

H&Q HEALTHCARE INVESTORS  
 Form N-30D  
 May 30, 2002

H&Q HEALTHCARE INVESTORS

[H&Q HEALTHCARE INVESTORS LOGO]

SEMIANNUAL REPORT

March 31, 2002

To our Shareholders:

At quarter-end on March 31, 2002 the net asset value of your Fund was \$25.61 per share. Performance data for the six months and the quarter ended March 31 compared to the indices is as follows:

|                              | FISCAL YEAR TO DATE<br>9/30/01 - 3/31/02<br>----- | QUARTER ENDED<br>3/31/02<br>----- |
|------------------------------|---|-----------------------------------|
| Net Asset Value              | +1.9%   | -14.0%                            |
| Dow Jones Industrial Average | +17.6%  | +3.8%                             |
| NASDAQ Industrials           | +30.1%  | +2.1%                             |
| Russell 2000                 | +25.1%  | +3.1%                             |

The Fund's second fiscal quarter ended March 31, 2002 was particularly disappointing following the Fund's strong performance during the prior quarter. During the quarter, the biotechnology sector retrenched due to both sector-specific and general factors. However, we continue to be confident in the future of healthcare in general and in emerging biotech and medtech growth companies in particular. We believe that the companies in this sector will continue to lead the advancement of knowledge and remain confident this progress will improve the human condition by providing products and services that will enhance the quality and duration of life. We have no doubt that Americans will appreciate the values of these products and will pay a premium price for them. As such we continue to believe that the investment opportunities in the future will be abundant. We also believe that as the economy generally improves over time, the healthcare sector will play a significant role in any advancement.

While the stock prices of public biotechnology companies have declined during the most recent quarter, we were not aggressive buyers. Rather, we selectively reduced positions and allowed liquidity, as a percent of total assets, to rise to its highest level in recent years. We believe the Fund is well positioned to take advantage of the current situation. Valuations are becoming particularly attractive for both publicly traded and private companies. We expect that in the weeks and months ahead we will have opportunities to invest much of this liquidity at very attractive levels. Many public companies have equity market values with historically low premiums to their liquid assets creating unusual values for their technology and product opportunities. In our venture capital activity, we are now frequently seeing attractive valuations and some transactions are being done at a very significant discount to previous investment rounds completed 1-2 years ago. We believe that this also bodes well for the future.

Having made these assertions, it is also true that there are a number of factors that may have a mitigating impact on the Fund's performance. Certainly, the heightened scrutiny of accounting practices at a number of individual companies, as well as other corporate governance issues, is sobering to the general market. Furthermore, there are a number of issues specific to the pharmaceutical industry that are unsettling to investors.

The Food and Drug Administration is still without a Commissioner, and seems to have recently become even more risk averse than usual. With several product approvals delayed, investors have concerns that product approval cycles are once again lengthening. This comes at a time when patent expirations are increasing with the threat of generic competition. These issues come amidst discussion of the control of drug pricing by government and increasing uncertainty about the ability of healthcare companies to sustain the ever-increasing cost of drug development.

While these concerns are most apparent to major pharmaceutical companies, and less so for the emerging companies, sentiment does affect valuations. Some of these issues are likely to persist at least through the elections in November but we continue to believe that new products that cure or mediate the course of disease will continue to be rewarded.

Two new venture investments were made in the quarter. SENOMYX discovers and develops novel flavor and fragrance molecules by combining its understanding of the biology of taste with receptor biology, combinatorial chemistry, high throughput screening and bioinformatics. AGENSYS develops fully human monoclonal antibodies to treat solid tumor cancers based on the Company's own proprietary drug targets. A follow-on investment was made in Sontra Medical in connection with its merger with ChoiceTel, a publicly traded company.

This was a difficult quarter, but we believe strongly in the future growth of healthcare and in the entrepreneurial approach of the companies in which we invest. We continue to believe that attractive investment opportunities in the future will be abundant.

/s/ Alan G. Carr

/s/ Daniel R. Omstead

Alan G. Carr  
President Emeritus

Daniel R. Omstead  
President

H&Q HEALTHCARE INVESTORS

PRIVACY NOTICE

If you are a registered shareholder of the Fund, the Fund and Hambrecht & Quist Capital Management, the Funds' investment adviser, may receive nonpublic personal information about you from the information collected by the transfer agent from your transactions in Fund shares. Any nonpublic personal information is not disclosed to third parties, except as permitted or required by law. In connection with servicing your account and effecting transactions, the information received may be shared with the investment adviser and non-affiliates, including transfer agents, custodians or other service companies. Access to your nonpublic personal information is restricted to employees who need to know that information to provide products or services to

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you. To maintain the security of your nonpublic personal information, physical, electronic, and procedural safeguards are in place that comply with federal standards. The policies and practices described above apply to both current and former shareholders.

If your Fund shares are held in "street name" at a bank or brokerage, we do not have access to your personal information and you should refer to your bank's or broker's privacy policies for a statement of the treatment of your personal information.

