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H&Q HEALTHCARE INVESTORS
Form N-30D
May 31, 2001

H&Q HEALTHCARE INVESTORS

[GRAPHIC]

SEMIANNUAL REPORT

MARCH 31, 2001

To our Shareholders:

At quarter-end on March 31, 2001, the net asset value of your Fund was \$26.34 per share. Performance data for the fiscal year and the quarter ended March 31 compared to the indices is as follows:

| | FISCAL YEAR TO DATE 9/30/00 - 3/31/01 ----- | QUARTER ENDED 3/31/01 ----- |
|------------------------------|---|-----------------------------------|
| Net Asset Value | -35.2% | -20.7% |
| Dow Jones Industrial Average | -7.3% | -8.4% |
| NASDAQ Industrials | -39.9% | -17.1% |
| Russell 2000 | -13.6% | -6.8% |

The collateral damage to other over-the-counter stocks from the declines in electronic and e-trade equities in the quarter ended March 31 is reflected in these performance data. Of some encouragement is the somewhat improved performance of healthcare stocks relative to the NASDAQ index toward the end of the quarter.

The overall state of the economy and the levels of common stock valuation seem to us to still be fragile. For example, consumer sentiment polls seem to present a positive outlook. That seems inconsistent with the fact that almost every announcement of corporate earning disappointment is coupled with a layoff announcement. Under such conditions, how long are consumers going to continue to spend beyond their incomes? Corporate and consumer debt are at record levels.

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The Federal Reserve Board appears convinced that the wealth effect of the level of the stock market has to be sustained by lower interest rates to assure continued consumer confidence. While consumers are roughly two-thirds of the economy, it is troubling that the capital expenditure portion of the economy (and electronic equipment, computers, communications equipment, semi-conductors etc. are cyclically sensitive capital items) is in apparent recession. Perhaps we, as a country, have over the last several years added all the productivity that we can utilize until the next major technology product cycles come along.

We are, therefore, concerned about the general valuation levels of the market and, from our experience, believe that there is no way even a specialized portfolio such as your Fund's can be totally immune to the effects of any future general decline in the

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overall market. Accordingly, we are maintaining a larger than historic liquid asset position in anticipation of future opportunities to purchase good companies at depressed valuations in this sector. We believe the portfolio companies currently held already represent value at the current price levels of their stocks, especially in view of our expectations of their fundamental outlook.

We continue to believe that it is important to keep in mind the differences in the long-term business models of the companies meeting the investment objectives of your Fund as compared to other types of "technology". While the development risks are high and attainment of FDA market approvals are a challenge, patent positions are generally more enforceable and product life cycles, especially in therapeutic products, are much longer. Market demand for approved products that improve the human condition usually is very responsive soon after introduction.

In the quarter, our venture investment activity included follow-on commitments in Ceres, CytoLogix, KVM Technologies and Sontra Medical. The Fund also made new private investments in two public companies, ENDOCARDIAL SOLUTIONS and ORTHOVITA, at discounts to their public market prices and in one new private company, Novacept. NOVACEPT has an innovative minimally invasive catheter system to treat excessive menstrual bleeding that appears to be a dramatic improvement over currently available therapies for a large patient population.

In no way are our expectations diminished that the future value creation from the inventions in biotechnology and genomics, instrumentation and devices and the growth of the healthcare sector will lead to vast improvements in the span and quality of life and present significant investment opportunities in the future.

/s/ Alan G. Carr

Alan G. Carr
President

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H&Q HEALTHCARE INVESTORS

PRIVACY NOTICE

If you are a registered shareholder of the Fund, the Fund and Hambrecht

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& 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 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.

[CHART]

H&Q HEALTHCARE INVESTORS

PORTFOLIO
AS OF MARCH 31, 2001

| | | |
|----------------------|-------|--------|
| AGRI/ENVIRONMENTAL | 1.46% | 2.00% |
| BIOTECHNOLOGY | 9.61% | 48.50% |
| CROs | 0.00% | 0.60% |
| DIAGNOSTICS | 2.07% | 5.90% |
| INFORMATION SERVICES | 0.56% | 0.60% |
| MANAGED CARE | 0.85% | 0.90% |
| MEDICAL SPECIALTY | 5.20% | 10.50% |
| MEDICAL SUPPLIES | 1.15% | 2.00% |
| PHARMACEUTICALS | 2.24% | 16.00% |
| LIQUID ASSETS | 0.00% | 13.30% |

