

H&Q HEALTHCARE INVESTORS  
Form N-30D  
November 29, 2002

H&Q HEALTHCARE INVESTORS

[GRAPHIC]

ANNUAL REPORT  
2002

To our Shareholders:

At fiscal year-end on September 30, 2002, the net asset value of your Fund was \$18.16 per share. Performance data for the fiscal year and the quarter ended September 30, 2002, compared to the indices, are as follows:

	FISCAL YEAR -----	QUARTER ENDED 9/30/02 -----
Net Asset Value	-23.5%	-9.3%
AMEX Biotech Index	-29.0%	-8.3%
Dow Jones Industrial Average	-14.2%	-17.9%
NASDAQ Industrials	-14.2%	-21.8%
Russell 2000	-10.5%	-21.7%

The final quarter of your Fund's fiscal year was one of the worst on record for the general market averages. Your Fund's decline was significant, but overall less severe on a relative basis.

We believe we are in a period of no widely held consensus. Some may believe a return to recession is highly likely in an economy of excess capacity worldwide, nervous and indebted consumers, a possible real estate bubble, war risk, and potential deflation, an outlook not fully reflected in security prices.

Others look at the correction in equity prices of the last few years, including those of companies leading the world's strongest economy, no meaningful inflation, and historically low interest rates and wonder why stocks shouldn't be bought. They may believe the U.S. economy has always rebounded in the past and will again.

We espouse neither of these extremes, but we do believe moderation of this polarization of sentiment may be required to set the foundation of the next bull market. We are encouraged, however, that within the context of the overall market, a positive consensus does seem to be developing toward healthcare companies. Through all the recent turmoil, these companies have, in our judgment, continued to invent and develop new innovative products with exciting potential to enhance diagnosis and therapy. The number and therapeutic potential of products heading for FDA approval in the next year or so is inspiring. In our view, many of the

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sponsoring companies have reasonable business plans (unlike some of the "dotcoms" of a few years ago). Further, we believe that there are no telecom-like over capacity issues here. In our view, these new products, intended to improve the human condition, will largely generate their own demand. We believe that recognition of these developments is reflected in the better relative performance of the sector in the third quarter of 2002 and is likely to continue. We are cautiously adding to or initiating positions in the stocks of the more attractive of these companies, which may, over time, reduce our cash position.

Many large investment firms have announced significant layoffs and staff reductions. In the first quarter, we made a significant addition of a very experienced staff member as we continue to build for the future. As a private company owned by its management, Hambrecht & Quist Capital Management LLC, your Fund's adviser, has the ability to take a longer-term view and build its most important asset, its people.

The corporate governance, accounting and security analysts controversies have clearly had depressing affects on stock prices. We wonder if good analysis might have uncovered a lot of these controversies earlier; perhaps not as to the accounting issues, which, in our view are largely rooted in the tax code.

As portfolio managers, we have long believed that one of our foremost duties was the analysis of analysts, including our own, and especially those who work for sell-side brokers and investment bankers. Perhaps the recent long bull market made investors feel "entitled" to stock profits, and able to blame others for their losses. We do not believe we are "entitled" to anything more than the opportunity to use our energy and talent to find investments likely to yield long-term profit growth.

/s/ Alan G. Carr

/s/ Daniel R. Omstead

Alan G. Carr  
President Emeritus

Daniel R. Omstead  
President

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### H&Q HEALTHCARE INVESTORS

#### LARGEST HOLDINGS AS OF SEPTEMBER 30, 2002

	% OF NET ASSETS -----
Gilead Sciences	5.91%
Transkaryotic Therapies	3.55%
Martek Biosciences	2.99%
Celgene	2.86%
CV Therapeutics	2.70%
Triad Therapeutics (Restricted)	2.13%
CardioNet (Restricted)	1.98%
IDEXX Laboratories	1.94%
Teva Pharmaceutical Industries	1.94%
Telik	1.89%

H&Q HEALTHCARE INVESTORS

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## SIGNIFICANT PORTFOLIO TRANSACTIONS QUARTER ENDED SEPTEMBER 30, 2002

