

H&Q HEALTHCARE INVESTORS  
Form N-30D  
November 30, 2001

H&Q HEALTHCARE INVESTORS  
-----

[GRAPHIC]

ANNUAL REPORT

2 0 0 1

To our Shareholders:

At fiscal year-end on September 30, 2001, the net asset value of your Fund was \$27.35 per share. Performance data for the fiscal year and the quarter ended September 30, 2001, compared to the indices, are as follows:

	FISCAL YEAR	QUARTER ENDED 9/30/01
Net Asset Value	-28.2%	-14.3%
Dow Jones Industrial Average	-16.9%	-15.8%
NASDAQ Industrials	-46.7%	-28.1%
Russell 2000	-22.4%	-21.0%

Performance of the Fund has, not surprisingly, been negatively affected by the general trends in the popular market averages. Some encouragement can be found in the more recent data suggesting that, particularly relative to the over-the-counter market where most of the securities in the portfolio trade, recent periods showed relative performance improvement.

In our fiscal mid-year report for the period ended March 31, 2001, we noted, "The overall state of the economy and the levels of common stock valuation seem to us to still be fragile". We continue to believe that this is true. For the economy, the horrifying events of September 11 seem to have accelerated the recessionary trends already in place. The reductions in interest rates and an expectation that record levels of money market funds may soon return to the stock market may be sustaining equity valuations. However, the fundamental economic benefits from declining rates are not yet apparent. Indeed, as lenders increase their credit worthiness standards, many companies are finding their borrowing capacity constrained. The consensus that the U.S. economy is in recession is spreading, but the view that the economy will rebound

## Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

in a quarter or two seems to us to be a bit optimistic.

We also appear to be in the first synchronous worldwide decline in economic activity in twenty-five years, and most of the elements that have concerned us for some time remain uncorrected. Consumer and business debt remains high. A near-term rebound in capital spending seems unlikely as capacity utilization continues to appear to be declining. We also believe that the current trend toward higher unemployment, as businesses in almost all sectors attempt to control costs through layoffs, has not yet been fully reflected in economic activity. Among the bright spots, inflation is not an immediate concern as the ability of companies to raise prices throughout the economy is virtually non-existent, the decline in energy prices has the effect of a tax cut, and mortgage refinancings are providing consumers with increased cash flow.

Thus far, the long-term economic effect of the events of September 11 on consumption patterns and equity valuations are unknown, but the apparent rebound in both seems somewhat encouraging. A decline in economic activity and the cost of pursuing the war against terrorism has resulted in declining state and federal fiscal surpluses, but the prospect of federal government tax cuts may mitigate the extent of any recession.

As noted, stock prices in the healthcare industries are not immune from general stock market activity, but on a fundamental basis, the progress of the companies in the Fund continues to be largely unaffected. Additionally, a very large number of companies in the sector took advantage of the previous financing cycle and balance sheets in most cases are strong. New products continue to be approved and come to the market and will create improving

1

cash flows. The number of emerging companies reporting profits for the first time continues to expand. It is our experience that emerging growth companies with these characteristics tend to outperform the overall stock market when investors anticipating the end of a recession and begin to reinvest. In contrast to technologies such as electronics and communications, the technologies represented by your Fund's portfolio companies are generally unaffected by capital expenditure cycles. Particularly in biotechnology, we believe that the long-term outlook is excellent as new discoveries work their way through clinical development to commercialization.

In the most recent quarter, two new companies were added to the venture capital portion of the portfolio. PHT CORPORATION provides biopharmaceutical companies, contract research organizations (CRO's) and medical device companies with web-based software and services to support clinical trial research of new products. VNUS MEDICAL TECHNOLOGIES has an FDA approved system using radio frequency heat with a disposable single-use catheter to collapse varicose veins, a significant improvement over surgically-based, more invasive procedures.

On a near-term basis, the macro environment presents some uncertainties. Our longer-term expectation that the unique characteristics of the companies in the portfolio, focused on the improvement of the span and quality of life, will generate above average investment returns, remains undiminished.