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H&Q HEALTHCARE INVESTORS

LARGEST HOLDINGS
AS OF MARCH 31, 2001

% OF NET ASSETS

| | |
|------------------------|-------|
| Biovail | 6.70% |
| Cubist Pharmaceuticals | 5.76% |
| Gilead Sciences | 4.48% |
| ImClone Systems | 3.68% |
| Genzyme | 3.51% |
| CV Therapeutics | 3.44% |
| Celgene | 3.42% |
| Molecular Devices | 2.65% |

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Scios 2.57%
 MedImmune 2.51%

H&Q HEALTHCARE INVESTORS

 SIGNIFICANT PORTFOLIO TRANSACTIONS
 QUARTER ENDED MARCH 31, 2001

| PURCHASES | UNITS HELD 12/31/00 | UNITS HELD 3/31/01 |
|---|------------------------|-----------------------|
| ----- | ----- | ----- |
| Ceres (Restricted) Promissory Note | \$0 | \$108,000 |
| Ceres (Restricted) Series D | 0 | 277,967 |
| Endocardial Solutions (Restricted) | 0 | 1,000,000 |
| KVM Technologies (Restricted) Cvt. Note | \$915,000 | \$1,050,000 |
| Novacept (Restricted) | 0 | 631,580 |
| Orthovita (Restricted) | 0 | 1,020,000 |
| Sontra Medical (Restricted) Promissory Note | \$0 | \$180,000 |
| Transkaryotic Therapies | 169,812 | 264,912 |
| | | |
| SALES | | |
| ----- | | |
| Amgen | 100,000 | 0 |
| Cytec | 592,830 | 324,330 |
| Gene Logic | 135,000 | 0 |
| Genzyme Biosurgery | 104,470 | 55,841 |
| Interpore Cross | 180,000 | 178,300 |

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H&Q HEALTHCARE INVESTORS

 SCHEDULE OF INVESTMENTS
 March 31, 2001
 (UNAUDITED)

| SHARES | CONVERTIBLE SECURITIES - 17.2% OF NET ASSETS CONVERTIBLE PREFERRED - 15.1% | VALUE |
|-----------|---|--------------|
| ----- | | ----- |
| | AGRICULTURAL/ENVIRONMENTAL TECHNOLOGIES - 1.4% | |
| 375,000 | Ceres (Restricted) Series C* | \$ 2,250,000 |
| 277,967 | Ceres (Restricted) Series D* | 1,667,802 |
| 222,222 | EPR (Restricted) Series A* | 333,333 |
| | BIOTECHNOLOGY - 5.9% | |
| 400,000 | ACADIA Pharmaceuticals (Restricted) Series E* | 3,000,000 |
| 1,818,182 | Raven biotechnologies (Restricted) Series B* | 3,000,000 |
| 47,407 | Therion Biologics (Restricted) Series A* | 177,776 |
| 36,092 | Therion Biologics (Restricted) Sinking Fund* | 135,345 |
| 1,750,000 | Triad Therapeutics (Restricted) Series A* | 3,500,000 |
| 825,000 | Triad Therapeutics (Restricted) Series B* | 1,650,000 |

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| | | |
|-----------|--|--------------|
| 923,077 | Zyomyx (Restricted) Series B* | 3,692,308 |
| 600,000 | Zyomyx (Restricted) Series C* | 2,400,000 |
| | DIAGNOSTICS - 1.9% | |
| 484,829 | CytoLogix (Restricted) Series A* | 2,448,386 |
| 227,130 | CytoLogix (Restricted) Series B* | 1,147,007 |
| 160,000 | Masimo (Restricted) Series D* | 1,760,000 |
| 1,724,138 | Sontra Medical (Restricted) Series A* | 465,517 |
| | MANAGED CARE - 0.5% | |
| 338,983 | KVM Technologies (Restricted) Series B* | 1,500,000 |
| | MEDICAL SPECIALTY - 2.0% | |
| 636,364 | AbTox (Restricted) Series F* | 6,364 |
| 1,066,667 | Novatrix (Restricted) Series D* | 10,667 |
| 639,659 | Songbird Hearing (Restricted) Series B* | 3,000,001 |
| 652,173 | TherOx (Restricted) Series H* | 2,999,996 |
| | MEDICAL SUPPLIES - 1.2% | |
| 400,000 | InterVentional Technologies (Restricted) Series E* | 200,000 |
| 87,500 | InterVentional Technologies (Restricted) Series F* | 218,750 |
| 15,000 | InterVentional Technologies (Restricted) Series G* | 37,500 |
| 343,750 | LocalMed (Restricted) Series D* | 3,438 |
| 631,580 | Novacept (Restricted) Series D* | 3,000,005 |
| | PHARMACEUTICALS/DRUG DELIVERY - 2.2% | |
| 211,765 | Advanced Medicine (Restricted) Series C* | 1,905,885 |
| 200,000 | Advanced Medicine (Restricted) Series D-1* | 1,800,000 |
| 1,398,732 | Galileo Laboratories (Restricted) Series F* | 3,000,000 |
| | | ----- |
| | | \$45,310,080 |
| | | ----- |

