

H&Q HEALTHCARE INVESTORS  
 Form N-30D  
 June 05, 2003

H&Q HEALTHCARE INVESTORS

[LOGO]

SEMIANNUAL REPORT

MARCH 31, 2003

To our Shareholders:

At quarter end on March 31, 2003, the net asset value per share of your Fund was \$16.66. Total return for this quarter at net asset value was (1.9%), a change that lagged the Amex Biotech and NASDAQ Industrials Indices but which was favorable to the Dow Jones Industrial Average and the Russell 2000 Index for the same time period. Total return at market price was 0.21% during the quarter and 10.77% for the semi-annual period. Net asset value performance compared to the major indices for the quarter and six-month period ended March 31, 2003 was as follows:

	FISCAL YEAR TO DATE 9/30/02 - 3/31/03 -----	QUARTER ENDED 3/31/03 -----
Net Asset Value	+1.0%	-1.9%
AMEX Biotech Index	+4.2%	-1.5%
Dow Jones Industrial Average	+5.3%	-4.2%
NASDAQ Industrials	+9.3%	-0.7%
Russell 2000	+0.6%	-4.8%

The question, of course, is what can we expect from here. While we obviously don't know for certain, we believe that the recently completed quarter may signify a turning point. In the last few years we have been through a great deal of market turmoil. We saw a tremendous run up in market value in 2000, only to see a very significant and prolonged subsequent decline. As a benchmark, it is quite amazing to note that the NASDAQ Composite Index, which reached the 5000 level in 2000, was at 1341 at the close of the most recent quarter. This decline was punctuated along the way by a series of very tough blows to our collective psyche, including the September 11 attacks and last year's corporate governance crisis. During 2002 we detected a great deal of apprehension and even fear of the unknown in many investors. Entering the first quarter of 2003, geopolitical concerns were significant. As the quarter progressed, the focus of nearly the entire country rested on Iraq.

A lot has changed in the last month or two. The scope and cost of loss in Iraq have been quantified. Importantly, the global and political worst-case scenarios have not come to pass. We are grateful and relieved about this, of course. And significantly, it looks to us that we have entered a more normal phase wherein performance of the economy and of individual companies could have a greater effect on the stock market and the share prices of individual companies. We think that there is an increasing likelihood that companies that

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discover, develop and commercialize quality products will be rewarded with increased share price. Moreover, it appears to us that healthcare companies will be at the forefront of such a trend. We believe that all this bodes well for your Fund as we continue to identify innovative companies that may be able to cure recalcitrant diseases based on the application of novel scientific discoveries.

Having said all this, we acknowledge that there are obviously other factors that could change this equation. As a general positive, we believe there is evidence that the economy is recovering, albeit slowly and with the creation of relatively few jobs. In recent months our view has been tempered by high corporate and household debt levels relative to income, concerns about employment, low savings rates, and by our sense of general public unease about the loss of paper wealth that has occurred in the last couple of years. However, more recently we have sensed a shift in the general mood of the public. It seems to us that after spending a month or more focused on the events in Iraq, the public is now looking forward rather than back. Importantly, a number of first quarter reports have met or exceeded expectations, including reports in the healthcare sector. This makes us more optimistic about the potential for progress in the next few quarters. We hope to see some modest improvement in the economy and particularly in the healthcare sector over the coming months. We are not sure how sustainable the current trends are - so we are not overly bullish - but we are certainly optimistic that 2003 will turn out to be a better year than the last two have proven to be.

In this past quarter, we did not add any new private companies to the portfolio. We continue to evaluate a number of private investment opportunities, and have made new public purchases for the Fund. The Fund did, however, make follow-on investments in the following non-public companies in the portfolio: ACADIA Pharmaceuticals, CardioNet and Concentric Medical.

As always, we encourage the Fund's shareholders to contact us with any questions or concerns they may have relating to the Fund, and hope to see you at the Annual Meeting of Shareholders on June 18th here in Boston.