PURCHASES -----	UNITS HELD 6/30/02 -----	UNITS HELD 9/30/02 -----
Adolor	232,980	311,300
Corixa	246,389	441,471
Exelixis	467,100	732,600
IVAX	154,800	214,800
Lexicon Genetics	78,500	111,500
WebMD	403,500	454,500
Zyomyx (Restricted) Series E	0	600,000
SALES -----		
ATS Medical	381,818	0
Bioject Medical Technologies	130,900	0
Curis	92,500	0

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## PORTFOLIO AS OF SEPTEMBER 30, 2002

[CHART]

	TOTAL -----	VENTURE -----	DIFFERENCE -----
AGRI/ENVIRONMENTAL	1.90%	1.80%	0.10%
BIOTECHNOLOGY	46.60%	11.40%	35.20%
CROs	0.40%	0.00%	0.40%
DIAGNOSTICS	7.50%	4.00%	3.50%
HEALTHCARE INFORMATION SERVICES	3.20%	2.30%	0.90%
MEDICAL SPECIALTY	12.20%	6.50%	5.70%
MEDICAL SUPPLIES	1.90%	1.40%	0.50%
PHARMACEUTICALS	6.00%	2.80%	3.20%
LIQUID ASSETS	20.30%	0.00%	20.30%

## ANNUAL MEETING REPORT

The Annual Meeting was held on June 25, 2002 at 9:00 a.m. The shareholders voted on the following items and the resulting votes are presented below.

- (1) To elect two 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 -----
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Alan G. Carr	11,312,002	190,275	0
Henri A. Termeer	11,329,924	172,353	0

The nominees were elected to serve until the 2005 Annual Meeting of Shareholders. The Trustees serving until the 2003 Annual Meeting are Lawrence S. Lewin and Uwe E. Reinhardt, Ph.D. The Trustees serving until the 2004 Annual Meeting are Robert P. Mack, M.D., Eric Oddleifson and Oleg M. Pohotsky.

- (2) To approve a new investment advisory agreement between the Fund and Hambrecht & Quist Capital Management LLC.

Shareholders overwhelmingly approved the new investment advisory agreement.

FOR ---	AGAINST -----	ABSTAIN -----	BROKER NON-VOTES -----
11,241,442	127,177	133,658	0

- (3) To ratify the selection of PricewaterhouseCoopers LLP 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 -----
11,414,037	32,153	56,087	0

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, 2002, and the results of its operations, the changes in its net assets, its cash flows and the financial highlights for the two years 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 audits. We conducted our audits 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

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statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at September 30, 2002 by correspondence with the custodian, provide a reasonable basis for our opinion.

The financial statements of the Fund as of September 30, 2000 and for the three 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 19, 2002

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### SCHEDULE OF INVESTMENTS SEPTEMBER 30, 2002

SHARES -----	CONVERTIBLE SECURITIES - 29.9% OF NET ASSETS CONVERTIBLE PREFERRED (RESTRICTED) - 27.9%	VALUE -----
	AGRICULTURAL/ENVIRONMENTAL TECHNOLOGIES - 1.8%	
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*	333,333
	BIOTECHNOLOGY - 10.8%	
400,000	ACADIA Pharmaceuticals Series E*	2,000,000
952,381	Agensys Series C*	3,000,000
2,380,953	Agilix Series B*	3,000,001
850,436	Avalon Pharmaceuticals Series B*	2,999,998
1,818,182	Raven biotechnologies Series B*^	3,000,000
47,407	Therion Biologics Series A*	177,776
240,000	Therion Biologics Series B*#	900,000
407,712	Therion Biologics Series C*#	1,528,920
36,092	Therion Biologics Sinking Fund*	135,344
1,750,000	Triad Therapeutics Series A*	3,500,000
825,000	Triad Therapeutics Series B*	1,650,000
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 - 2.9%	
1,371,429	CardioNet Series C*^	4,800,002
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 - 1.7%	
338,983	KVM Technologies Series B*#^	3,390
5,384,615	PHT Series D*^	4,200,000
	MEDICAL SPECIALTY - 6.5%	
636,364	AbTox Series F**	6,364
4,411,764	Concentric Medical Series B*	3,000,000
1,632,653	Omnisonics Medical Technologies Series B*^	2,400,000
1,034,519	Senomyx Series E*	3,000,002
639,659	Songbird Hearing Series D*	6,397
652,173	TherOx Series H*	2,999,996