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

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H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

March 31, 2001

(CONTINUED)

| PRINCIPAL AMOUNT | CONVERTIBLE BONDS AND NOTES - 2.1% | VALUE |
|---------------------|--|-------------|
| ----- | | ----- |
| | AGRICULTURAL/ENVIRONMENTAL TECHNOLOGY - 0.0% | |
| \$108,000 | Ceres (Restricted) 7% Prom. Note due 2001 | \$108,000 |
| | BIOTECHNOLOGY - 1.6% | |
| 6,800,000 | CuraGen (Restricted) 6% Cvt. Deb. due 2007 | 4,658,000 |
| | DIAGNOSTICS - 0.1% | |
| 180,000 | Sontra (Restricted) 8% Prom. Note due 2002 | 180,000 |
| | INFORMATION SERVICES - 0.0% | |
| 1,577,366 | FitForAll.com (Restricted) 10% Prom. Note due 2003 | 158 |
| | MANAGED CARE - 0.4% | |
| 1,050,000 | KVM Technologies (Restricted) Adj. Cvt. Note due 2001 | 1,050,000 |
| | MEDICAL SPECIALTY - 0.1% | |
| 180,000 | AbTox (Restricted) 12% Prom. Note due 2001 | 180,000 |
| | | ----- |
| | | \$6,176,158 |
| | | ----- |

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| | | |
|------------------------------|---|--------------|
| TOTAL CONVERTIBLE SECURITIES | | |
| (Cost \$55,383,443) | | \$51,486,238 |
| ----- | | |
| SHARES | COMMON STOCKS - 69.6% | |
| ----- | | |
| | AGRICULTURAL/ENVIRONMENTAL TECHNOLOGY - 0.5% | |
| 71,483 | Catalytica Energy Systems* | \$1,496,675 |
| | | ----- |
| | | \$1,496,675 |
| | | ----- |
| | BIOTECHNOLOGY - 41.1% | |
| | BIOPHARMACEUTICALS - 35.5% | |
| 429,898 | BioTransplant* | \$2,283,833 |
| 1,150 | BioTransplant (Restricted) Warrants* | 3,638 |
| 2,760 | BioTransplant (Restricted) Warrants* | 2,174 |
| 6,300 | BioTransplant (Restricted) Warrants* | 4,961 |
| 410,400 | Celgene* | 10,260,000 |
| 193,400 | Cor Therapeutics* | 4,351,500 |
| 246,389 | Corixa* | 1,971,112 |
| 550,556 | Cubist Pharmaceuticals* | 13,488,622 |
| 200,001 | Cubist Pharmaceuticals (Restricted) Warrants* | 3,782,519 |
| 312,823 | CV Therapeutics* | 10,323,159 |
| 116,500 | Genzyme* | 10,523,445 |
| 413,318 | Gilead Sciences* | 13,432,835 |
| 333,000 | ImClone Systems* | 11,051,438 |
| 210,000 | MedImmune* | 7,533,750 |
| 161,253 | Pharming Group* | 1,204,571 |
| 226,760 | Therion Biologics (Restricted)* | 850,350 |
| 240,000 | Therion Biologics (Restricted) Units* | 900,000 |

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

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H&Q HEALTHCARE INVESTORS

----- SCHEDULE OF INVESTMENTS

March 31, 2001

(CONTINUED)

| SHARES | BIOTECHNOLOGY - CONTINUED | VALUE |
|---------|--|---------------|
| | | ----- |
| 264,912 | Transkaryotic Therapies* | 4,652,517 |
| 270,270 | Tularik* | 5,135,130 |
| 450,000 | Versicor* | 3,628,125 |
| 178,165 | Versicor (Restricted)* | 1,077,346 |
| | GENOMICS/DRUG DISCOVERY - 5.6% | |
| 60,000 | Affymetrix* | 1,668,750 |
| 299,302 | Dyax* | 2,394,416 |
| 98,000 | Exelixis* | 851,375 |
| 225,000 | Lynx Therapeutics* | 1,894,922 |
| 174,461 | Molecular Devices* | 7,937,976 |
| 370,237 | Telik* | 1,920,604 |
| | | ----- |
| | | \$123,129,068 |
| | | ----- |
| | CONTRACT RESEARCH ORGANIZATIONS - 0.6% | |