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

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

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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 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

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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

[CHART]

PORTFOLIO  
AS OF MARCH 31, 2003

	TOTAL	VENTURE	DIFFERENCE
AGRI/ENVIRO	2%	2%	0%
BIOTECHNOLOGY	48%	12%	36%
CROs	1%	0%	1%
DIAGNOSTICS	6%	4%	2%
HEALTHCARE INFO SERVICES	4%	2%	2%
MEDICAL SPECIALTY	14%	6%	8%
MEDICAL SUPPLIES	2%	1%	0%
PHARMACEUTICALS	5%	2%	3%
LIQUID ASSETS	18%	0%	18%

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H&Q HEALTHCARE INVESTORS

LARGEST HOLDINGS  
AS OF MARCH 31, 2003

	% OF NET ASSETS
	-----
Martek Biosciences	5.31%
Celgene	4.51%
Gilead Sciences	3.77%
MedImmune	3.57%
CV Therapeutics	2.38%
CardioNet (Restricted)	2.33%
Cubist Pharmaceuticals	2.27%
IDEXX Laboratories	2.24%
Telik	2.10%
Exelixis	2.06%

H&Q HEALTHCARE INVESTORS

SIGNIFICANT PORTFOLIO TRANSACTIONS  
QUARTER ENDED MARCH 31, 2003

UNITS HELD                      UNITS HELD

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	12/31/02	3/31/03
	-----	-----
PURCHASES		
ACADIA Pharmaceuticals (Restricted) Series F	0	277,778
CardioNet (Restricted)	1,457,144	1,577,144
Charles River Labs	0	85,200
Concentric Medical (Restricted)	4,411,764	4,852,940
Eclipsys	0	142,200
IMPAX Laboratories	231,600	486,100
Kosan Biosciences	263,300	442,600
Lexicon Genetics	208,400	342,200
Millennium Pharmaceuticals	0	418,500
SALES		
Cytec	324,330	0
Digene	18,500	0
Endologix	198,000	0
Gilead Sciences	426,636	213,000

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H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

March 31, 2003

(UNAUDITED)

SHARES		VALUE
-----		-----
CONVERTIBLE SECURITIES - 29.8% OF NET ASSETS		
CONVERTIBLE PREFERRED (RESTRICTED) - 27.7%		
AGRICULTURAL/ENVIRONMENTAL TECHNOLOGIES - 1.7%		
375,000	Ceres Series C*	\$ 2,250,000
27,443	Ceres Series C-1*#	164,658
277,967	Ceres Series D*#	1,667,801
222,222	EPR Series A*	22,222
BIOTECHNOLOGY - 11.4%		
460,000	ACADIA Pharmaceuticals Series E*	1,242,000
277,778	ACADIA Pharmaceuticals Series F*	750,001
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
1,212,709	IDUN Pharmaceuticals Series A-1*	3,000,000
1,818,182	Raven biotechnologies Series B*^	1,509,091
2,809,157	Raven biotechnologies Series C*^	2,331,600
47,407	Therion Biologics Series A*	89,125
240,000	Therion Biologics Series B*#	451,200
407,712	Therion Biologics Series C*#	766,499
36,092	Therion Biologics Sinking Fund*	67,853
1,750,000	Triad Therapeutics Series A*	1,750,000
525,000	Triad Therapeutics Series B*	525,000
1,200,000	Triad Therapeutics Series C*	1,200,000
923,077	Zyomyx Series B*	1,846,153
600,000	Zyomyx Series C*	1,200,000
600,000	Zyomyx Series E*	1,200,000
DIAGNOSTICS - 3.3%		