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820,313	VNUS Medical Technologies Series E*^ MEDICAL SUPPLIES - 1.4%	4,200,003
343,750	LocalMed Series D*	3,438
631,580	Novacept Series G*#	2,178,951
347,826	Novacept Series H* PHARMACEUTICALS/DRUG DELIVERY - 2.8%	1,200,000
1,398,732	Galileo Laboratories Series F*	2,999,986

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

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SHARES -----	CONVERTIBLE SECURITIES - CONTINUED	VALUE -----
211,765	Theravance Series C*	\$1,905,885
200,000	Theravance Series D-1*	1,800,000
		-----
		\$67,606,048
		-----
PRINCIPAL AMOUNT -----	CONVERTIBLE BONDS AND NOTES - 2.0%	VALUE -----
	BIOTECHNOLOGY - 1.8%	
\$6,800,000	CuraGen 6% Cvt. Deb. due 2007ii	\$4,335,000
	DIAGNOSTICS - 0.1%	
212,636	CytoLogix (Restricted) 6.75% Cvt. Note, due 2003*^	212,636
	HEALTHCARE INFORMATION SERVICES - 0.0%	
1,577,366	FitForAll.com (Restricted) 10% Prom. Note*#+	158
1,425,982	KVM Technologies (Restricted) Adj.Cvt. Demand Note*#^	14,260
	MEDICAL SPECIALTY - 0.1%	
180,000	AbTox (Restricted) 12% Prom. Note*+	180,000
		-----
		\$4,742,054
		-----
	TOTAL CONVERTIBLE SECURITIES (Cost \$87,073,734)	\$72,348,102
		-----
SHARES -----	COMMON STOCKS - 49.8%	
	AGRICULTURAL/ENVIRONMENTAL TECHNOLOGY - 0.1%	
71,483	Catalytica Energy Systems*	\$248,046
		-----
		248,046
		-----
	BIOTECHNOLOGY - 34.0%	
	BIOPHARMACEUTICALS - 27.2%	
311,300	Adolor*	4,364,426
429,898	BioTransplant*	748,023
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)*	1,173

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410,400	Celgene*	6,911,136
54,000	Cephalon*	2,204,280
441,471	Corixa*	2,794,511
33,164	Corixa Warrants (expire 8/14/07)*	0
550,556	Cubist Pharmaceuticals*	2,813,341
200,001	Cubist Pharmaceuticals (Restricted) Warrants (expire 9/23/03)*	486,202
312,823	CV Therapeutics*	6,541,129
163,000	Genzyme*	3,359,430
426,636	Gilead Sciences*	14,305,105
210,000	MedImmune*	4,393,200

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

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SHARES	BIOTECHNOLOGY - CONTINUED	VALUE
-----		-----
226,760	Therion Biologics (Restricted)*	\$850,350
264,912	Transkaryotic Therapies*	8,585,798
270,270	Tularik*	1,851,350
418,165	Versicor*	3,562,766
18,696	Versicor (Restricted) Warrants (expire 8/3/05)*	56,836
113,700	Vertex Pharmaceuticals*	2,102,313
	GENOMICS/DRUG DISCOVERY - 6.8%	
297,000	Abgenix*	1,927,530
447,000	deCODE Genetics*	983,400
387,802	Dyax*	752,336
732,600	Exelixis*	3,626,370
111,500	Lexicon Genetics*	447,115
1,191,000	Lynx Therapeutics*	809,880
386,400	Lynx Therapeutics Warrants (expire 4/29/07)*	0
174,461	Molecular Devices*	2,182,507
616,100	Rigel Pharmaceuticals*	985,760
370,237	Telik*	4,583,534
		-----
		82,229,801
		-----
	CONTRACT RESEARCH ORGANIZATIONS - 0.4%	
91,400	Quintiles Transnational*	869,214
		-----
		869,214
		-----
	DIAGNOSTICS - 4.5%	
522,617	Biofield*	209,047
600,000	Biofield (Restricted)*	192,000
324,330	Cytec*	3,476,818
18,500	Digene*	146,150
152,000	IDEXX Laboratories*	4,704,096
160,000	Masimo Labs (Restricted)*	1,600
685,621	Sontra Medical (Restricted)*^	2,139,138
		-----
		10,868,849
		-----
	HEALTHCARE INFORMATION SERVICES - 1.4%	
306,208	Syntiro Healthcare Services (Restricted)*	1,200,473