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| | | |
|-----------|--|--------------|
| 91,400 | Quintiles Transnational* | \$1,725,175 |
| | | ----- |
| | | \$1,725,175 |
| | | ----- |
| | DIAGNOSTICS - 3.9% | |
| 522,517 | Biofield* | \$193,331 |
| 600,000 | Biofield (Restricted)* | 177,600 |
| 657,576 | Calypte Biomedical* | 420,849 |
| 324,330 | Cytyc* | 5,354,216 |
| 140,000 | Digene* | 2,135,000 |
| 152,000 | IDEXX Laboratories* | 3,334,500 |
| 160,000 | Masimo Labs (Restricted)* | 1,600 |
| | | ----- |
| | | \$11,617,096 |
| | | ----- |
| | INFORMATION SERVICES - 0.5% | |
| 4,366,920 | Codman Group (Restricted)* | \$436,692 |
| 306,208 | Physician WebLink (Restricted)* | 1,200,473 |
| 188,096 | Physician WebLink (Restricted) Warrants* | 18,810 |
| | | ----- |
| | | \$1,655,975 |
| | | ----- |
| | MEDICAL SPECIALTY - 8.4% | |
| 381,818 | ATS Medical* | \$3,674,998 |
| 130,900 | Bioject Medical Technologies* | 1,431,719 |
| 101,848 | Biopure* | 1,355,852 |
| 8,333 | Biopure (Restricted) Warrants* | 9,844 |
| 205,310 | Curis* | 760,289 |
| 1,000,000 | Endocardial Solutions (Restricted)* | 3,375,000 |
| 153,386 | Focal* | 95,866 |
| 55,841 | Genzyme Biosurgery* | 307,126 |
| 178,300 | Interpore Cross* | 746,631 |
| 441,409 | Martek Biosciences* | 6,841,840 |

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

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H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

March 31, 2001

(CONTINUED)

| SHARES | MEDICAL SPECIALTY - CONTINUED | VALUE |
|-----------|-------------------------------|--------------|
| ----- | | ----- |
| 1,020,000 | Orthovita (Restricted)* | 6,024,426 |
| 198,000 | Radiance Medical Systems* | 711,563 |
| | | ----- |
| | | \$25,335,154 |
| | | ----- |
| | MEDICAL SUPPLIES - 0.9% | |
| 645,000 | EP MedSystems* | \$1,451,250 |
| 137,457 | KeraVision* | 7,560 |
| 311,449 | Landec* | 1,129,003 |
| | | ----- |
| | | \$2,587,813 |

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| PHARMACEUTICALS/DRUG DELIVERY - 13.7% | | |
|---------------------------------------|--|---------------|
| 225,000 | Aradigm* | \$1,293,750 |
| 555,924 | Biovail* | 20,085,534 |
| 91,500 | Emisphere Technologies* | 1,309,594 |
| 334,500 | Scios* | 7,693,500 |
| 217,138 | Sepracor* | 6,948,416 |
| 70,000 | Teva Pharmaceutical Industries | 3,823,750 |
| | | ----- |
| | | \$41,154,544 |
| | | ----- |
| TOTAL COMMON STOCKS | | |
| (Cost \$101,283,279) | | \$208,701,500 |
| | | ----- |
| TOTAL INVESTMENTS IN SECURITIES | | |
| (Cost \$156,666,722) | | \$260,187,738 |
| | | ===== |
| | | |
| PRINCIPAL AMOUNT | TEMPORARY CASH INVESTMENTS - 14.8% | VALUE |
| ----- | | ----- |
| \$5,500,000 | American Express Credit, 5.17%, due 4/6/01 | \$5,496,050 |
| 2,000,000 | American Express Credit, 5.09%, due 4/11/01 | 1,997,172 |
| 3,000,000 | American Express Credit, 4.90%, due 4/23/01 | 2,991,017 |
| 13,000,000 | Ford Motor Credit Corp., 4.84%, due 4/18/01 | 12,970,288 |
| 3,000,000 | Ford Motor Credit Corp., 4.83%, due 4/25/01 | 2,990,340 |
| 5,000,000 | General Electric Capital Corp., 4.94%, due 4/2/01 | 4,999,314 |
| 13,000,000 | General Motors Acceptance Corp., 4.80%, due 4/16/01 | 12,974,000 |
| | | ----- |
| TOTAL TEMPORARY CASH INVESTMENTS | | \$44,418,181 |
| | | ===== |

* Non income-producing security (see Notes 1 and 5).

