET DECREASE IN NET ASSETS RESULTING     |             |              |
| FROM OPERATIONS                          |             | \$ 1,814,357 |
|  |             | =====        |

See accompanying notes.

10

STATEMENTS OF CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2002 AND 2001

|  | 2002         | 2001         |
|--|--------------|--------------|
|  | ----         | ----         |
| =====                                    |              |              |
| INCREASE (DECREASE) IN NET ASSETS FROM   |              |              |
| OPERATIONS:                              |              |              |
| Investment loss - net                    | (\$ 176,134) | (\$ 112,818) |
| Net realized gain on investments         | 129,946      | 382,758      |
| Change in unrealized loss on investments | (1,768,169)  | (51,785)     |

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|   |                |              |
|---|----------------|--------------|
| Net increase (decrease) in net assets from operations | (1,814,357)    | (218,155)    |
| DISTRIBUTION TO SHAREHOLDRES FROM:                    |                |              |
| Investment income and short-term realized gains       | (170,448)      | --           |
| Realized gains - long-term                            | (89,753)       | --           |
| Total distributions                                   | (260,201)      | --           |
| TOTAL INCREASE (DECREASE) IN NET ASSETS               | (\$ 2,074,558) | \$ 218,155   |
| NET ASSETS:   |                |              |
| Beginning of year                                     | \$ 8,642,634   | \$ 8,424,479 |
| End of year   | \$ 6,568,076   | \$ 8,642,634 |

See accompanying notes.

11

FINANCIAL HIGHLIGHTS  
YEARS ENDED JUNE 30, 1998 THROUGH 2002

|  | YEAR ENDED JUNE 30 |          |          |
|--|--------------------|----------|----------|
|  | 2002               | 2001     | 2000     |
| PER SHARE OPERATING PERFORMANCE                                |                    |          |          |
| Net asset value, beginning of period                           | \$ 5.15            | \$ 5.02  | \$ 6.12  |
| Operations:  |                    |          |          |
| Net investment loss  | (0.10)             | (0.07)   | (0.10)   |
| Net realized and unrealized gain (loss) on investments         | (0.98)             | 0.20     | (1.00)   |
| Total from (to) operations                                     | (1.08)             | 0.13     | (1.10)   |
| Distributions:   |                    |          |          |
| From investment income net                                     | (0.10)             | --       | --       |
| From net realized gains  | (0.05)             | --       | --       |
| Total distributions  | (0.15)             | --       | --       |
| Net asset value, end of period                                 | \$ 3.92            | \$ 5.15  | \$ 5.02  |
| Per share market value, end of period                          | \$ 3.48            | \$ 4.20  | \$ 5.06  |
| Total investment return (loss) based on market value per share | (13.45%)           | (17.04%) | (15.63%) |



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| RATIOS AND SUPPLEMENTAL DATA                            |    |         |    |         |    |         |    |
|---|----|---------|----|---------|----|---------|----|
| Net assets, end of period (in 000's)                    | \$ | 6,568   | \$ | 8,643   | \$ | 8,424   | \$ |
| Ratio of expenses to average net assets                 |    | 3.77%   |    | 3.11%   |    | 3.11%   |    |
| Ratio of investment loss -<br>net to average net assets |    | (2.45%) |    | (1.33%) |    | (1.76%) |    |
| Portfolio turnover rate                                 |    | 18%     |    | 27%     |    | 10%     |    |

See accompanying notes.

12

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 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 June 30, 2002, the Fund had investments in companies operating principally in Mexico and Panama representing approximately 18% 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.

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

13

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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Use of Estimates in the Preparation of Financial Statements  
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The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 June 30, 2002, 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.,

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is the Fund's investment advisor and charges a monthly fee at the annual rate of 1.45% of the Fund's average monthly net assets.

During the year ended June 30, 2002, the Fund paid \$5,527 of brokerage commissions to Thomas J. Herzfeld & Co., Inc., an affiliate of the Advisor.