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188,096	Syntiro Healthcare Services (Restricted) Warrants* (expire 10/15/04)	18,810
454,500	WebMD*	2,295,225
		-----
		3,514,508
		-----

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

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SHARES	MEDICAL SPECIALTY - 5.7%	VALUE
-----		-----
101,848	Biopure Class A*	\$356,468
8,333	Biopure (Restricted) Warrants (expire 8/4/03)*	0
1,000,000	Endocardial Solutions*	3,230,000
198,000	Endologix*	198,000
441,409	Martek Biosciences*	7,230,279
1,020,000	Orthovita*^	2,805,000
		-----
		13,819,747
		-----
	MEDICAL SUPPLIES - 0.5%	
645,000	EP MedSystems*	1,290,000
		-----
		1,290,000
		-----
	PHARMACEUTICALS/DRUG DELIVERY - 3.2%	
225,000	Aradigm*	472,500
214,800	IVAX*	2,635,596
70,000	Teva Pharmaceutical Industries ADR	4,690,000
		-----
		7,798,096
		-----
	TOTAL COMMON STOCKS	
	(Cost \$95,051,000)	\$120,638,261
		-----
PRINCIPAL	TEMPORARY CASH INVESTMENTS - 19.7%	
AMOUNT		
-----		
\$11,200,000	American Express Credit, 1.74%, due 10/18/02	\$11,190,797
7,000,000	General Electric Capital Corp., 1.75%, due 10/21/02	6,993,194
10,500,000	U.S. Treasury Bill, 1.60%, due 10/17/02	10,492,533
19,000,000	U.S. Treasury Bill, 1.64%, due 10/3/02	18,998,269
		-----
	TOTAL TEMPORARY CASH INVESTMENTS	
	(Cost \$47,674,793)	\$47,674,793
		-----
	TOTAL INVESTMENTS	
	(Cost \$229,799,527)	\$240,661,156
		=====



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- \* Non income-producing security.
- # With warrants attached.
- ^ Affiliated issuers in which the Fund holds 5% or more of the voting securities (Total Market Value of \$24,362,079).
- ii Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.
- + Issuer filed for bankruptcy.

ADR - American Depository Receipt.

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

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STATEMENT OF ASSETS AND LIABILITIES  
SEPTEMBER 30, 2002

ASSETS:

Investments, at value (identified cost \$229,799,527; see Schedule of Investments)	\$240,661,156
Cash	42,819
Receivable for investments sold	1,673,623
Interest receivable	66,867
Prepaid expenses	29,415
	-----
Total assets	\$242,473,880
	-----

LIABILITIES:

Accrued advisory fee	\$299,376
Accrued trustees' fees	22,500
Accrued other	146,226
	-----
Total liabilities	\$468,102
	-----

NET ASSETS

\$242,005,778

=====

SOURCES OF NET ASSETS:

Shares of beneficial interest, par value \$.01 per share, unlimited number of shares authorized, amount paid in on 13,323,483 shares issued and outstanding	\$215,202,502
Accumulated net realized gain on investments	15,941,647
Net unrealized gain on investments	10,861,629
	-----
Total net assets (equivalent to \$18.16 per share based on 13,323,483 shares outstanding)	\$242,005,778
	=====

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

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STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