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

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H&Q HEALTHCARE INVESTORS

BALANCE SHEET
March 31, 2001
(UNAUDITED)

ASSETS:

| | |
|---|---------------|
| Investments in securities, at value (identified cost \$156,666,722; see Schedule of Investments) (Notes 1, 3 and 5) | \$260,187,738 |
| Temporary cash investments, at amortized cost which approximates value (see Schedule of Investments) (Note 1) | 44,418,181 |
| | ----- |
| Total investments | \$304,605,919 |
| Cash | 776,473 |

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| | |
|--|---------------|
| Dividends and interest receivable | 71,345 |
| Prepaid expenses and other assets | 168,869 |
| | ----- |
| Total assets | \$305,622,606 |
| | ----- |
| LIABILITIES: | |
| Capital gains distribution payable | \$5,233,003 |
| Accrued advisory fees (Note 4) | 379,472 |
| Other accrued expenses | 95,480 |
| | ----- |
| Total liabilities | \$5,707,955 |
| | ----- |
| NET ASSETS: | |
| Shares of beneficial interest, par value \$.01 per share, unlimited number of shares authorized, amount paid in on 11,385,069 shares issued and outstanding (Note 1) | \$177,296,535 |
| Accumulated undistributed net investment (loss) | (747,635) |
| Accumulated net realized gain on investments | 19,844,735 |
| Net unrealized gain on investments (Note 3) | 103,521,016 |
| | ----- |
| Total net assets (equivalent to \$26.34 per share based on 11,385,069 shares outstanding) | \$299,914,651 |
| | ===== |

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, 2001
(UNAUDITED)

| | |
|------------------------------------|-------------|
| INVESTMENT INCOME (Note 1): | |
| Dividend income | \$8,251 |
| Interest income | 1,544,752 |
| | ----- |
| Total investment income | \$1,553,003 |
| EXPENSES: | |
| Advisory fees (Note 4) | \$2,150,649 |
| Trustees' fees and expenses | 36,315 |
| Shareholder reporting | 29,532 |
| Custodian fees | 19,458 |
| Legal fees | 18,067 |
| Transfer agent fees | 11,688 |
| Accounting and auditing fees | 8,357 |
| Other | 26,572 |
| | ----- |
| Total expenses | 2,300,638 |

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| | |
|---|-----------------|
| Net investment (loss) | (\$747,635) |
| ----- | |
| NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS: | |
| Net realized gain on investments (Note 1) | \$47,460,750 |
| Net (decrease) in unrealized gain on investments | (215,278,729) |
| ----- | |
| Net (loss) on investments | (\$167,817,979) |
| ----- | |
| Net (decrease) in net assets resulting from operations | (\$168,565,614) |
| ===== | |

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 months ended March 31, 2001 (Unaudited) | For the year ended September 30, 2000 |
|---|--|--|
| | ----- | ----- |
| NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS: | | |
| Net investment (loss) | (\$747,635) | (\$3,056,159) |
| Net realized gain on investments | 47,460,750 | 35,694,901 |
| Net increase (decrease) in unrealized gain on investments | (215,278,729) | 253,975,089 |
| ----- | | ----- |
| Net increase (decrease) in net assets resulting from operations | (\$168,565,614) | \$286,613,831 |
| ----- | | ----- |
| DISTRIBUTIONS TO SHAREHOLDERS FROM: | | |
| Net realized capital gains | (\$38,327,331) | (\$34,646,099) |
| ----- | | ----- |
| CAPITAL SHARE TRANSACTIONS: | | |
| Value of shares issued in reinvestment of distributions | \$21,225,026 | \$24,095,211 |
| ----- | | ----- |
| Net increase (decrease) in net assets | (\$185,667,919) | \$276,062,943 |
| ----- | | ----- |
| NET ASSETS: | | |
| Beginning of period | 485,582,570 | 209,519,627 |

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| | | |
|---------------|---------------|---------------|
| | ----- | ----- |
| End of period | \$299,914,651 | \$485,582,570 |
| | ===== | ===== |