### H&Q HEALTHCARE INVESTORS

#### PORTFOLIO

AS OF MARCH 31, 2002

[CHART]

|                          | TOTAL<br>----- | VENTURE<br>----- | DIFFERENCE<br>----- |
|--------------------------|----------------|------------------|---------------------|
| AGRI/ENVIRONMENTAL       | 1.4%           | 1.3%             | 0.1%                |
| BIOTECHNOLOGY            | 45.2%          | 10.0%            | 35.3%               |
| CROs                     | 0.5%           | 0.0%             | 0.5%                |
| DIAGNOSTICS              | 6.8%           | 2.7%             | 4.2%                |
| HEALTHCARE INFO SERVICES | 3.5%           | 2.5%             | 0.9%                |
| MEDICAL SPECIALTY        | 12.2%          | 3.9%             | 8.3%                |
| MEDICAL SUPPLIES         | 1.4%           | 0.9%             | 0.5%                |
| PHARMACEUTICALS          | 6.5%           | 2.0%             | 4.5%                |
| LIQUID ASSETS            | 22.5%          | 0.0%             | 22.5%               |

RESTRICTED

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### H&Q HEALTHCARE INVESTORS

#### LARGEST HOLDINGS

AS OF MARCH 31, 2002

|                         | % OF NET ASSETS<br>----- |
|-------------------------|--------------------------|
| Gilead Sciences         | 4.67%                    |
| Martek Biosciences      | 4.23%                    |
| Cubist Pharmaceuticals  | 3.94%                    |
| Transkaryotic Therapies | 3.47%                    |
| CV Therapeutics         | 3.45%                    |
| Celgene                 | 3.09%                    |
| Cytec                   | 2.66%                    |
| Biovail                 | 2.52%                    |
| MedImmune               | 2.51%                    |
| Endocardial Solutions   | 2.47%                    |

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H&Q HEALTHCARE INVESTORS

SIGNIFICANT PORTFOLIO TRANSACTIONS

QUARTER ENDED MARCH 31, 2002

| PURCHASES<br>-----           | UNITS HELD        | UNITS HELD       |
|------------------------------|-------------------|------------------|
|                              | 12/31/01<br>----- | 3/31/02<br>----- |
| Agensys (Restricted)         | 0                 | 952,381          |
| Exelixis                     | 98,000            | 226,500          |
| Rigel Pharmaceuticals        | 0                 | 508,500          |
| Senomyx (Restricted)         | 0                 | 1,034,519        |
| Sontra (Restricted) Series B | 536,460           | 933,837          |
| WebMD                        | 283,500           | 403,500          |
| SALES                        |                   |                  |
| Affymetrix                   | 60,000            | 0                |
| Biovail                      | 345,924           | 165,924          |
| Curis                        | 205,311           | 92,500           |
| Gilead Sciences              | 413,318           | 426,636          |
| Scios                        | 109,500           | 0                |
| Sepracor                     | 217,138           | 0                |
| Versicor                     | 628,165           | 418,165          |

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H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

March 31, 2002

(UNAUDITED)

| SHARES<br>----- | CONVERTIBLE SECURITIES - 23.3% OF NET ASSETS<br>CONVERTIBLE PREFERRED (RESTRICTED) - 21.3% | VALUE<br>----- |
|-----------------|--|----------------|
|                 | AGRICULTURAL/ENVIRONMENTAL TECHNOLOGIES - 1.3%   |                |
| 375,000         | Ceres Series C*  | \$2,250,000    |
| 27,443          | Ceres Series C-1*#   | 164,658        |
| 277,967         | Ceres Series D*#   | 1,667,802      |
| 222,222         | EPR Series A*  | 333,333        |
|                 | BIOTECHNOLOGY - 8.8%   |                |
| 400,000         | ACADIA Pharmaceuticals Series E*   | 3,000,000      |
| 952,381         | Agensys Series C*  | 3,000,000      |
| 2,380,953       | Agilix Series B*   | 3,000,001      |
| 850,436         | Avalon Pharmaceuticals Series B*   | 2,999,998      |
| 1,818,182       | Raven biotechnologies Series B*^   | 3,000,000      |
| 47,407          | Therion Biologics Series A*  | 177,776        |
| 240,000         | Therion Biologics Series B*#   | 900,000        |
| 407,712         | Therion Biologics Series C*#   | 1,528,920      |
| 36,092          | Therion Biologics Sinking Fund*  | 135,345        |
| 1,750,000       | Triad Therapeutics Series A*   | 3,500,000      |

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|           |  |           |
|-----------|--|-----------|
| 825,000   | Triad Therapeutics Series B*               | 1,650,000 |
| 923,077   | Zyomyx Series B*                           | 3,692,308 |
| 600,000   | Zyomyx Series C*                           | 2,400,000 |
|           | DIAGNOSTICS - 2.6%                         |           |
| 1,371,429 | CardioNet Series C*^                       | 4,800,002 |
| 484,829   | CytoLogix Series A*^                       | 400,178   |
| 227,130   | CytoLogix Series B*#^                      | 187,473   |
| 160,000   | Masimo Series D*                           | 1,760,000 |
| 1,724,138 | Sontra Medical Series A*^                  | 867,759   |
| 933,837   | Sontra Medical Series B*^                  | 470,000   |
|           | HEALTHCARE INFORMATION SERVICES - 1.8%     |           |
| 338,983   | KVM Technologies Series B*#^               | 1,500,000 |
| 5,384,616 | PHT Series D*^                             | 4,200,000 |
|           | MEDICAL SPECIALTY - 3.9%                   |           |
| 636,364   | AbTox Series F*                            | 6,364     |
| 1,632,653 | Omnisonics Medical Technologies Series B*^ | 2,400,000 |
| 1,034,519 | Senomyx Series E*                          | 3,000,002 |
| 639,659   | Songbird Hearing Series D*                 | 6,397     |
| 652,173   | TherOx Series H*                           | 2,999,996 |
| 820,313   | VNUS Medical Technologies Series E*^       | 4,200,003 |
|           | MEDICAL SUPPLIES - 0.9%                    |           |
| 343,750   | LocalMed Series D*                         | 3,438     |
| 631,580   | Novacept Series G*#                        | 3,000,005 |

The accompanying notes are an integral part of these financial statements.