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1,577,144	CardioNet Series C*^	5,520,004
484,829	CytoLogix Series A*^	400,178
227,130	CytoLogix Series B*#^	187,472
160,000	Masimo Series D*	1,760,000
	HEALTHCARE INFORMATION SERVICES - 1.8%	
5,384,615	PHT Series D*^	4,200,000
	MEDICAL SPECIALTY - 6.3%	
636,364	AbTox Series F*+	6,364
4,852,940	Concentric Medical Series B*	3,299,999
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*	1,976,084
820,313	VNUS Medical Technologies Series E*^	4,200,003
	MEDICAL SUPPLIES - 1.4%	
343,750	LocalMed Series D*	3,438
631,580	Novacept Series G*#	2,178,951
347,826	Novacept Series H*	1,200,000

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

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SHARES		VALUE
-----		-----
	CONVERTIBLE SECURITIES - CONTINUED	
	CONVERTIBLE PREFERRED (RESTRICTED) - 27.7%	
	PHARMACEUTICALS/DRUG DELIVERY - 1.8%	
139,873	Galileo Laboratories Series F*	\$ 489,555
211,765	Theravance Series C*	1,905,885
200,000	Theravance Series D-1*	1,800,000
		-----
		\$ 65,567,534
		-----
PRINCIPAL		
AMOUNT		
-----		
	CONVERTIBLE BONDS AND NOTES - 2.1%	
	BIOTECHNOLOGY - 1.9%	
\$6,800,000	CuraGen 6% Cvt. Deb. due 2007~	\$ 4,624,000
	DIAGNOSTICS - 0.1%	
168,336	CytoLogix (Restricted) 6.75% Cvt. Note, due 2003*^	168,337
	HEALTHCARE INFORMATION SERVICES - 0.0%	
1,577,366	FitForAll.com (Restricted) 10% Prom. Note*#+	158
	MEDICAL SPECIALTY - 0.1%	
180,000	AbTox (Restricted) 12% Prom. Note*+	180,000
		-----
		\$ 4,972,495
		-----
	TOTAL CONVERTIBLE SECURITIES	
	(Cost \$91,868,175)	\$ 70,540,029
		-----

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SHARES

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	COMMON STOCKS - 52.0%	
	AGRICULTURAL/ENVIRONMENTAL TECHNOLOGY - 0.1%	
71,483	Catalytica Energy Systems*	\$ 182,282
		-----
		182,282
		-----
	BIOTECHNOLOGY - 34.5%	
	BIOPHARMACEUTICALS - 25.1%	
311,300	Adolor*	3,084,983
429,898	BioTransplant*	64,485
2,760	BioTransplant (Restricted) Warrants (expire 8/12/04)*	0
6,300	BioTransplant (Restricted) Warrants (expire 10/31/04)*	0
1,150	BioTransplant (Restricted) Warrants (expire 8/15/05)*	76
410,400	Celgene*	10,703,232
441,471	Corixa*	3,019,662
33,164	Corixa Warrants (expire 8/14/07)*	16,482

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

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SHARES

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VALUE

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	BIOTECHNOLOGY - CONTINUED	
550,556	Cubist Pharmaceuticals*	\$ 4,409,954
200,001	Cubist Pharmaceuticals (Restricted) Warrants (expire 9/23/03)*	979,205
312,823	CV Therapeutics*	5,640,199
83,000	Genzyme*	3,025,350
213,000	Gilead Sciences*	8,943,870
442,600	Kosan Biosciences*	1,973,996
258,000	MedImmune*	8,470,140
226,760	Therion Biologics (Restricted)*	426,309
264,912	Transkaryotic Therapies*	1,568,279
270,270	Tularik*	1,364,863
113,700	Vertex Pharmaceuticals*	1,264,344
418,165	Vicuron Pharmaceuticals*	4,528,727
18,696	Vicuron Pharmaceuticals (Restricted) Warrants (expire 8/3/05)*	91,386
	GENOMICS/DRUG DISCOVERY - 9.4%	
297,000	Abgenix*	2,583,900
933,000	deCODE Genetics*	1,726,050
387,802	Dyax*	674,775
732,600	Exelixis*	4,879,116
342,200	Lexicon Genetics*	1,365,378
170,142	Lynx Therapeutics*	304,554
386,400	Lynx Therapeutics Warrants (expire 4/29/07)*	0
418,500	Millennium Pharmaceuticals*	3,289,410
174,461	Molecular Devices*	2,110,978
616,100	Rigel Pharmaceuticals*	455,914
370,237	Telik*	4,975,985
		-----
		81,941,602