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, 2001

(UNAUDITED)

| | |
|--|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Interest received | \$1,597,023 |
| Dividends received | 8,251 |
| Operating expenses paid | (2,780,999) |
| | ----- |
| Net cash used for operating activities | (\$1,175,725) |
| | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Sales and maturities of portfolio securities | \$595,696,337 |
| Purchases of portfolio securities | (582,129,451) |
| | ----- |
| Net cash provided by investing activities | \$13,566,886 |
| | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Cash distributions paid, net | (\$11,869,302) |
| | ----- |
| Net cash used for financing activities | (\$11,869,302) |
| | ----- |
| NET INCREASE IN CASH | \$521,859 |
| CASH AT BEGINNING OF PERIOD | 254,614 |
| | ----- |
| CASH AT END OF PERIOD | \$776,473 |
| | ===== |

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 | (\$168,565,614) |
| Net realized (gain) on investments | (47,460,750) |
| Net decrease in unrealized gain on investments | 215,278,729 |
| Net decrease in interest and dividends receivable | 52,271 |
| Net (decrease) in accrued advisory fees and accrued other expenses | (369,482) |
| Net (increase) in prepaid expenses and other assets | (110,879) |
| | ----- |
| Net cash used for operating activities | (\$1,175,725) |
| | ===== |

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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 months ended March 31, 2001 (Unaudited) | For the years ended September 30, | | | |
|--|--|-----------------------------------|---------------|---------------|---------------|
| | 2000 | 1999 | 1998 | 1997 | |
| | ----- | ----- | ----- | ----- | |
| Net asset value per share: | | | | | |
| Beginning of period | \$46.147 | \$21.771 | \$16.711 | \$23.106 | \$25.754 |
| | ----- | ----- | ----- | ----- | ----- |
| Net investment (loss) | (\$0.066) | (\$0.290) | (\$0.176) | (\$0.217) | (\$0.224) |
| Net realized and unrealized gain (loss) on investments | (16.150) | 28.131 | 5.596 | (5.108) | 4.524 |
| Total increase (decrease) from investment operations | (\$16.216) | \$27.841 | \$5.420 | (\$5.325) | \$4.300 |
| | ----- | ----- | ----- | ----- | ----- |
| Dilutive effect of sale of common stock and related expenses from rights offering | -- | -- | -- | -- | (2.458) |
| Long-term capital gains distribution to shareholders | (\$3.589) | (\$3.465) | (\$0.360) | (\$1.070) | (\$4.490) |
| | ----- | ----- | ----- | ----- | ----- |
| Net asset value per share: | | | | | |
| End of period | \$26.342 | \$46.147 | \$21.771 | \$16.711 | \$23.106 |
| | ===== | ===== | ===== | ===== | ===== |
| Per share market value: | | | | | |
| End of period | \$20.790 | \$36.188 | \$16.313 | \$13.125 | \$19.000 |
| Total investment return | (33.67%) | 151.66% | 27.39% | (26.05%) | 14.01% |
| Net assets: | | | | | |
| End of period | \$299,914,651 | \$485,582,570 | \$209,519,627 | \$157,976,073 | \$207,728,666 |
| RATIOS AND SUPPLEMENTAL DATA: | | | | | |
| Ratio of operating expenses to average net assets | 1.21%* | 1.45% | 1.46% | 1.46% | 1.57% |
| Ratio of net investment (loss) to average net assets | (0.39%)* | (0.86%) | (0.91%) | (1.11%) | (1.13%) |
| Portfolio turnover rate | 8.06% | 12.90% | 24.88% | 7.15% | 17.47% |
| Number of shares outstanding at end of period | 11,385,069 | 10,522,490 | 9,623,524 | 9,453,317 | 8,990,17 |

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*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, 2001
(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 investment company industry.

INVESTMENT SECURITIES

Transactions related to the investments of the Fund are recorded on the date the securities are purchased or sold. 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 5, investments for which market quotations are not readily available are valued at fair value as determined in good faith by the Board of Trustees of the Fund. Temporary cash investments with maturities of 60 days or less are valued at amortized cost.

Gains and losses from sales of investments are recorded using the "identified cost" method for both financial reporting and Federal income tax purposes. Investment income and expenses are recorded on the accrual basis.

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 tax provision is required.

DISTRIBUTIONS

The Fund records all distributions to shareholders from net investment income and realized gains on the ex-dividend date. Such distributions are determined in conformity with income tax regulations. Due to permanent

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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.

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. The shares will be valued at the lower of net asset value or market price on the pricing date. 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

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H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

March 31, 2001

(continued)

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.

If a distribution were to be declared in cash, it would then be subject to the Dividend Reinvestment Plan. Under the Dividend Reinvestment Plan, distributions will automatically be paid in additional shares of the Fund, unless State Street Bank is otherwise instructed.