INVESTMENT INCOME:		
Dividend income (net of foreign tax of \$4,102)	\$19,194	
Interest income	1,480,403	
Other income	2,876	
	-----	
Total investment income		\$1,502,473
EXPENSES:		
Advisory fees	\$4,233,892	
Legal fees	233,494	
Trustees' fees and expenses	144,698	
Shareholder reporting	126,461	
Custodian fees	81,117	
Accounting and auditing fees	73,348	
Transfer agent fees	53,595	
Other	149,092	
	-----	
Total expenses		5,095,697
		-----
Net investment loss		(\$3,593,224)
		-----
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain on investments		\$33,875,011
Decrease in net unrealized gain on investments		(106,220,050)
		-----
Net loss on investments		(\$72,345,039)
		-----
Net decrease in net assets resulting from operations		(\$75,938,263)
		=====

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

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STATEMENTS OF CHANGES IN NET ASSETS

	FOR THE YEAR ENDED	
	SEPTEMBER 30, 2002	SEPTEMBER 30, 2001
	-----	-----
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment loss	(\$3,593,224)	(\$2,222,151)
Net realized gain on investments	33,875,011	63,501,379
Decrease in net unrealized		

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gain on investments	(106,220,050)	(201,564,026)
	-----	-----
Net decrease in net assets resulting from operations	(\$75,938,263)	(\$140,284,798)
	-----	-----
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net realized capital gains	(\$39,468,231)	(\$52,289,670)
	-----	-----
CAPITAL SHARE TRANSACTIONS:		
Value of shares issued in reinvestment of distributions (1,281,419 and 1,519,574 shares, respectively)	\$28,039,066	\$36,365,104
	-----	-----
Net decrease in net assets	(\$87,367,428)	(\$156,209,364)
NET ASSETS:		
Beginning of year	329,373,206	485,582,570
	-----	-----
End of year	\$242,005,778	\$329,373,206
	=====	=====

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

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STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2002

CASH FLOWS USED FOR OPERATING ACTIVITIES:	
Interest and other income received	\$1,370,528
Dividends received	19,194
Operating expenses paid	(5,158,838)
	-----
Net cash used for operating activities	(\$3,769,116)
	-----
CASH FLOWS PROVIDED FROM INVESTING ACTIVITIES	
Purchases of portfolio securities	(\$45,375,053)
Net sales of temporary cash investments	1,812,048
Sales and maturities of portfolio securities	58,247,860
	-----
Net cash provided from investing activities	\$14,684,855
	-----
CASH FLOWS USED FOR FINANCING ACTIVITIES:	
Cash distributions paid, net	(\$11,429,165)
	-----
Net cash used for financing activities	(\$11,429,165)
	-----
NET DECREASE IN CASH	(\$513,426)
CASH AT BEGINNING OF YEAR	556,245
	-----
CASH AT END OF YEAR	\$42,819
	=====
RECONCILIATION OF NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH	

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### USED FOR OPERATING ACTIVITIES:

Net decrease in net assets resulting from operations	(\$75,938,263)
Accretion of discount	(112,751)
Net realized gain on investments	(33,875,011)
Decrease in net unrealized gain on investments	106,220,050
Decrease in accrued expenses	(50,376)
Increase in prepaid expenses	(12,765)
	-----
Net cash used for operating activities	(\$3,769,116)
	=====

Noncash financing activities not included herein consist of stock distributions of \$28,039,066.

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

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

	FOR THE YEAR ENDED SEPTEMBER 30,			
	2002 (1)	2001	2000	1999
	-----	-----	-----	-----
Net asset value per share:				
Beginning of year	\$27.350	\$46.147	\$21.771	\$16.7
	-----	-----	-----	-----
Net investment loss	(\$0.283) (2)	(\$0.195) (2)	(\$0.290)	(\$0.1
Net realized and unrealized gain (loss) on investments	(5.727)	(13.822)	28.131	5.5
	-----	-----	-----	-----
Total increase (decrease) from investment operations	(\$6.010)	(\$14.017)	\$27.841	\$5.4
	-----	-----	-----	-----
Capital gains distributions to shareholders	(\$3.180)	(\$4.780)	(\$3.465)	(\$0.3
	-----	-----	-----	-----
Net asset value per share:				
End of year	\$18.160	\$27.350	\$46.147	\$21.7
	=====	=====	=====	=====
Per share market value:				
End of year	\$14.100	\$21.740	\$36.188	\$16.3
Total investment return at market value	(25.24%)	(27.23%)	151.66%	27.
RATIOS AND SUPPLEMENTAL DATA:				
Net assets at end of year	\$242,005,778	\$329,373,206	\$485,582,570	\$209,519,6
Ratio of operating expenses to average net assets	1.64%	1.42%	1.45%	1.4
Ratio of net investment loss to average net assets	(1.16%)	(0.62%)	(0.86%)	(0.9
Portfolio turnover rate	17.40%	16.17%	12.90%	24.8
Number of shares outstanding at end of year	13,323,483	12,042,064	10,522,490	9,623,5