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| SHARES      | CONVERTIBLE SECURITIES - CONTINUED           | VALUE        |
|-------------|--|--------------|
| -----       | CONVERTIBLE PREFERRED (RESTRICTED) - 21.3%   | -----        |
|             | PHARMACEUTICALS/DRUG DELIVERY - 2.0%         |              |
| 211,765     | Advanced Medicine Series C*                  | \$1,905,885  |
| 200,000     | Advanced Medicine Series D-1*                | 1,800,000    |
| 1,398,732   | Galileo Laboratories Series F*               | 3,000,000    |
|             |  | -----        |
|             |  | \$69,907,643 |
|             |  | -----        |
| PRINCIPAL   | CONVERTIBLE BONDS AND NOTES - 2.0%           |              |
| AMOUNT      |  |              |
| -----       |  |              |
|             | BIOTECHNOLOGY - 1.5%                         |              |
| \$6,800,000 | CuraGen 6% Cvt. Deb. due 2007 ii             | \$5,049,000  |
|             | HEALTHCARE INFORMATION SERVICES - 0.4%       |              |
| 1,577,366   | FitForAll.com (Restricted) 10% Prom. Note*#+ | 158          |
| 1,350,000   | KVM Technologies (Restricted)                |              |
|             | Adj. Cvt. Demand Note*#^                     | 1,350,000    |

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|                 |   |              |
|-----------------|---|--------------|
| 180,000         | MEDICAL SPECIALTY - 0.1%<br>AbTox (Restricted) 12% Prom. Note*+ | 180,000      |
|                 |   | -----        |
|                 |   | \$6,579,158  |
|                 |   | -----        |
|                 | TOTAL CONVERTIBLE SECURITIES<br>(Cost \$82,888,416)             | \$76,486,801 |
|                 |   | -----        |
| SHARES<br>----- | COMMON STOCKS - 54.3%   |              |
|                 | AGRICULTURAL/ENVIRONMENTAL TECHNOLOGY - 0.1%                    |              |
| 71,483          | Catalytica Energy Systems*                                      | \$240,898    |
|                 |   | -----        |
|                 |   | 240,898      |
|                 |   | -----        |
|                 | BIOTECHNOLOGY - 34.9%   |              |
|                 | BIOPHARMACEUTICALS - 29.5%                                      |              |
| 429,898         | BioTransplant*  | 2,256,964    |
| 2,760           | BioTransplant (Restricted) Wts. (expire 8/12/04)*               | 2,070        |
| 6,300           | BioTransplant (Restricted) Wts. (expire 10/31/04)*              | 4,725        |
| 1,150           | BioTransplant (Restricted) Wts. (expire 8/15/05)*               | 3,595        |
| 410,400         | Celgene*  | 10,157,400   |
| 54,000          | Cephalon*   | 3,402,000    |
| 246,389         | Corixa*   | 1,520,220    |
| 550,556         | Cubist Pharmaceuticals*   | 10,174,275   |
| 200,001         | Cubist Pharmaceuticals (Restricted) Wts.<br>(expire 9/23/03)*   | 2,759,114    |
| 312,823         | CV Therapeutics*  | 11,324,193   |
| 163,000         | Genzyme*  | 7,118,210    |
| 426,636         | Gilead Sciences*  | 15,354,630   |

The accompanying notes are an integral part of these financial statements.

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| SHARES<br>----- | BIOTECHNOLOGY - CONTINUED                   | VALUE<br>----- |
|-----------------|---|----------------|
| 210,000         | MedImmune*                                  | \$8,259,300    |
| 226,760         | Therion Biologics (Restricted)*             | 850,350        |
| 264,912         | Transkaryotic Therapies*                    | 11,404,462     |
| 270,270         | Tularik*                                    | 4,443,239      |
| 418,165         | Versicor*                                   | 7,560,423      |
| 18,696          | Versicor (Restricted) Wts. (expire 8/3/05)* | 199,823        |
|                 | GENOMICS/DRUG DISCOVERY - 5.4%              |                |
| 150,000         | Abgenix*                                    | 2,833,500      |
| 299,302         | Dyax*                                       | 1,101,431      |
| 226,500         | Exelixis*                                   | 3,123,435      |
| 78,500          | Lexicon Genetics*                           | 741,825        |
| 225,000         | Lynx Therapeutics*                          | 490,500        |
| 174,461         | Molecular Devices*                          | 3,169,956      |
| 508,500         | Rigel Pharmaceuticals*                      | 1,805,175      |
| 370,237         | Telik*                                      | 4,487,272      |

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|           |   |             |
|-----------|---|-------------|
|           |   | -----       |
|           |   | 114,548,087 |
|           |   | -----       |
|           | CONTRACT RESEARCH ORGANIZATIONS - 0.5%                    |             |
| 91,400    | Quintiles Transnational*                                  | 1,622,350   |
|           |   | -----       |
|           |   | 1,622,350   |
|           |   | -----       |
|           | DIAGNOSTICS - 4.2%  |             |
| 522,617   | Biofield*   | 237,791     |
| 600,000   | Biofield (Restricted)*                                    | 218,400     |
| 324,330   | Cytac*  | 8,730,963   |
| 18,500    | Digene*   | 661,375     |
| 152,000   | IDEXX Laboratories*                                       | 4,079,680   |
| 160,000   | Masimo Labs (Restricted)*                                 | 1,600       |
| 900,000   | Sontra Medical (Restricted)*^                             | 9,000       |
|           |   | -----       |
|           |   | 13,938,809  |
|           |   | -----       |
|           | HEALTHCARE INFORMATION SERVICES - 1.3%                    |             |
| 4,366,920 | Codman Group (Restricted)*                                | 10,917      |
| 306,208   | Physician WebLink (Restricted)*                           | 1,200,473   |
| 188,096   | Physician WebLink (Restricted) Wts.<br>(expire 10/15/04)* | 18,810      |
| 403,500   | WebMD*  | 3,098,880   |
|           |   | -----       |
|           |   | 4,329,080   |
|           |   | -----       |
|           | MEDICAL SPECIALTY - 8.3%                                  |             |
| 381,818   | ATS Medical*  | 763,636     |
| 130,900   | Bioject Medical Technologies*                             | 503,965     |
| 101,848   | Biopure*  | 1,079,589   |
| 8,333     | Biopure (Restricted) Wts. (expire 8/4/03)*                | 0           |

The accompanying notes are an integral part of these financial statements.