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		-----
CONTRACT RESEARCH ORGANIZATIONS - 1.4%		
85,200	Charles River Labs*	2,174,304
91,400	Quintiles Transnational*	1,111,424
		-----
		3,285,728
		-----
DIAGNOSTICS - 2.7%		
522,617	Biofield*	141,107
600,000	Biofield (Restricted)*	129,600
152,000	IDEXX Laboratories*	5,315,440
160,000	Masimo Labs (Restricted)*	1,600
685,621	Sontra Medical (Restricted)*^	795,320
		-----
		6,383,067
		-----

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

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SHARES		VALUE
-----		-----
HEALTHCARE INFORMATION SERVICES - 2.2%		
142,200	Eclipsys*	\$ 1,133,476
454,500	WebMD*	4,099,590
306,208	Syntiro Healthcare Services (Restricted)*	3,062
188,096	Syntiro Healthcare Services (Restricted) Warrants (expire 10/15/04)*	0
		-----
		5,236,128
		-----
MEDICAL SPECIALTY - 7.9%		
101,848	Biopure Class A*	340,172
8,333	Biopure (Restricted) Warrants (expire 8/4/03)*	0
1,000,000	Endocardial Solutions*^	2,770,000
441,409	Martek Biosciences*	12,588,985
1,020,000	Orthovita*^	3,060,000
		-----
		18,759,157
		-----
MEDICAL SUPPLIES - 0.5%		
645,000	EP MedSystems*	1,070,700
		-----
		1,070,700
		-----
PHARMACEUTICALS/DRUG DELIVERY - 2.7%		
225,000	Aradigm*	281,250
486,100	IMPAX Laboratories*	2,182,589
326,600	IVAX*	4,000,850
		-----
		6,464,689
		-----
TOTAL COMMON STOCKS		
(Cost \$101,988,449)		\$123,323,353
		-----

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PRINCIPAL  
AMOUNT  
-----

	TEMPORARY CASH INVESTMENTS - 13.2%	
\$ 9,800,000	General Electric Capital Corp., 1.24%, due 4/16/03	\$ 9,794,937
21,500,000	U.S. Treasury Bill, 1.10%, due 4/10/03	21,494,087
		-----
	TOTAL TEMPORARY CASH INVESTMENTS	
	(Cost \$31,289,024)	\$ 31,289,024
		-----
	TOTAL INVESTMENTS	
	(Cost \$225,145,648)	\$225,152,406
		=====

- 
- \* Non income-producing security.
  - # With warrants attached.
  - ^ Affiliated issuers in which the Fund holds 5% or more of the voting securities (Total Value of \$27,542,005).
  - ~ 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.

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H&Q HEALTHCARE INVESTORS

STATEMENT OF ASSETS AND LIABILITIES  
March 31, 2003  
(UNAUDITED)

ASSETS:

Investments, at value (identified cost \$225,145,648; see Schedule of Investments)	\$ 225,152,406
Cash	2,066,024
Interest receivable	76,367
Receivable for investments sold	10,153,863
Prepaid expenses	36,390
	-----
Total assets	\$ 237,485,050
	-----

LIABILITIES:

Accrued advisory fee	\$ 261,532
Accrued other	151,200
	-----
Total liabilities	\$ 412,732
	-----

NET ASSETS	\$ 237,072,318
	=====

SOURCES OF NET ASSETS:

Shares of beneficial interest, par value \$.01 per share,  
unlimited number of shares authorized, amount paid in on



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14,227,676 shares issued and outstanding	\$ 228,358,122
Accumulated net investment loss	(1,413,618)
Accumulated net realized gain on investments	10,121,056
Net unrealized gain on investments	6,758
	-----
Total net assets (equivalent to \$16.66 per share based on 14,227,676 shares outstanding)	\$ 237,072,318
	=====