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- (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.

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

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### NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2002

#### (1) ORGANIZATION

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

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

#### INVESTMENT SECURITIES

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

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

The Fund adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies, as revised, effective October 1, 2001 and began accreting discounts and amortizing premiums on all debt securities.

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Prior to this date, the Fund did not accrete discounts or amortize premiums on long-term debt securities. The cumulative effect of this accounting change had no impact on the total net assets of the Fund, but resulted in an increase in cost of securities and a corresponding decrease in net unrealized appreciation of \$154,040 based on securities held as of September 30, 2001. The effect of this change for the fiscal year ended September 30, 2002 was to decrease net investment loss by \$112,751 with a corresponding decrease in the change in net unrealized gain on investments of \$112,751.

### 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 capital, in the amount of \$3,439,184, for the year ended September 30, 2002. This adjustment has no effect on the Fund's net

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assets, net investment loss or net realized gain. The calculation of net investment loss per share in the financial highlights excludes this adjustment. At September 30, 2002, the Fund's undistributed net realized gain on a tax basis was \$14,674,239 and differs from accumulated net realized gain on investments due to the timing of recording certain gains.

Pursuant to Section 852 of the Internal Revenue Code, the Fund has designated \$39,468,231 as a long-term capital gain distribution for its taxable year ended September 30, 2002.

### DISTRIBUTION POLICY

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

### STATEMENT OF CASH FLOWS

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

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investments at September 30, 2002.

### (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, 2002 totaled \$44,758,165 and \$57,582,430, respectively.

At September 30, 2002, the total cost of securities for Federal income tax purposes was \$229,799,527. The net unrealized gain on securities held by the Fund was \$10,861,629, including gross unrealized gain of \$60,162,966 and gross unrealized loss of \$49,301,337.

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

Effective July 1, 2002, 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%. The terms of the agreement prior to July 1, 2002 with the former advisor, Hambrecht & Quist Capital Management Incorporated, an indirect wholly-owned subsidiary of J.P. Morgan Chase & Co., were substantially identical to those in the current Advisory Agreement. 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.

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### (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 30% of the Fund's net assets at September 30, 2002.

The value of the venture capital and other restricted securities is determined in good faith by the Trustees. However, because of the inherent uncertainty of valuations, these estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. In fiscal 2001, the Fund sold a restricted security subject to future contingent payments whose estimated value of \$1,647,054 at September 30, 2002 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, 2002, as determined by the Trustees of the Fund.