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| SHARES    | MEDICAL SPECIALTY - CONTINUED        | VALUE      |
|-----------|--------------------------------------|------------|
| -----     |                                      | -----      |
| 92,500    | Curis*                               | \$197,025  |
| 1,000,000 | Endocardial Solutions*               | 8,110,000  |
| 441,409   | Martek Biosciences*                  | 13,895,114 |
| 1,020,000 | Orthovita*^                          | 2,499,000  |
| 198,000   | Radiance Medical Systems*            | 247,500    |
|           |                                      | -----      |
|           |                                      | 27,295,829 |
|           |                                      | -----      |
|           | MEDICAL SUPPLIES - 0.5%              |            |
| 645,000   | EP MedSystems*^                      | 1,631,850  |
|           |                                      | -----      |
|           |                                      | 1,631,850  |
|           |                                      | -----      |
|           | PHARMACEUTICALS/DRUG DELIVERY - 4.5% |            |
| 225,000   | Aradigm*                             | 1,057,500  |
| 165,924   | Biovail*                             | 8,292,881  |

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|             |   |               |
|-------------|---|---------------|
| 91,500      | Emisphere Technologies*                           | 1,556,415     |
| 70,000      | Teva Pharmaceutical Industries ADR                | 3,826,900     |
|             |   | -----         |
|             |   | 14,733,696    |
|             |   | -----         |
|             | TOTAL COMMON STOCKS                               |               |
|             | (Cost \$82,321,214)                               | \$178,340,599 |
|             |   | -----         |
| PRINCIPAL   |   |               |
| AMOUNT      | TEMPORARY CASH INVESTMENTS - 22.0%                |               |
| -----       |   |               |
| \$7,000,000 | American Express Credit, 1.45%, due 4/2/02        | \$6,999,718   |
| 16,500,000  | American Express Credit, 1.80%, due 4/29/02       | 16,476,900    |
| 16,000,000  | General Electric Capital Corp., 1.82%, due 5/8/02 | 15,970,071    |
| 8,000,000   | U.S. Treasury Bill, 1.69%, due 4/11/02            | 7,996,244     |
| 5,900,000   | U.S. Treasury Bill, 1.73%, due 4/25/02            | 5,893,195     |
| 19,000,000  | U.S. Treasury Bill, 1.71%, due 5/2/02             | 18,972,023    |
|             |   | -----         |
|             | TOTAL TEMPORARY CASH INVESTMENTS                  |               |
|             | (Cost \$72,308,151)                               | \$72,308,151  |
|             |   | -----         |
|             | TOTAL INVESTMENTS                                 |               |
|             | (Cost \$237,517,781)                              | \$327,135,551 |
|             |   | =====         |

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\* Non income-producing security.

# With warrants attached.

^ Affiliated issuers in which the Fund holds 5% or more of the voting securities (Total Market Value of \$27,515,265).

ii Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

+ Issuer filed for bankruptcy.

The accompanying notes are an integral part of these financial statements.

H&Q HEALTHCARE INVESTORS

STATEMENT OF ASSETS AND LIABILITIES  
March 31, 2002  
(UNAUDITED)

ASSETS:

|   |               |
|---|---------------|
| Investments, at value (identified cost<br>\$237,517,781; see Schedule of Investments) | \$327,135,551 |
| Cash  | 656,175       |
| Interest receivable   | 66,867        |
| Receivable for investments sold   | 2,103,347     |



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|   |               |
|---|---------------|
| Prepaid expenses  | 36,391        |
|   | -----         |
| Total assets  | \$329,998,331 |
|   | -----         |
| LIABILITIES:  |               |
| Payable for investments purchased   | \$866,988     |
| Accrued advisory fee  | 393,595       |
| Accrued other   | 74,448        |
|   | -----         |
| Total liabilities   | \$1,335,031   |
|   | -----         |
| NET ASSETS  | \$328,663,300 |
|   | =====         |
| SOURCES OF NET ASSETS:  |               |
| Shares of beneficial interest, par value \$.01 per share, unlimited number of shares authorized, amount paid in on 12,833,980 shares issued and outstanding | \$210,436,463 |
| Accumulated net investment loss   | (1,802,602)   |
| Accumulated net realized gain on investments  | 30,411,669    |
| Net unrealized gain on investments  | 89,617,770    |
|   | -----         |
| Total net assets (equivalent to \$25.61 per share based on 12,833,980 shares outstanding)   | \$328,663,300 |
|   | =====         |

The accompanying notes are an integral part of these financial statements.