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, 2003  
(UNAUDITED)

INVESTMENT INCOME:		
Dividend income (net of foreign tax of \$606)	\$ 2,583	
Interest income	521,948	
	-----	
Total investment income		\$ 524,531
EXPENSES:		
Advisory fees	\$ 1,612,744	
Legal fees	37,953	
Shareholder reporting	40,847	
Trustees' fees and expenses	72,123	
Custodian fees	49,775	
Transfer agent fees	26,903	
Stock exchange listing fee	29,831	
Accounting and auditing fees	39,550	
Other	28,423	
	-----	
Total expenses		1,938,149
		-----
Net investment loss		\$ (1,413,618)
		-----
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain on investments		\$ 13,732,359
Decrease in net unrealized gain on investments		(10,854,871)
		-----
Net gain on investments		\$ 2,877,488
		-----
Net increase in net assets resulting from operations		\$ 1,463,870
		=====

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

H&Q HEALTHCARE INVESTORS  
STATEMENTS OF CHANGES IN NET ASSETS

	FOR THE SIX MONTHS ENDED MARCH 31, 2003 (UNAUDITED)	FOR THE YEAR ENDED SEPTEMBER 30, 2002
	-----	-----
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment loss	\$ (1,413,618)	\$ (3,593,224)
Net realized gain on investments	13,732,359	33,875,011
Decrease in net unrealized gain on investments	(10,854,871)	(106,220,050)
	-----	-----
Net increase (decrease) in net assets resulting from operations	\$ 1,463,870	\$ (75,938,263)
	-----	-----
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net realized capital gains	\$ (19,552,950)	\$ (39,468,231)
	-----	-----
CAPITAL SHARE TRANSACTIONS:		
Value of shares issued in reinvestment of distributions (904,193 and 1,281,419 shares, respectively)	\$ 13,155,620	\$ 28,039,066
	-----	-----
Net decrease in net assets	\$ (4,933,460)	\$ (87,367,428)
NET ASSETS:		
Beginning of period	242,005,778	329,373,206
	-----	-----
End of period	\$ 237,072,318	\$ 242,005,778
	=====	=====

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

H&Q HEALTHCARE INVESTORS  
STATEMENT OF CASH FLOWS  
For the Six Months Ended March 31, 2003  
(UNAUDITED)

CASH FLOWS USED FOR OPERATING ACTIVITIES:		
Interest income received	\$	456,227

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Dividends received		2,583
Operating expenses paid		(2,000,494)
		-----
Net cash used for operating activities	\$	(1,541,684)
		-----
CASH FLOWS PROVIDED FROM INVESTING ACTIVITIES		
Purchases of portfolio securities	\$	(23,811,686)
Net maturities of temporary cash investments		16,385,769
Sales and maturities of portfolio securities		17,388,136
		-----
Net cash provided from investing activities	\$	9,962,219
		-----
CASH FLOWS USED FOR FINANCING ACTIVITIES:		
Cash distributions paid, net	\$	(6,397,330)
		-----
Net cash used for financing activities	\$	(6,397,330)
		-----
NET INCREASE IN CASH	\$	2,023,205
		-----
CASH AT BEGINNING OF PERIOD		42,819
		-----
CASH AT END OF PERIOD	\$	2,066,024
		=====
RECONCILIATION OF NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH USED FOR OPERATING ACTIVITIES:		
Net increase in net assets resulting from operations	\$	1,463,870
Accretion of discount		(56,221)
Net realized gain on investments		(13,732,359)
Net decrease in unrealized gain on investments		10,854,871
Increase in interest receivable		(9,500)
Increase in prepaid expenses		(6,975)
Decrease in accrued expenses		(55,370)
		-----
Net cash used for operating activities	\$	(1,541,684)
		=====

Noncash financing activities not included herein consist of stock distributions of \$13,155,620.