/s/ Alan G. Carr  
Alan G. Carr  
President Emeritus

/s/ Daniel R. Omstead  
Daniel R. Omstead  
President

H&Q HEALTHCARE INVESTORS

Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

-----  
 PORTFOLIO  
 AS OF SEPTEMBER 30, 2001

	Total	Venture	Difference
AGRI/ENVIRONMENTAL	1.50%	1.34%	0.17%
BIOTECHNOLOGY	47.90%	8.20%	39.69%
CROs	0.40%	0.00%	0.41%
DIAGNOSTICS	8.30%	3.48%	4.84%
INFORMATION SERVICES	1.70%	1.65%	0.00%
MANAGED CARE	0.90%	0.87%	0.00%
MEDICAL SPECIALTY	9.50%	3.44%	6.02%
MEDICAL SUPPLIES	1.90%	1.60%	0.31%
PHARMACEUTICALS	13.00%	2.04%	10.99%
LIQUID ASSETS	15.00%	0.00%	14.95%

2

H&Q HEALTHCARE INVESTORS

-----  
 LARGEST HOLDINGS  
 AS OF SEPTEMBER 30, 2001

	% OF NET ASSETS
	-----
Cubist Pharmaceuticals	7.05%
Gilead Sciences	7.05%
Biovail	4.87%
CV Therapeutics	3.69%
Celgene	3.29%
Cytyc	2.64%
Versicor	2.51%
Martek Biosciences	2.44%
Sepracor	2.37%
MedImmune	2.27%

H&Q HEALTHCARE INVESTORS

-----  
 SIGNIFICANT PORTFOLIO TRANSACTIONS  
 QUARTER ENDED SEPTEMBER 30, 2001

PURCHASES	UNITS HELD 6/30/01	UNITS HELD 9/30/01
Abgenix	0	150,000
Cephalon	0	54,000
KVM Technologies (Restricted) Cvt. Note	\$1,170,000	\$1,350,000
Lexicon Genetics	0	78,500

## Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

PHT (Restricted)	0	5,384,616
Sontra Medical (Restricted) Series B	0	536,459
Therion Biologics (Restricted) Series C	0	80,000
VNUS Medical Technologies (Restricted)	0	820,313

### SALES

Calypte Biomedical	657,576	0
Genzyme Biosurgery	79,539	0
ImClone Systems	57,000	0
KeraVision	137,457	0
Pharming Group	161,253	0

3

### ANNUAL MEETING REPORT

The Annual Meeting was held on June 8, 2001, at 9:00 a.m. The shareholders voted on the following items and the resulting votes are presented below.

- (1) To elect three Trustees of the Fund to hold office for a term of three years or until their respective successors shall have been duly elected and qualified.

	FOR	WITHHELD	BROKER NON-VOTES
Robert P. Mack, M.D.	9,298,466	82,736	0
Eric Oddleifson	9,294,399	86,803	0
Oleg M. Pohotsky	9,236,670	144,532	0

The nominees were elected to serve until the 2004 Annual Meeting of Shareholders. The Trustees serving until the 2002 Annual Meeting are Alan G. Carr and Henri A. Termeer. The Trustees serving until the 2003 Annual Meeting are Lawrence S. Lewin and Uwe E. Reinhardt, Ph.D.

- (2) To ratify the selection of Arthur Andersen as the Fund's independent accountants for the fiscal year ended September 30, 2002.

Shareholders overwhelmingly ratified the selection of the Independent Public Accountants.

	FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
	9,302,347	40,545	38,310	0

### CHANGE IN INDEPENDENT PUBLIC ACCOUNTANTS

Arthur Andersen LLP resigned as the Fund's independent accountants as of September 27, 2001. The resignation was prompted by recent revisions to the SEC's auditor independence requirements. As a result of those revisions, Arthur Andersen LLP may no longer be considered "independent" with respect to the Fund because of its commercial banking relationship with JP Morgan Chase, the parent

## Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

company of Hambrecht & Quist Capital Management. The Trustees voted to appoint PricewaterhouseCoopers LLP as the Fund's independent accountants for the Fund's fiscal year ended September 30, 2001. During the two previous years, Arthur Andersen LLP's audit reports contained no adverse opinion or disclaimer of opinion; nor were its reports qualified or modified as to uncertainty, audit scope, or accounting principle. Further, in connection with its audits for the two previous fiscal years and through September 27, 2001, there were no disagreements between the Fund and Arthur Andersen LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which if not resolved to the satisfaction of Arthur Andersen LLP would have caused it to make reference to the disagreements in its report on the financial statements for such years.