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H&Q HEALTHCARE INVESTORS

STATEMENT OF OPERATIONS  
For the Six Months Ended March 31, 2002  
(UNAUDITED)

|   |             |
|---|-------------|
| INVESTMENT INCOME:                              |             |
| Dividend income (net of foreign tax of \$1,736) | \$9,121     |
| Interest income                                 | 752,373     |
|   | -----       |
| Total investment income                         | \$761,494   |
| EXPENSES:                                       |             |
| Advisory fees                                   | \$2,339,010 |
| Legal fees                                      | 89,182      |
| Trustees' fees and expenses                     | 85,716      |
| Shareholder reporting                           | 49,725      |
| Accounting and auditing fees                    | 44,348      |
| Custodian fees                                  | 42,205      |
| Stock exchange listing fee                      | 30,922      |
| Transfer agent fees                             | 23,969      |
| Other   | 13,059      |
|   | -----       |

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|  |               |
|--|---------------|
| Total expenses   | 2,718,136     |
|  | -----         |
| Net investment loss  | (\$1,956,642) |
|  | -----         |
| NET REALIZED AND UNREALIZED GAIN<br>(LOSS) ON INVESTMENTS: |               |
| Net realized gain on investments                           | \$36,438,345  |
| Decrease in net unrealized gain on investments             | (27,463,909)  |
|  | -----         |
| Net gain on investments                                    | \$8,974,436   |
|  | -----         |
| Net increase in net assets<br>resulting from operations    | \$7,017,794   |
|  | =====         |

The accompanying notes are an integral part of these financial statements.

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H&Q HEALTHCARE INVESTORS  
STATEMENTS OF CHANGES IN NET ASSETS

|   | FOR THE SIX<br>MONTHS ENDED<br>MARCH 31, 2002<br>(UNAUDITED) | FOR THE<br>YEAR ENDED<br>SEPTEMBER 30,<br>2001 |
|---|--|--|
|   | -----  | -----  |
| NET INCREASE (DECREASE) IN NET<br>ASSETS RESULTING FROM OPERATIONS:   |  |  |
| Net investment loss   | (\$1,956,642)  | (\$2,222,151)                                  |
| Net realized gain on investments  | 36,438,345   | 63,501,379                                     |
| Increase (decrease) in net<br>unrealized gain on investments  | (27,463,909)   | (201,564,026)                                  |
|   | -----  | -----  |
| Net increase (decrease) in net<br>assets resulting from operations  | \$7,017,794  | (\$140,284,798)                                |
|   | -----  | -----  |
| DISTRIBUTIONS TO SHAREHOLDERS<br>FROM:  |  |  |
| Net realized capital gains  | (\$27,561,544)   | (\$52,289,670)                                 |
|   | -----  | -----  |
| CAPITAL SHARE TRANSACTIONS:   |  |  |
| Value of shares issued in<br>reinvestment of distributions<br>(791,916 and 1,519,574 shares,<br>respectively) | \$19,833,844   | \$36,365,104                                   |
|   | -----  | -----  |
| Net increase (decrease) in<br>net assets  | (\$709,906)  | (\$156,209,364)                                |
| NET ASSETS:   |  |  |
| Beginning of year   | 329,373,206  | 485,582,570                                    |
|   | -----  | -----  |
| End of year   | \$328,663,300  | \$329,373,206                                  |

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The accompanying notes are an integral part of these financial statements.

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H&Q HEALTHCARE INVESTORS  
 STATEMENT OF CASH FLOWS  
 For the Six Months Ended March 31, 2002  
 (UNAUDITED)

|   |                |
|---|----------------|
| CASH FLOWS USED FOR OPERATING ACTIVITIES:   |                |
| Interest income received  | \$696,153      |
| Dividends received  | 9,121          |
| Operating expenses paid   | (2,788,312)    |
|   | -----          |
| Net cash used for operating activities  | (\$2,083,038)  |
|   | -----          |
| CASH FLOWS PROVIDED FROM INVESTING ACTIVITIES   |                |
| Purchases of portfolio securities   | (\$19,127,650) |
| Net purchases of temporary cash investments   | (22,821,310)   |
| Sales and maturities of portfolio securities  | 51,859,628     |
|   | -----          |
| Net cash provided from investing activities   | \$9,910,668    |
|   | -----          |
| CASH FLOWS USED FOR FINANCING ACTIVITIES:   |                |
| Cash distributions paid, net  | (\$7,727,700)  |
|   | -----          |
| Net cash used for financing activities  | (\$7,727,700)  |
|   | -----          |
| NET INCREASE IN CASH  | \$99,930       |
| CASH AT BEGINNING OF PERIOD   | 556,245        |
|   | -----          |
| CASH AT END OF PERIOD   | \$656,175      |
|   | =====          |
| RECONCILIATION OF NET INCREASE IN NET ASSETS<br>RESULTING FROM OPERATIONS TO NET CASH USED<br>FOR OPERATING ACTIVITIES: |                |
| Net decrease in net assets resulting from operations  | \$7,017,794    |
| Accretion of discount   | (56,220)       |
| Net realized gain on investments  | (36,438,345)   |
| Net decrease in unrealized gain on investments  | 27,463,909     |
| Increase in prepaid expenses  | (19,741)       |
| Decrease in accrued expenses  | (50,435)       |
|   | -----          |
| Net cash used for operating activities  | (\$2,083,038)  |
|   | =====          |

Noncash financing activities not included herein consist of stock distributions of \$19,833,844.

The accompanying notes are an integral part of these financial statements.