NOTE 4. INVESTMENT TRANSACTIONS

During the fiscal year ended June 30, 2002, purchases and sales of investment securities were \$1,290,480 and \$1,528,408, respectively.

At June 30, 2002, the Fund's investment portfolio had gross unrealized gains of \$1,186,346 and gross unrealized losses of \$2,510,902, resulting in a net unrealized loss of \$1,324,556.

NOTES TO FINANCIAL STATEMENTS

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NOTE 5: CHANGE IN INVESTMENT POLICY

On March 14, 2002, the Fund's Board approved a change in the investment policy of the Fund to comply with Investment Company Act Rule 35d-1 (commonly known as the "Names Rule"). The Names Rule requires that a fund with a name that suggests it focuses on investments in a particular country or in a particular geographic region must invest at least 80% of its assets in investments that are tied economically to the particular country or geographic region suggested. As the Fund's name includes the phrase "Caribbean Basin," the Fund's current policy to invest 65% 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 revenues from operation in Caribbean Basin countries has been revised to read substantially as follows:

Under normal circumstances, the Fund will invest 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 revenues from operation in Caribbean Basin countries.

In addition, the Fund has adopted a policy to provide stockholders of the Fund 60 days' prior notice of any change in the 80% investment policy.

DIRECTORS AND OFFICERS OF THE FUND

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| NAME<br>ADDRESS<br>AGE                                 | POSITION(S)<br>HELD<br>WITH FUND    | TERM OF OFFICE<br>AND LENGTH OF<br>TIME SERVED | PRINCIPAL OCCUPATION(S)<br>DURING PAST 5 YEARS  |
|--|-------------------------------------|--|---|
| Officers   |                                     |  |   |
| -----  |                                     |  |   |
| THOMAS J. HERZFELD<br>PO Box 161465<br>Miami, FL 33116 | President,<br>Chairman,<br>Director | three years;<br>1993 to present                | Chairman and President of<br>Thomas J. Herzfeld & Co., Inc.<br>and Thomas J. Herzfeld |

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Age: 57

Advisors, Inc.

CECILIA L. GONDOR  
PO Box 161465  
Miami, FL 33116  
Age: 40

Secretary,  
Treasurer,  
Director  
three years;  
1993 to present

Executive Vice President of  
Thomas J. Herzfeld & Co., Inc.  
and Thomas J. Herzfeld  
Advisors, Inc.

Independent Directors

ANN S. LIEFF  
PO Box 430330  
Miami, FL 33243  
Age: 50

Director  
three years;  
1998 to present

President of the Lieff Company, a  
management consulting firm that  
offers business solutions,  
strategies and CEO mentoring to  
corporations and women/family-  
owned businesses, 1998-present;  
former CEO Spec's Music 1980-1998,  
a retailer of recorded music.

MICHAEL A. RUBIN  
420 Dixie Highway  
Suite 4B  
Coral Gables, FL 33146  
Age: 60

Director  
three years;  
2002 to present

Partner of Michael A. Rubin P.A.,  
attorney at law; Broker, Oaks  
Management & Real Estate Corp.,  
a real estate corporation

ALBERT L. WEINTRAUB  
250 SW 3rd Avenue  
Miami, FL 33129  
Age: 73

Director  
three years;  
1999 to present

Senior Partner of Weintraub,  
Weintraub, Seiden and Orshan;  
Chairman/CEO of iTelsa, Inc., a  
provider of Internet protocol  
telephony services; Chairman of  
E-Lysium Transaction Systems, Inc.,  
an application service provider of  
transaction processing, billing  
and payment systems; City Attorney  
for Miami Springs, FL

16 and 17

INDEPENDENT AUDITORS' REPORT

[LOGO]

To the Board of Directors and Shareholders  
The Herzfeld Caribbean Basin Fund, Inc.

We have audited the accompanying statement of assets and liabilities of The Herzfeld Caribbean Basin Fund, Inc., including the schedule of investments, as of June 30, 2002, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and the financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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

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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, 2002, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and the 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, 2002, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Kaufman, Rossin & Co.

Miami, Florida  
July 18, 2002

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.