4

### REPORT OF INDEPENDENT ACCOUNTANTS

TO THE TRUSTEES AND SHAREHOLDERS OF H&Q HEALTHCARE INVESTORS:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, of changes in net assets and of cash flows and the financial highlights present fairly, in all material respects, the financial position of H&Q Healthcare Investors (the "Fund") at September 30, 2001, and the results of its operations, the changes in its net assets, its cash flows and the financial highlights for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit, which included confirmation of securities at September 30, 2001 by correspondence with the custodian, provides a reasonable basis for our opinion.

As explained in Note 4, the financial statements include securities valued at \$72,245,747 (22% of net assets), whose values have been estimated by the Trustees in the absence of readily ascertainable market values. Those estimated 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.

The financial statements of the Fund as of September 30, 2000 and for the four years then ended were audited by other independent accountants whose report dated November 3, 2000 expressed an unqualified opinion on those statements.

PricewaterhouseCoopers LLP  
Boston, Massachusetts  
November 20, 2001

5

H&Q HEALTHCARE INVESTORS

Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

-----  
 SCHEDULE OF INVESTMENTS  
 SEPTEMBER 30, 2001

SHARES	CONVERTIBLE SECURITIES - 20.9% OF NET ASSETS CONVERTIBLE PREFERRED (RESTRICTED) - 18.9%	VALUE
	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 - 6.1%	
400,000	ACADIA Pharmaceuticals Series E*	3,000,000
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*#	1,528,922
36,092	Therion Biologics Sinking Fund*	135,345
1,750,000	Triad Therapeutics Series A*	3,500,000
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 - 3.4%	
1,371,429	CardioNet Series C*^	4,800,002
484,829	CytoLogix Series A*^	2,448,386
227,130	CytoLogix Series B*#^	1,147,007
160,000	Masimo Series D*	1,760,000
1,724,138	Sontra Medical Series A*^	867,759
536,459	Sontra Medical Series B*^	270,000
	INFORMATION SERVICES - 1.3%	
5,384,616	PHT Series D*^	4,200,000
	MANAGED CARE - 0.5%	
338,983	KVM Technologies Series B*#^	1,500,000
	MEDICAL SPECIALTY - 3.4%	
636,364	AbTox Series F*	6,364
1,632,653	Omnisonics Series B*^	2,400,000
639,659	Songbird Hearing Series D*	1,496,802
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
	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
		-----
		\$62,205,791
		-----

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

Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

PRINCIPAL CONVERTIBLE SECURITIES - CONTINUED

AMOUNT	CONVERTIBLE BONDS AND NOTES - 2.0%	VALUE
	BIOTECHNOLOGY - 1.6%	
\$6,800,000	CuraGen 6% Cvt. Deb. due 2007~	\$ 5,168,000
	INFORMATION SERVICES - 0.0%	
1,577,366	FitForAll.com (Restricted) 10% Prom. Note*#+	158
	MANAGED CARE - 0.4%	
1,350,000	KVM Technologies (Restricted) Adj. Cvt. Demand Note*#^	1,350,000
	MEDICAL SPECIALTY - 0.0%	
180,000	AbTox (Restricted) 12% Prom. Note*+	180,000
		-----
		\$ 6,698,158
		-----
	TOTAL CONVERTIBLE SECURITIES (Cost \$70,478,155)	\$68,903,949
		-----
SHARES	COMMON STOCKS - 63.6%	
	AGRICULTURAL/ENVIRONMENTAL TECHNOLOGY - 0.2%	
71,483	Catalytica Energy Systems*	\$547,560
		-----
		547,560
		-----
	BIOTECHNOLOGY - 40.4%	
	BIOPHARMACEUTICALS - 35.8%	
429,898	BioTransplant*	2,364,439
1,150	BioTransplant (Restricted) Warrants (expire 8/15/05)*	3,767
2,760	BioTransplant (Restricted) Warrants (expire 8/12/04)*	2,484
6,300	BioTransplant (Restricted) Warrants (expire 10/31/04)*	5,670
410,400	Celgene*	10,846,872
54,000	Cephalon*	2,693,520
193,400	Cor Therapeutics*	4,376,642
246,389	Corixa*	2,586,863
550,556	Cubist Pharmaceuticals*	18,041,720
200,001	Cubist Pharmaceuticals (Restricted) Warrants (expire 9/23/03)*	5,188,426
312,823	CV Therapeutics*	12,156,302
163,000	Genzyme*	7,403,460
413,318	Gilead Sciences*	23,216,072
210,000	MedImmune*	7,482,300
226,760	Therion Biologics (Restricted)*	850,350
264,912	Transkaryotic Therapies*	7,189,712
270,270	Tularik*	4,978,373
540,508	Versicor*	7,242,807
87,657	Versicor (Restricted)*	880,953
18,696	Versicor (Restricted) Warrants (expire 8/3/05)*	129,825