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H&Q HEALTHCARE INVESTORS

FINANCIAL HIGHLIGHTS

(SELECTED DATA FOR EACH SHARE OF BENEFICIAL INTEREST OUTSTANDING THROUGHOUT THE PERIOD INDICATED)

|  | FOR THE SIX                                       | FOR THE YEARS ENDED SEPTEMBER |               |               |
|--|---|-------------------------------|---------------|---------------|
|  | MONTHS ENDED<br>MARCH 31, 2002<br>(UNAUDITED) (1) | 2001                          | 2000          | 1999          |
| Net asset value per share:   |   |                               |               |               |
| Beginning of period  | \$27.350  | \$46.147                      | \$21.771      | \$16.711      |
| Net investment income (loss)   | (\$0.158) *                                       | (\$0.195) *                   | (\$0.290)     | (\$0.176)     |
| Net realized and unrealized<br>gain (loss) on investments                                  | 0.678   | (13.822)                      | 28.131        | 5.596         |
| Total increase (decrease)<br>from investment<br>operations                                 | \$0.520   | (\$14.017)                    | \$27.841      | \$5.420       |
| Dilutive effect of sale of<br>common stock and<br>related expenses from<br>rights offering | --  | --                            | --            | --            |
| Capital gains distributions<br>to shareholders   | (\$2.260)   | (\$4.780)                     | (\$3.465)     | (\$0.360)     |
| Net asset value per share:   |   |                               |               |               |
| End of period  | \$25.610  | \$27.350                      | \$46.147      | \$21.771      |
| Per share market value:  |   |                               |               |               |
| End of period  | \$22.200  | \$21.740                      | \$36.188      | \$16.313      |
| Total investment return<br>at market value   | 11.50%  | (27.23%)                      | 151.66%       | 27.39%        |
| RATIOS AND SUPPLEMENTAL DATA:  |   |                               |               |               |
| Net assets at end<br>of period   | \$328,663,300                                     | \$329,373,206                 | \$485,582,570 | \$209,519,627 |
| Ratio of operating expenses<br>to average net assets**                                     | 1.55%   | 1.42%                         | 1.45%         | 1.46%         |
| Ratio of net investment loss<br>to average net assets**                                    | (1.12%)   | (0.62%)                       | (0.86%)       | (0.91%)       |
| Portfolio turnover rate  | 6.54%   | 16.17%                        | 12.90%        | 24.88%        |
| Number of shares<br>outstanding at end<br>of period  | 12,833,980  | 12,042,064                    | 10,522,490    | 9,623,524     |

(1) The Fund adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began accreting discounts and amortizing premiums on

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all debt securities. The effect of this change for the six months ended March 31, 2002 was a decrease in net investment loss per share of \$.004, a decrease in net realized and unrealized gain (loss) per share of \$.004, and a decrease in the ratio of net investment loss to average net assets from (1.15%) to (1.12%). Per share data and ratios for the periods prior to October 1, 2001 have not been restated to reflect this change in presentation.

\* Net investment loss per share has been computed using average shares outstanding.

\*\* Annualized.

The accompanying notes are an integral part of these financial statements.

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### H&Q HEALTHCARE INVESTORS

#### NOTES TO FINANCIAL STATEMENTS

March 31, 2002

(UNAUDITED)

#### (1) ORGANIZATION

H&Q Healthcare Investors (the Fund) is a Massachusetts business trust registered under the Investment Company Act of 1940 as a diversified closed-end management investment company. The Fund's investment objective is long-term capital appreciation through investment in securities of companies in the healthcare industries. The Fund invests primarily in securities of public and private companies that are believed to have significant potential for above-average growth. The Fund was organized on October 31, 1986 and commenced operations on April 22, 1987.

The preparation of these financial statements requires the use of certain estimates by management in determining the entity's assets, liabilities, revenues and expenses. Actual results could differ from these estimates. The following is a summary of significant accounting policies consistently followed by the Fund, which are in conformity with those generally accepted in the United States of America.

#### INVESTMENT SECURITIES

Investments traded on national securities exchanges or in the over-the-counter market that are National Market System securities are valued at the last sale price or, lacking any sales, at the mean between the last bid and asked prices. Other over-the-counter securities are valued at the most recent bid prices as obtained from one or more dealers that make markets in the securities. As indicated in Note 4, investments for which market quotations are not readily available are valued at fair value as determined in good faith by the Trustees of the Fund. Temporary cash investments with maturity of 60 days or less are valued at amortized cost.

Investment transactions are recorded on a trade date basis. Gains and losses from sales of investments are recorded using the "identified cost" method. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

The Fund adopted the provisions of the AICPA Audit and Accounting

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Guide for Investment Companies, as revised, effective October 1, 2001 and began accreting discounts and amortizing premiums on all debt securities. Prior to this date, the Fund did not accrete discounts or amortize premiums on long-term debt securities. The cumulative effect of this accounting change had no impact on the total net assets of the Fund, but resulted in an increase in cost of securities and a corresponding decrease in net unrealized appreciation of \$154,000 based on securities held at September 30, 2001. The effect of this change for the six months ended March 31, 2002 was to decrease net investment loss by \$56,220 with a corresponding decrease in the change in net unrealized appreciation of \$56,220.

### FEDERAL INCOME TAXES

It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute to its shareholders substantially all of its taxable income and its net realized capital gains, if any. Therefore, no Federal income or excise tax provision is required.

### DISTRIBUTIONS

The Fund records all distributions to shareholders from net investment income, if any, and realized gains on the ex-dividend date. Such distributions are determined in conformity with income tax regulations. Due to permanent book/tax differences in accounting for certain transactions, certain distributions may be treated as distributions from capital as opposed to distributions of net investment income or realized capital gains.

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### DISTRIBUTION POLICY

The current distribution policy is to declare distributions in stock. Stock distributions will automatically be paid in newly issued shares of the Fund unless otherwise instructed by the shareholder. Pursuant to an SEC exemptive order, the Fund has implemented a fixed distribution policy that permits the Fund to make quarterly distributions at a rate of 2% of the Fund's net assets to shareholders of record. The Fund intends to use net realized capital gains when making quarterly distributions. This could result in a return of capital to shareholders if the amount of the distribution exceeds the Fund's net investment income and realized capital gains. It is anticipated that net realized capital gains in excess of the total distributed under this policy would be included in the December distribution.