Shareholders may request to be paid in cash instead of shares by responding to the bank, brokerage or nominee who holds the shares if the shares are in "street name" or by filling out a form received from State Street Bank if the shares are in registered form.

(2) PURCHASES AND SALES OF INVESTMENT SECURITIES

The aggregate cost of purchases and proceeds from sales of investment securities (other than temporary cash investments) for the period from October 1, 2000 through March 31, 2001 totaled \$27,684,259 and \$60,508,953, respectively.

(3) TAX BASIS OF SECURITIES

At March 31, 2001, the total cost of securities for Federal income tax purposes was \$156,666,722. The aggregate gross unrealized gain on securities in which there was an excess of market value over cost was \$132,416,394. The aggregate gross unrealized loss on securities in which there was an excess of cost over market value was \$28,895,378. The net unrealized gain on securities held by the Fund was \$103,521,016.

(4) ADVISORY AGREEMENT

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

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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.

(5) 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 23.1% of the Fund's net assets at March 31, 2001.

The value of the venture capital and other restricted securities is determined in good faith by the Board of 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. 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, 2001, as determined by the Board of Trustees of the Fund.

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H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS
March 31, 2001
(continued)

| Security | Acquisition Date | Cost | Car |
|------------------------------|---------------------|-------------|-----|
| AbTox | | | |
| Series F Cvt. Pfd. | 3/7/97 | \$1,401,341 | |
| 12% Promissory Note due 2001 | 2/26/98 | 65,929 | |
| | 3/11/98 | 60,000 | |
| | 3/26/98 | 60,000 | |
| | | 185,929 | |
| ACADIA Pharmaceuticals | | | |
| Series E Cvt. Pfd. | 5/2/00 | 3,000,273 | |
| Advanced Medicine | | | |
| Series C Cvt. Pfd. | 2/5/99 | 1,800,123 | |
| Series D-1 Cvt. Pfd. | 8/28/00 | 1,800,000 | |
| Biofield # | | | |
| Common | 12/15/00 | 300,000 | |
| Biopure ^ | | | |
| Common Warrants | 5/13/99 | 0 | |
| BioTransplant * | | | |
| Common Warrants | 8/12/94 | 0 | |
| Common Warrants | 10/31/94 | 0 | |

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| | | |
|------------------------------|----------|-----------|
| Common Warrants | 8/18/95 | 0 |
| Ceres | | |
| Series C Cvt. Pfd. | 12/23/98 | 1,500,875 |
| Series D Cvt. Pfd. | 3/14/01 | 1,667,802 |
| 7% Promissory Note due 2001 | 1/4/01 | 108,000 |
| Codman Group | | |
| Common | 1/26/96 | 1,652,603 |
| | 8/24/97 | 900,155 |
| | | ----- |
| | | 2,552,758 |
| Cubist Pharmaceuticals ## | | |
| Common Warrants | 9/23/98 | 235 |
| CuraGen | | |
| 6% Cvt. Debenture due 2007 | 1/28/00 | 2,974,500 |
| | 3/30/00 | 1,694,007 |
| | 6/27/00 | 464,800 |
| | 6/28/00 | 975,950 |
| | | ----- |
| | | 6,109,257 |
| CytoLogix | | |
| Series A Cvt. Pfd. | 1/13/98 | 1,070,898 |
| | 11/10/98 | 900,281 |
| | 7/21/99 | 360,160 |
| | | ----- |
| | | 2,331,339 |
| Series B Cvt. Pfd. | 1/11/01 | 1,147,005 |
| Endocardial Solutions # | | |
| Common | 3/21/01 | 3,000,000 |
| EPR | | |
| Series A Cvt. Pfd. | 3/9/94 | 1,000,409 |
| FitForAll.com | | |
| 10% Promissory Note due 2003 | 2/22/00 | 450,000 |
| | 4/3/00 | 69,821 |
| | 4/20/00 | 301,852 |
| | 5/15/00 | 457,821 |
| | 7/27/00 | 159,666 |
| | 9/18/00 | 150,000 |
| | | ----- |
| | | 1,589,160 |

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H&Q HEALTHCARE INVESTORS

 NOTES TO FINANCIAL STATEMENTS
 March 31, 2001
 (continued)

| Security | Acquisition Date | Cost | Car |
|-----------------------------|------------------|-----------|-------|
| ----- | ----- | ----- | ----- |
| Galileo Laboratories | | | |
| Series F Cvt. Pfd. | 8/18/00 | 3,000,000 | |
| InterVentional Technologies | | | |
| Series E Cvt. Pfd. | 4/2/91 | 500,667 | |