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

SHARES	BIOTECHNOLOGY - CONTINUED GENOMICS/DRUG DISCOVERY - 4.6%	VALUE
150,000	Abgenix*	\$3,405,000

Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

60,000	Affymetrix*	963,000
299,302	Dyax*	2,879,285
98,000	Exelixis*	1,123,080
78,500	Lexicon Genetics*	596,600
225,000	Lynx Therapeutics*	535,500
174,461	Molecular Devices*	3,251,953
370,237	Telik*	2,406,541
		-----
		132,801,516
		-----
	CONTRACT RESEARCH ORGANIZATIONS - 0.4%	
91,400	Quintiles Transnational*	1,334,440
		-----
		1,334,440
		-----
	DIAGNOSTICS - 4.9%	
522,617	Biofield*	172,464
600,000	Biofield (Restricted)*	158,400
324,330	Cytec*	8,695,287
140,000	Digene*	3,500,000
152,000	IDEXX Laboratories*	3,552,240
160,000	Masimo Labs (Restricted)*	1,600
900,000	Sontra Medical (Restricted)*^	9,000
		-----
		16,088,991
		-----
	INFORMATION SERVICES - 0.4%	
4,366,920	Codman Group (Restricted)*	10,917
306,208	Physician WebLink (Restricted)*	1,200,473
188,096	Physician WebLink (Restricted) Warrants* (expire 10/15/04)	18,810
		-----
		1,230,200
		-----
	MEDICAL SPECIALTY - 6.0%	
381,818	ATS Medical*	1,527,272
130,900	Bioject Medical Technologies*	1,340,416
101,848	Biopure*	1,889,280
8,333	Biopure (Restricted) Warrants (expire 8/4/03)*	49,123
205,310	Curis*	718,585
1,000,000	Endocardial Solutions*	4,230,000
441,409	Martek Biosciences*	8,033,644
1,020,000	Orthovita*^	1,785,000
198,000	Radiance Medical Systems*	267,300
		-----
		19,840,620
		-----

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

SHARES

VALUE

MEDICAL SUPPLIES - 0.3%



Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

645,000	EP MedSystems*^	\$1,031,355
		-----
		1,031,355
	PHARMACEUTICALS/DRUG DELIVERY - 11.0%	
225,000	Aradigm*	751,500
345,924	Biovail*	16,050,880
91,500	Emisphere Technologies*	1,747,650
334,500	Scios*	5,592,840
217,138	Sepracor*	7,795,254
70,000	Teva Pharmaceutical Industries ADR	4,231,500
		-----
		36,169,624
		-----
	TOTAL COMMON STOCKS	
	(Cost \$90,234,381)	\$209,044,306
		-----
PRINCIPAL		
AMOUNT	TEMPORARY CASH INVESTMENTS - 15.0%	
\$11,000,000	American Express Credit, 3.14%, due 10/1/01	\$11,000,000
11,000,000	Ford Motor Credit Corp., 2.60%, due 10/2/01	10,999,206
12,500,000	General Electric Capital Corp., 2.75%, due 10/4/01	12,497,135
15,000,000	General Motors Acceptance Corp., 2.85%, due 10/9/01	14,990,500
		-----
	TOTAL TEMPORARY CASH INVESTMENTS	
	(Cost \$49,486,841)	\$49,486,841
		-----
	TOTAL INVESTMENTS	
	(Cost \$210,199,377)	\$327,435,096
		-----

- 
- \* 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 \$29,008,512).
  - ~ 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.