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SECURITY	ACQUISITION DATE	COST	CARRYING PER
AbTox			
Series F Cvt. Pfd.	3/7/97	\$1,461,200	\$0
12% Promissory Note	2/26/98 - 3/26/98	180,000	1
ACADIA Pharmaceuticals			
Series E Cvt. Pfd.	5/2/00	3,000,594	5
Agensys			
Series C Cvt. Pfd.	2/14/02	3,005,073	3
Agilix			
Series B Cvt. Pfd.	11/8/01	3,014,260	1
Avalon Pharmaceuticals			
Series B Cvt. Pfd.	10/22/01	3,008,325	3
Biofield			
Common	12/15/00	302,984	0
Biopure			
Common Warrants (expire 8/4/03)	5/13/99	0	0
BioTransplant			
Common Warrants (expire 8/12/04)	8/12/94	0	0
Common Warrants (expire 10/31/04)	10/31/94	0	0
Common Warrants (expire 8/15/05)	8/18/95	0	1
CardioNet^			
Series C Cvt. Pfd.	5/3/01	4,823,823	3
Ceres			
Series C Cvt. Pfd.	12/23/98	1,502,620	6
Series C-1 Cvt. Pfd.*	1/4/01	111,488	6
Series D Cvt. Pfd.*	3/14/01	1,668,122	6
Concentric Medical			
Series B Cvt. Pfd.	5/7/02	3,028,055	0
Cubist Pharmaceuticals			
Common Warrants (expire 9/23/03)	9/23/98	235	2
CytoLogix^			
Series A Cvt. Pfd.	1/13/98 - 7/21/99	2,332,441	0
Series B Cvt. Pfd.*	1/11/01	1,153,451	0
Cvt. Note	5/29/02	212,636	1
EPR			
Series A Cvt. Pfd.	3/9/94	1,000,409	1
FitForAll.com			
10% Promissory Note*	2/22/00 - 9/18/00	1,613,493	0

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SECURITY	ACQUISITION DATE	COST	CARRYING PER
Galileo Laboratories			
Series F Cvt. Pfd.	8/18/00	\$3,002,319	\$2.1
KVM Technologies^			
Series B Cvt. Pfd.*	2/19/98	1,501,320	0.0
Adj. Cvt. Demand Note*	6/21/99 - 6/13/02	1,426,607	0.0
LocalMed			
Series D Cvt. Pfd.	2/9/96	1,376,970	0.0
Masimo			
Series D Cvt. Pfd.	8/14/96	1,120,040	11.0
Masimo Labs			



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Common	8/14/96	0	0.0
Novacept			
Series G Cvt. Pfd.*	3/27/01	3,001,927	3.4
Series H Cvt. Pfd.	4/25/02	1,200,000	3.4
Omnisonics Medical Technologies^			
Series B Cvt. Pfd.	5/24/01	2,404,472	1.4
PHT^			
Series D Cvt. Pfd.	7/23/01	4,200,000	0.7
Raven biotechnologies^			
Series B Cvt. Pfd.	12/12/00	3,000,833	1.6
Senomyx			
Series E Cvt. Pfd.	2/19/02	3,003,903	2.9
Songbird Hearing			
Series D Cvt. Pfd.	12/14/00	3,004,861	0.0
Sontra Medical^			
Common	6/24/02	1,679,491	3.1
Syntiro Healthcare Services			
Common	2/5/97	1,200,325	3.9
Warrants (expire 10/15/04)	10/15/98	0	0.1
Theravance			
Series C Cvt. Pfd.	2/5/99	1,800,123	9.0
Series D-1 Cvt. Pfd.	8/28/00	1,800,900	9.0
Therion Biologics			
Common	7/12/90 - 10/16/96	511,365	3.7
Series A Cvt. Pfd.	8/20/96 - 10/16/96	444,850	3.7
Series B Cvt. Pfd.*	2/24/99 - 6/22/99	900,914	3.7
Series C Cvt. Pfd.*	9/26/01	1,528,922	3.7
Sinking Fund Cvt. Pfd.	10/17/94 - 4/3/96	721,291	3.7
TherOx			
Series H Cvt. Pfd.	9/11/00	3,001,873	4.6
Triad Therapeutics			
Series A Cvt. Pfd.	6/8/99	1,750,860	2.0
Series B Cvt. Pfd.	12/20/00	1,653,135	2.0
Versicor			
Warrants (expire 8/3/05)	6/28/99	905	3.0
VNUS Medical Technologies^			
Series E Cvt. Pfd.	8/20/01	4,200,003	5.1
Zyomyx			
Series B Cvt. Pfd.	2/19/99	1,200,550	2.0
Series C Cvt. Pfd.	3/2/00	1,200,690	2.0
Series E Cvt. Pfd.	7/22/02	1,200,000	2.0
		-----	
		\$84,458,658	
		=====	

\* With warrants attached.

^ Affiliated issuers.