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| | | |
|------------------------------------|----------|-----------|
| Series F Cvt. Pfd. | 8/21/92 | 700,399 |
| Series G Cvt. Pfd. | 3/8/95 | 150,431 |
| KVM Technologies | | |
| Series B Cvt. Pfd. | 2/19/98 | 1,501,320 |
| Adj. Cvt. Promissory Note due 2001 | 6/21/99 | 150,625 |
| | 10/19/99 | 120,000 |
| | 12/15/99 | 30,000 |
| | 1/20/00 | 45,000 |
| | 3/16/00 | 60,000 |
| | 4/13/00 | 90,000 |
| | 5/24/00 | 60,000 |
| | 7/10/00 | 60,000 |
| | 7/31/00 | 90,000 |
| | 10/11/00 | 60,000 |
| | 11/13/00 | 150,000 |
| | 1/30/01 | 135,000 |
| | | ----- |
| | | 1,050,625 |
| LocalMed | | |
| Series D Cvt. Pfd. | 2/9/96 | 1,376,970 |
| MASIMO | | |
| Series D Cvt. Pfd. | 8/14/96 | 1,120,000 |
| Masimo Labs | | |
| Common | 8/14/96 | 1,600 |
| Novacept | | |
| Series D Cvt. Pfd. | 3/27/01 | 3,000,005 |
| Novatrix | | |
| Series D Cvt. Pfd. | 5/25/00 | 2,400,691 |
| Orthovita ^ | | |
| Common | 3/16/01 | 4,080,000 |
| Physician WebLink | | |
| Common | 2/5/97 | 1,200,325 |
| Common Warrants | 10/15/98 | 0 |
| Raven biotechnologies | | |
| Series B Cvt. Pfd. | 12/12/00 | 3,000,000 |
| Songbird Hearing | | |
| Series D Cvt. Pfd. | 12/14/00 | 3,000,001 |
| Sontra Medical | | |
| Series A Cvt. Pfd. | 9/9/98 | 1,200,420 |
| 8% Promissory Note due 2002 | 3/26/01 | 180,000 |
| Therion Biologics | | |
| Common | 7/12/90 | 7,582 |
| | 6/30/93 | 502,648 |
| | 8/20/96 | 818 |
| | 10/16/96 | 3,623 |
| | | ----- |
| | | 514,671 |
| Sinking Fund Cvt. Pfd. | 10/17/94 | 251,260 |
| | 4/19/95 | 97,116 |
| | 7/12/95 | 97,063 |
| | 10/17/95 | 97,000 |
| | 1/25/96 | 89,176 |
| | 4/3/96 | 90,200 |
| | | ----- |
| | | 721,815 |

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H&Q HEALTHCARE INVESTORS

FINANCIAL HIGHLIGHTS

March 31, 2001

(continued)

| Security | Acquisition Date | Cost |
|---------------------------|---------------------|--------------|
| ----- | | |
| Therion Biologics (cont.) | | |
| Series A Cvt. Pfd. | 8/20/96 | 80,982 |
| | 10/16/96 | 358,631 |
| | | ----- |
| | | 439,613 |
| Units | 2/24/99 | 68,989 |
| | 6/3/99 | 68,989 |
| | 6/22/99 | 762,022 |
| | | ----- |
| | | 900,000 |
| TherOx | | |
| Series H Cvt. Pfd. | 9/11/00 | 2,999,996 |
| Triad Therapeutics | | |
| Series A Cvt. Pfd. | 6/8/99 | 1,750,860 |
| Series B Cvt. Pfd. | 12/20/00 | 1,650,000 |
| Versicor ** | | |
| Common | 6/28/99 | 427,365 |
| | 10/29/99 | 414,733 |
| | | ----- |
| | | 842,098 |
| Zyomyx | | |
| Series B Cvt. Pfd. | 2/19/99 | 1,200,550 |
| Series C Cvt. Pfd. | 3/2/00 | 1,200,690 |
| | | ----- |
| | | \$68,998,253 |
| | | ===== |

* Represents 60% of equivalent current market value.

** Represents 75% of equivalent current market value.

Represents 80% of equivalent current market value.

Represents 85% of equivalent current market value.

^ Represents 90% of equivalent current market value.

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

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Henri A. Termeer

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
Telephone: 1-800-426-5523

H&Q HEALTHCARE INVESTORS

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