9

H&Q HEALTHCARE INVESTORS  
-----  
STATEMENT OF ASSETS & LIABILITIES  
SEPTEMBER 30, 2001

ASSETS:

Investments, at value (identified cost  
\$210,199,377; see Schedule of Investments) \$327,435,096

Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

Cash	556,245
Interest receivable	66,867
Receivable for investments sold	2,339,053
Prepaid expenses	16,650
	-----
Total assets	\$330,413,911
	-----
LIABILITIES:	
Payable for investments purchased	\$522,227
Accrued advisory fee	380,000
Accrued trustees' fees	22,500
Accrued other	115,978
	-----
Total liabilities	\$1,040,705
	-----
NET ASSETS	\$329,373,206
	=====
SOURCES OF NET ASSETS:	
Shares of beneficial interest, par value \$.01 per share, unlimited number of shares authorized, amount paid in on 12,042,064 shares issued and outstanding	\$190,602,619
Accumulated net realized gain on investments	21,534,868
Net unrealized gain on investments	117,235,719
	-----
Total net assets (equivalent to \$27.35 per share based on 12,042,064 shares outstanding)	\$329,373,206
	=====

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

10

H&Q HEALTHCARE INVESTORS  
-----  
STATEMENT OF OPERATIONS  
FOR THE PERIOD ENDED SEPTEMBER 30, 2001

INVESTMENT INCOME:	
Dividend income (net of foreign tax of \$4,127)	\$13,076
Interest income	2,818,657
Other income	23,862
	-----
Total investment income	\$2,855,595
EXPENSES:	
Advisory fees	\$4,411,094
Legal fees	47,932

Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

Shareholder reporting	132,548	
Trustees' fees and expenses	136,639	
Custodian fees	88,984	
Transfer agent fees	41,247	
Accounting and auditing fees	59,929	
Other	159,373	
	-----	
Total expenses		5,077,746
		-----
Net investment income (loss)		(\$2,222,151)
		-----
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain on investments		\$63,501,379
Decrease in net unrealized gain on investments		(201,564,026)
		-----
Net loss on investments		(\$138,062,647)
		-----
Net decrease in net assets resulting from operations		(\$140,284,798)
		=====

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

11

H&Q HEALTHCARE INVESTORS  
-----  
STATEMENT OF CHANGES IN NET ASSETS

	FOR THE YEAR ENDED SEPTEMBER 30, 2001	FOR THE YEAR ENDED SEPTEMBER 30, 2000
	-----	-----
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment income (loss)	(\$2,222,151)	(\$3,056,159)
Net realized gain on investments	63,501,379	35,694,901
Increase (decrease) in net unrealized gain on investments	(201,564,026)	253,975,089
	-----	-----
Net increase (decrease) in net assets resulting from operations	(\$140,284,798)	\$286,613,831
	-----	-----

DISTRIBUTIONS TO SHAREHOLDERS

## Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

FROM:		
Net realized capital gains	(\$52,289,670)	(\$34,646,099)
	-----	-----
CAPITAL SHARE TRANSACTIONS:		
Value of shares issued in reinvestment of distributions (1,519,574 and 898,966 shares, respectively)	\$36,365,104	\$24,095,211
	-----	-----
Net increase (decrease) in net assets	(\$156,209,364)	\$276,062,943
NET ASSETS:		
Beginning of year	485,582,570	209,519,627
	-----	-----
End of year	\$329,373,206	\$485,582,570
	=====	=====

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

12

### H&Q HEALTHCARE INVESTORS

#### ----- STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED SEPTEMBER 30, 2001

CASH FLOWS USED FOR OPERATING ACTIVITIES:	
Interest and other income received	\$2,899,268
Dividends received	13,076
Operating expenses paid	(5,362,363)
	-----
Net cash used for operating activities	(\$2,450,019)
	-----
CASH FLOWS PROVIDED FROM INVESTING ACTIVITIES	
Purchases of portfolio securities	(\$51,629,150)
Net purchases of temporary cash investments	(24,817,800)
Sales and maturities of portfolio securities	95,123,166
	-----
Net cash provided from investing activities	\$18,676,216
	-----
CASH FLOWS USED FOR FINANCING ACTIVITIES:	
Cash distributions paid, net	(\$15,924,566)
	-----
Net cash used for financing activities	(\$15,924,566)
	-----
NET INCREASE IN CASH	\$301,631
CASH AT BEGINNING OF YEAR	254,614
	-----

Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

CASH AT END OF YEAR \$556,245  
=====

RECONCILIATION OF NET DECREASE IN NET ASSETS  
RESULTING FROM OPERATIONS TO NET CASH USED  
FOR OPERATING ACTIVITIES:

Net decrease in net assets resulting from operations	(\$140,284,798)
Net realized gain on investments	(63,501,379)
Net increase in unrealized gain on investments	201,564,026
Decrease in dividends and interest receivable	56,749
Decrease in prepaid expenses	41,339
Decrease in accrued expenses	(325,956)
	-----
Net cash used for operating activities	(\$2,450,019) =====

Noncash investing activities not included herein consist of conversions of promissory notes to equity investments of \$2,599,054. Noncash financing activities not included herein consist of stock distributions of \$36,365,104.