### STATEMENT OF CASH FLOWS

The cash amount shown in the Statement of Cash Flows is the amount included in the Fund's Statement of Assets and Liabilities and represents cash on hand at its custodian and does not include temporary cash investments at March 31, 2002.

### (2) SECURITIES TRANSACTIONS

The aggregate cost of purchases and proceeds from sales of investment securities (other than temporary cash investments) for the six months ended March 31, 2002 totaled \$19,472,411 and \$51,623,922, respectively.

At March 31, 2002, the total cost of securities for Federal income tax

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purposes was \$237,492,781. The net unrealized gain on securities held by the Fund was \$89,617,770, including gross unrealized gain of \$126,920,790 and gross unrealized loss of \$37,303,020.

### (3) INVESTMENT ADVISORY FEES AND OTHER TRANSACTIONS WITH AFFILIATES

The Fund has entered into an Investment Advisory Agreement (the Advisory Agreement) with Hambrecht & Quist Capital Management Incorporated (the Adviser). Pursuant to the terms of the Advisory Agreement, the Fund pays the Adviser a monthly fee at the rate when annualized of (i) 2.5% of the average net assets for the month of its venture capital and other restricted securities up to 25% of net assets and (ii) for the month, for all other assets, 1.0% of the average net assets up to \$250 million, 0.9% of the average net assets for the next \$250 million, 0.8% of the average net assets for the next \$500 million and 0.7% of the average net assets thereafter. The aggregate fee may not exceed a rate when annualized of 1.375%. Certain officers and Trustees of the Fund are also officers of the Adviser. The Adviser is an indirect wholly owned subsidiary of J.P. Morgan Chase & Co.

On March 22, 2002, the Trustees of the Fund approved a new investment advisory agreement with Hambrecht & Quist Capital Management LLC, subject to certain conditions, including approval by the Fund's shareholders. The terms of the new agreement are substantially identical to those in the current Advisory Agreement.

Trustees who are not affiliates of the Adviser receive an annual fee of \$15,000 plus \$1,500 for each meeting attended.

### (4) VENTURE CAPITAL AND OTHER RESTRICTED SECURITIES

The Fund may invest in venture capital and other restricted securities if these securities would currently comprise 40% or less of net assets. The value of these securities represents 23% of the Fund's net assets at March 31, 2002.

The value of the venture capital and other restricted securities is determined in good faith by the Trustees. However, because of the inherent uncertainty of valuations, these estimated

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values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. In fiscal 2001, the Fund sold a restricted security subject to future contingent payments whose estimated value of \$1,647,054 has also been determined by the Trustees and which is included in the Receivable for Investments Sold in the Statement of Assets and Liabilities.

The following table details the acquisition date, cost, carrying value per unit, and value of the Fund's venture capital and other restricted securities at March 31, 2002, as determined by the Trustees of the Fund.

| SECURITY | ACQUISITION<br>DATE | COST | CARRYING VALUE<br>PER UNIT |
|----------|---------------------|------|----------------------------|
|----------|---------------------|------|----------------------------|

AbTox

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|                                   |                 |             |         |
|-----------------------------------|-----------------|-------------|---------|
| Series F Cvt. Pfd.                | 3/7/97          | \$1,415,569 | \$0.010 |
| 12% Promissory Note               | 2/26/98-3/26/98 | 180,000     | 1.000   |
| ACADIA Pharmaceuticals            |                 |             |         |
| Series E Cvt. Pfd.                | 5/2/00          | 3,000,273   | 7.500   |
| Advanced Medicine                 |                 |             |         |
| Series C Cvt. Pfd.                | 2/5/99          | 1,800,123   | 9.000   |
| Series D-1 Cvt. Pfd.              | 8/28/00         | 1,800,900   | 9.000   |
| Agensys                           |                 |             |         |
| Series C Cvt. Pfd.                | 2/14/02         | 3,000,000   | 3.150   |
| Agilix                            |                 |             |         |
| Series B Cvt. Pfd.                | 11/18/01        | 3,000,001   | 1.260   |
| Avalon Pharmaceuticals            |                 |             |         |
| Series B Cvt. Pfd.                | 10/22/01        | 2,999,998   | 3.528   |
| Biofield                          |                 |             |         |
| Common                            | 12/15/00        | 302,984     | 0.364   |
| Biopure                           |                 |             |         |
| Common Warrants (expire 8/4/03)   | 5/13/99         | 0           | 0.000   |
| BioTransplant                     |                 |             |         |
| Common Warrants (expire 8/12/04)  | 8/12/94         | 0           | 0.750   |
| Common Warrants (expire 10/31/04) | 10/31/94        | 0           | 0.750   |
| Common Warrants (expire 8/15/05)  | 8/18/95         | 0           | 3.126   |
| CardioNet^                        |                 |             |         |
| Series C Cvt. Pfd.                | 5/3/01          | 4,823,275   | 3.500   |
| Ceres                             |                 |             |         |
| Series C Cvt. Pfd.                | 12/23/98        | 1,502,620   | 6.000   |
| Series C-1 Cvt. Pfd.*             | 1/4/01          | 111,488     | 6.000   |
| Series D Cvt. Pfd.*               | 3/14/01         | 1,667,802   | 6.000   |
| Codman Group                      |                 |             |         |
| Common                            | 1/26/96-8/24/97 | 2,552,759   | 0.002   |
| Cubist Pharmaceuticals            |                 |             |         |
| Common Warrants (expire 9/23/03)  | 9/23/98         | 235         | 13.796  |
| CytoLogix^                        |                 |             |         |
| Series A Cvt. Pfd.                | 1/13/98-7/21/99 | 2,331,986   | 0.825   |
| Series B Cvt. Pfd.*               | 1/11/01         | 1,150,335   | 0.825   |
| EPR                               |                 |             |         |
| Series A Cvt. Pfd.                | 3/9/94          | 1,000,409   | 1.500   |
| FitForAll.com                     |                 |             |         |
| 10% Promissory Note*              | 2/22/00-9/18/00 | 1,613,493   | 0.000   |
| Galileo Laboratories              |                 |             |         |
| Series F Cvt. Pfd.                | 8/18/00         | 3,001,764   | 2.145   |