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 MONTHS ENDED MARCH 31, 2003 (UNAUDITED)	2002 (1)	2001	2000
	-----	-----	-----	-----
Net asset value per share:				
Beginning of period	\$ 18.160	\$ 27.350	\$ 46.147	\$ 21.7

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Net investment loss	\$ (0.103) (2)	\$ (0.283) (2)	\$ (0.195) (2)	\$ (0.2
Net realized and unrealized gain (loss) on investments	0.053	(5.727)	(13.822)	28.1
Total increase (decrease) from investment operations	\$ (0.050)	\$ (6.010)	\$ (14.017)	\$ 27.8
Capital gains distributions to shareholders	\$ (1.450)	\$ (3.180)	\$ (4.780)	\$ (3.4
Net asset value per share: End of period	\$ 16.660	\$ 18.160	\$ 27.350	\$ 46.1
Per share market value: End of period	\$ 14.180	\$ 14.100	\$ 21.740	\$ 36.1
Total investment return at market value	10.77%	(25.24%)	(27.23%)	151.

RATIOS AND SUPPLEMENTAL DATA:

Net assets at end of period	\$237,072,318	\$242,005,778	\$329,373,206	\$485,582,5
Ratio of operating expenses to average net assets	1.63%*	1.64%	1.42%	1.
Ratio of net investment loss to average net assets	(1.19%)*	(1.16%)	(0.62%)	(0.
Portfolio turnover rate	11.90%	17.40%	16.17%	12.
Number of shares outstanding at end of period	14,227,676	13,323,483	12,042,064	10,522,4

(1) The Fund adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began accreting discounts and amortizing premiums on all debt securities. The effect of this change for the year ended September 30, 2002 was a decrease in net investment loss per share of \$.009, an increase in net realized and unrealized loss on investments per share of \$.009, and a decrease in the ratio of net investment loss to average net assets from (1.20%) to (1.16%). Per share data and ratios for the periods prior to October 1, 2001 have not been restated to reflect this change in presentation.

(2) Net investment loss per share has been computed using average shares outstanding.

\* Annualized.

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

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS  
March 31, 2003  
(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

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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, adjusted for amortization of premiums and accretion of discounts. Dividend income is recorded on the ex-dividend date.

### 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.

### 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

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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, 2003.

#### (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, 2003 totaled \$23,811,686 and \$25,868,376, respectively.

At March 31, 2003, the total cost of securities for Federal income tax purposes was \$225,145,648. The net unrealized gain on securities held by the Fund was \$6,758, including gross unrealized gain of \$59,417,969 and gross unrealized loss of \$59,411,211.

#### (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 LLC (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.

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 29% of the Fund's net assets at March 31, 2003.

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.

During the six-month period ended March 31, 2003, the Fund sold restricted securities for cash and a proportionate interest in a 5% interest-bearing promissory note due October 31, 2004. The Fund's interest in the note has a par value of \$121,200 whose estimated value of \$60,000 at March 31, 2003 has also been determined by the Trustees and which is included in the Receivable for Investments Sold in the Statement of Assets and Liabilities.

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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, 2003, as determined by the Trustees of the Fund.