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

13

H&Q HEALTHCARE INVESTORS  
-----

FINANCIAL HIGHLIGHTS

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

	FOR THE YEAR ENDED SEPTEMBER 30		
	2001	2000	1999
	-----	-----	-----
Net asset value per share:			
Beginning of period	\$46.147	\$21.771	\$16.711
	-----	-----	-----
Net investment income (loss)	(\$0.195) *	(\$0.290)	(\$0.176)
Net realized and unrealized gain (loss) on investments	(13.822)	28.131	5.596
	-----	-----	-----
Total increase (decrease) from investment operations	(\$14.017)	\$27.841	\$5.420
	-----	-----	-----
Dilutive effect of sale of common stock and related expenses from rights offering	--	--	--
Capital gains distributions to shareholders	(\$4.780)	(\$3.465)	(\$0.360)
	-----	-----	-----
Net asset value per share: End of period	\$27.350	\$46.147	\$21.771
	=====	=====	=====
Per share market value:			

## Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

End of period	\$21.740	\$36.188	\$16.313
Total investment return at market value	(27.23%)	151.66%	27.39%

RATIOS AND SUPPLEMENTAL DATA:

Net assets at end of period	\$329,373,206	\$485,582,570	\$209,519,627	
Ratio of operating expenses to average net assets	1.42%	1.45%	1.46%	
Ratio of net investment loss to average net assets	(0.62%)	(0.86%)	(0.91%)	
Portfolio turnover rate	16.17%	12.90%	24.88%	
Number of shares outstanding at end of period	12,042,064	10,522,490	9,623,524	

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

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

14

H&Q HEALTHCARE INVESTORS

-----  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2001

(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.

## Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

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 will adopt the provisions of the AICPA Audit and Accounting Guide for Investment Companies, as revised, effective for fiscal years beginning after December 15, 2000. As required, the Fund will begin accreting discounts and amortizing premiums on all debt securities effective October 1, 2001. 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 will have no impact on the total net assets of the Fund. The impact of this accounting change will result in an increase to cost of securities and a corresponding decrease in net unrealized appreciation of approximately \$155,000 based on securities held as of September 30, 2001.

### 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. The Fund has adjusted for the effect of certain permanent book/tax differences by reclassifying the net operating loss against accumulated net realized gains and capital, in the amount of \$388,157 and \$1,833,994, respectively, for the year ended September 30, 2001. This adjustment has no effect on the Fund's net assets, net investment loss or net realized gain and is designed to present the Fund's capital accounts on a tax basis. The calculation of net investment loss per share in the financial highlights excludes this adjustment.

15

### 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

## Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

cash on hand at its custodian and does not include temporary cash investments at September 30, 2001.

### (2) SECURITIES TRANSACTIONS

The aggregate cost of purchases and proceeds from sales of investment securities (other than temporary cash investments) for the year ended September 30, 2001 totaled \$52,151,377 and \$96,681,496, respectively.

At September 30, 2001, the total cost of securities for Federal income tax purposes was \$210,199,377. The net unrealized gain on securities held by the Fund was \$117,235,719, including gross unrealized gain of \$120,138,764 and gross unrealized loss of \$2,903,045.

### (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.

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 22% of the Fund's net assets at September 30, 2001.

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 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 \$2,260,605 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 September 30, 2001, as determined by the Trustees of the Fund.



Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

SECURITY	ACQUISITION DATE	COST	CARRYING VALUE PER UNIT
AbTox			
Series F Cvt. Pfd.	3/7/97	\$1,415,569	\$0.01
12% Promissory Note	2/26/98 - 3/26/98	180,000	1.00
ACADIA Pharmaceuticals			
Series E Cvt. Pfd.	5/2/00	3,000,273	7.50
Advanced Medicine			
Series C Cvt. Pfd.	2/5/99	1,800,123	9.00
Series D-1 Cvt. Pfd.	8/28/00	1,800,900	9.00
Biofield			
Common	12/15/00	302,984	0.26
Biopure			
Common Warrants (expire 8/4/03)	5/13/99	0	5.89
BioTransplant			
Common Warrants (expire 8/12/04)	8/12/94	0	0.90
Common Warrants (expire 10/31/04)	10/31/94	0	0.90
Common Warrants (expire 8/15/05)	8/18/95	0	3.27
CardioNet^			
Series C Cvt. Pfd.	5/3/01	4,823,275	3.50
Ceres			
Series C Cvt. Pfd.	12/23/98	1,502,620	6.00
Series C-1 Cvt. Pfd.*	1/4/01	111,488	6.00
Series D Cvt. Pfd.*	3/14/01	1,667,802	6.00
Codman Group			
Common	1/26/96 - 8/24/97	2,552,759	0.00
Cubist Pharmaceuticals			
Common Warrants (expire 9/23/03)	9/23/98	235	25.94
CytoLogix^			
Series A Cvt. Pfd.	1/13/98 - 7/21/99	2,331,986	5.05
Series B Cvt. Pfd.*	1/11/01	1,150,335	5.05
EPR			
Series A Cvt. Pfd.	3/9/94	1,000,409	1.50
FitForAll.com			
10% Promissory Note*	2/22/00 - 9/18/00	1,613,493	0.00
Galileo Laboratories			
Series F Cvt. Pfd.	8/18/00	3,001,764	2.14
KVM Technologies^			
Series B Cvt. Pfd.*	2/19/98	1,501,320	4.42
Adj. Cvt. Demand Note*	6/21/99 - 7/31/01	1,350,625	1.00
LocalMed			
Series D Cvt. Pfd.	2/9/96	1,376,970	0.01
Masimo			
Series D Cvt. Pfd.	8/14/96	1,120,040	11.00
Masimo Labs			
Common	8/14/96	0	0.01
Novacept			
Series G Cvt. Pfd.*	3/27/01	3,000,005	4.75
Omnisonics^			
Series B Cvt. Pfd.	5/24/01	2,404,472	1.47
PHT^			
Series D Cvt. Pfd.	7/23/01	4,200,000	0.78

Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

SECURITY	ACQUISITION DATE	COST	CARRYING VALUE PER UNIT
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
Songbird Hearing			
Series D Cvt. Pfd.	12/14/00	3,002,086	2.340
Sontra Medical^			
Series A Cvt. Pfd.	9/9/98	1,205,089	0.503
Series B Cvt. Pfd.	3/26/01 - 7/11/01	270,000	0.503
Common	3/26/01	0	0.010
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	1,528,922	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			
Common	10/29/99	414,898	10.050
Warrants (expire 8/3/05)	6/28/99	905	6.944
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
		-----	
		\$69,418,036	
		=====	

\* With warrants attached.

^ Affiliated issuers.

FEDERAL TAX INFORMATION (UNAUDITED)

Pursuant to Section 852 of the Internal Revenue Code, the Fund designates \$52,290,000 as long-term capital gain dividends for the fiscal year ended September 30, 2001.

Edgar Filing: H&Q HEALTHCARE INVESTORS - Form N-30D

OFFICERS

Daniel R. Omstead, ENGSCD, President  
Alan G. Carr, President Emeritus  
Kimberley L. Carroll, Treasurer  
Jennifer L. Morris, Secretary

TRUSTEES

Alan G. Carr  
Lawrence S. Lewin  
Robert P. Mack, M.D.  
Eric Oddleifson  
Oleg M. Pohotsky  
Uwe E. Reinhardt, Ph.D.  
Henri A. Termeer

INVESTMENT ADVISER

Hambrecht & Quist Capital Management Incorporated

CUSTODIAN AND TRANSFER AGENT

State Street Bank and Trust Company

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP

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  
Telephone: 1-800-426-5523

H&Q HEALTHCARE INVESTORS  
-----

New York Stock Exchange Symbol: HQH  
[www.hqcm.com](http://www.hqcm.com)  
-----

Out of concern for the environment and in an effort to reduce  
Fund expenses, this report is printed on recycled paper.

HQHCM-AR-01