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| SECURITY                         | ACQUISITION DATE | COST        | CARRYING VALUE PER UNIT |
|----------------------------------|------------------|-------------|-------------------------|
| KVM Technologies^                |                  |             |                         |
| Series B Cvt. Pfd.*              | 2/19/98          | \$1,501,320 | \$4.425                 |
| Adj. Cvt. Demand Note*           | 6/21/99-7/31/01  | 1,350,625   | 1.000                   |
| LocalMed                         |                  |             |                         |
| Series D Cvt. Pfd.               | 2/9/96           | 1,376,970   | 0.010                   |
| Masimo                           |                  |             |                         |
| Series D Cvt. Pfd.               | 8/14/96          | 1,120,040   | 11.000                  |
| Masimo Labs                      |                  |             |                         |
| Common                           | 8/14/96          | 0           | 0.010                   |
| Novacept                         |                  |             |                         |
| Series G Cvt. Pfd.*              | 3/27/01          | 3,000,005   | 4.750                   |
| OmniSonics Medical Technologies^ |                  |             |                         |
| Series B Cvt. Pfd.               | 5/24/01          | 2,404,472   | 1.470                   |
| PHT^                             |                  |             |                         |
| Series D Cvt. Pfd.               | 7/23/01          | 4,200,000   | 0.780                   |
| Physician WebLink                |                  |             |                         |
| Common                           | 2/5/97           | 1,200,325   | 3.920                   |
| Warrants (expire 10/15/04)       | 10/15/98         | 0           | 0.100                   |
| Raven biotechnologies^           |                  |             |                         |
| Series B Cvt. Pfd.               | 12/12/00         | 3,000,833   | 1.650                   |
| Senomyx                          |                  |             |                         |
| Series E Cvt. Pfd.               | 2/19/02          | 3,000,002   | 2.900                   |
| Songbird Hearing                 |                  |             |                         |
| Series D Cvt. Pfd.               | 12/14/00         | 3,002,086   | 0.010                   |
| Sontra Medical^                  |                  |             |                         |
| Common                           | 3/26/01          | 0           | 0.010                   |
| Series A Cvt. Pfd.               | 9/9/98           | 1,205,089   | 0.503                   |
| Series B Cvt. Pfd.               | 3/26/01-2/28/02  | 470,000     | 0.503                   |
| Therion Biologics                |                  |             |                         |
| Common                           | 7/12/90-10/16/96 | 511,365     | 3.750                   |
| Series A Cvt. Pfd.               | 8/20/96-10/16/96 | 444,850     | 3.750                   |
| Series B Cvt. Pfd.*              | 2/24/99-6/22/99  | 900,914     | 3.750                   |
| Series C Cvt. Pfd.*              | 9/26/01          | 1,528,920   | 3.750                   |
| Sinking Fund Cvt. Pfd.           | 10/17/94-4/3/96  | 721,291     | 3.750                   |
| TherOx                           |                  |             |                         |
| Series H Cvt. Pfd.               | 9/11/00          | 3,001,873   | 4.600                   |
| Triad Therapeutics               |                  |             |                         |
| Series A Cvt. Pfd.               | 6/8/99           | 1,750,860   | 2.000                   |
| Series B Cvt. Pfd.               | 12/20/00         | 1,653,135   | 2.000                   |
| Versicor                         |                  |             |                         |
| Warrants (expire 8/3/05)         | 6/28/99          | 905         | 10.688                  |

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|                            |         |              |       |
|----------------------------|---------|--------------|-------|
| VNUS Medical Technologies^ |         |              |       |
| Series E Cvt. Pfd.         | 8/20/01 | 4,200,003    | 5.120 |
| Zyomyx                     |         |              |       |
| Series B Cvt. Pfd.         | 2/19/99 | 1,200,550    | 4.000 |
| Series C Cvt. Pfd.         | 3/2/00  | 1,200,690    | 4.000 |
|                            |         | -----        |       |
|                            |         | \$81,203,137 |       |
|                            |         | =====        |       |

\* With warrants attached.

^ Affiliated issuers.

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H&Q HEALTHCARE INVESTORS  
30 Rowes Wharf, 4th Floor  
Boston, Massachusetts 02110-3328  
(617) 310-0567

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INVESTMENT ADVISER

Hambrecht & Quist Capital Management Incorporated

CUSTODIAN AND TRANSFER AGENT

State Street Bank and Trust Company

LEGAL COUNSEL

Dechert Price & Rhoads

-----  
Shareholders with questions regarding share transfers may call  
1-800-426-5523

Interim daily net asset value may be obtained by calling  
1-800-451-2597

For copies of the Fund's  
DIVIDEND REINVESTMENT PLAN,  
please contact the Plan Agent, State Street Bank & Trust Co.  
P.O. Box 8200, Boston, MA 02266-8200  
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H&Q HEALTHCARE INVESTORS

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