SECURITY	ACQUISITION DATE	COST	CARRYING VALUE PER UNIT
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AbTox				
Series F Cvt. Pfd.	3/7/97	\$ 1,463,562	\$ 0.010	
12% Promissory Note	2/26/98-3/26/98	180,000	1.000	
ACADIA Pharmaceuticals				
Series E Cvt. Pfd.	5/2/00-3/24/03	3,000,594	2.700	
Series F Cvt. Pfd.	3/19/03	750,001	2.700	
Agensys				
Series C Cvt. Pfd.	2/14/02	3,005,073	3.150	
Agilix				
Series B Cvt. Pfd.	11/8/01	3,014,260	1.260	
Avalon Pharmaceuticals				
Series B Cvt. Pfd.	10/22/01	3,008,325	3.528	
Biofield				
Common	12/15/00	302,984	0.216	
Biopure				
Common Warrants (expire 8/4/03)	5/13/99	0	0.000	
BioTransplant				
Common Warrants (expire 8/12/04)	8/12/94	0	0.000	
Common Warrants (expire 10/31/04)	10/31/94	0	0.000	
Common Warrants (expire 8/15/05)	8/18/95	0	0.066	
CardioNet^				
Series C Cvt. Pfd.	5/3/01-3/25/03	5,546,931	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	1,668,122	6.000	
Concentric Medical				
Series B Cvt. Pfd.	5/7/02-1/24/03	3,328,055	0.680	
Cubist Pharmaceuticals				
Common Warrants (expire 9/23/03)	9/23/98	235	4.896	
CytoLogix^				
Series A Cvt. Pfd.	1/13/98-7/21/99	2,332,441	0.825	
Series B Cvt. Pfd.*	1/11/01	1,153,658	0.825	
Cvt. Note	5/29/02	168,337	1.000	
EPR				
Series A Cvt. Pfd.	3/9/94	1,000,409	0.100	
FitForAll.com				
10% Promissory Note*	2/22/00-9/18/00	1,613,493	0.010	
Galileo Laboratories				
Series F Cvt. Pfd.	8/18/00	3,002,319	3.500	
IDUN Pharmaceuticals				
Series A-1 Cvt. Pfd.	11/26/02	3,001,966	2.474	
LocalMed				

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Series D Cvt. Pfd. 2/9/96 1,376,970 0.010

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SECURITY	ACQUISITION DATE	COST	CARRYING VALUE PER UNIT
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	3,001,927	3.450
Series H Cvt. Pfd.	4/25/02	1,200,000	3.450
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
Raven biotechnologies^			
Series B Cvt. Pfd.	12/12/00	3,001,725	0.830
Series C Cvt. Pfd.	11/26/02	2,331,600	0.830
Senomyx			
Series E Cvt. Pfd.	2/19/02	3,003,903	2.900
Songbird Hearing			
Series D Cvt. Pfd.	12/14/00	3,004,861	0.010
Sontra Medical^			
Common	6/24/02	1,679,749	1.160
Syntiro Heathcare Services			
Common	2/5/97	1,200,325	0.010
Warrants (expire 10/15/04)	10/15/98	0	0.000
Theravance			
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
Therion Biologics			
Common	7/12/90-10/16/96	511,365	1.880
Series A Cvt. Pfd.	8/20/96-10/16/96	444,850	1.880
Series B Cvt. Pfd.*	2/24/99-6/22/99	900,914	1.880
Series C Cvt. Pfd.*	9/26/01	1,528,922	1.880
Sinking Fund Cvt. Pfd.	10/17/94-4/3/96	721,291	1.880
TherOx			
Series H Cvt. Pfd.	9/11/00	3,001,873	3.030
Triad Therapeutics			
Series A Cvt. Pfd.	6/8/99	1,751,170	1.000
Series B Cvt. Pfd.	12/20/00	1,053,135	1.000



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Series C Cvt. Pfd.	11/25/02	1,200,000	1.000
Vicuron Pharmaceuticals			
Warrants (expire 8/3/05)	6/28/99	905	4.888
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	2.000
Series C Cvt. Pfd.	3/2/00	1,200,690	2.000
Series E Cvt. Pfd.	7/22/02	1,200,000	2.000
		-----	
		\$ 89,197,136	
		=====	

\* With warrants attached.

^ Affiliated issuers.

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### H&Q HEALTHCARE INVESTORS

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 Henri A. Termeer

#### INVESTMENT ADVISER

Hambrecht & Quist Capital Management LLC

#### CUSTODIAN AND TRANSFER AGENT

State Street Bank and Trust Company

#### INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP

#### LEGAL COUNSEL

Dechert LLP

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Shareholders with questions regarding share transfers may call

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1-800-426-5523

Interim daily net asset value may be obtained from  
our website ([www.hqcm.com](http://www.hqcm.com)) or 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

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