TRUSTEES

H & Q HEALTHCARE INVESTORS  
 30 ROWES WHARF, SUITE 430  
 BOSTON, MASSACHUSETTS 02110  
 (617) 772-8500

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NAME, ADDRESS(1) AND AGE	POSITION(S) HELD WITH FUND, TERM OF OFFICE(2) AND LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS AND OTHER DIRECTORSHIPS HELD
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INDEPENDENT TRUSTEES:

Lawrence S. Lewin 63	Trustee (since 1987) and Chairman (since 2000)	Executive Consultant. Formerly Chief Executive Officer (from 1970-1999) The Lewin Group (healthcare public and management consulting), a subsidi of Quintiles Transnational Corp.
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Robert P. Mack 67	Trustee (since 1991)	Consultant in Orthopedic Surgery to Orthopedic Associates of Aspen (sin 2001). Formerly Orthopedic Surgeon 1996-1998) at the Steadman- Hawkins Orthopedic Clinic and (from 1977-19 the Denver Orthopedic Clinic; and D of the Department of Orthopedic Sur Metropolitan General Hospital and Assistant Professor of Orthopedics Western Reserve University, Clevela (from 1968-1977).
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Eric Oddleifson 67	Trustee (since 1992)	Partner (since 2001) and Managing Director (from 1997-2000) of Renewable Resources LLC (forest pro investment). Formerly Managing Dire (from 1995-1997) of UBS Asset Manag (forest properties investment); and President, Director and Chief Inves Officer (from 1984-1995) of Resourc Investments, Inc. (forest propertie investment).
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Oleg M. Pohotsky 55	Trustee (since 2000) (from 1991-2001)	Most recently, Senior Vice Presiden of FAC/Equities, a division of Firs Albany Corporation (investment bank Formerly General Partner (from 1989 of Strategic Capital Associates (fi advisory firm); and General Partner 1986-1989) of Capital Growth Partne (private mezzanine capital institut investment partnership).
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NAME, ADDRESS(1) AND AGE	POSITION(S) HELD WITH FUND, TERM OF OFFICE(2) AND LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS AND OTHER DIRECTORSHIPS HELD
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INDEPENDENT TRUSTEES: (continued)

Uwe E. Reinhardt,	Trustee (since 1988)	Professor of Economics (since 1968)
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Ph.D.  
64

Princeton University. Director (from 2000) of Triad Hospitals; Boston Scientific (since 2002); Amerigroup since (2002); Duke University (since 2001); The Duke University Health System (since 2001) and the National Bureau of Economic Research (since 2002).

Henri A. Termeer Trustee (since 1989)  
55

Chairman (since 1988), Chief Executive Officer (since 1985) and President (since 1983) of Genzyme Corporation healthcare products; Director (since 1987) of ABIOMED, Inc.; Director (since 1992) of AutoImmune, Inc.; Director (1993-2002) of Genzyme Transgenics; Director (since 1996) of Diacrin, I

INTERESTED TRUSTEES:

Alan G. Carr(3) President Emeritus  
68 (since 2001), President (from 1987-2001) and Trustee (since 1987)

Chairman (since July 2002) of Hambrecht & Quist Capital Management LLC; Chairman (from 2001 - July 2000) President (from 1992-2001), Director (from 1986 to July 2002) and Senior Vice President (from 1986-1992) of Hambrecht & Quist Capital Management Inc.; and Managing Director (from 1999) of Hambrecht & Quist Group.

- (1) The address for each Trustee is c/o the Fund at the Fund's address as set forth above.
- (2) Each Trustee currently is serving a three year term.
- (3) Trustee considered to be an "interested person" within the meaning of the Investment Company Act of 1940, as amended (the "1940 Act") through position or affiliation with Hambrecht & Quist Capital Management LLC, the Fund's investment adviser.

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OFFICERS

NAME, ADDRESS(1) AND AGE	POSITION(S) HELD WITH FUND, TERM OF OFFICE(2) AND LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION(S) DURING PAST
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OFFICERS:

Alan G. Carr President Emeritus (since 2001)  
68

Manager (since July 2002) of Hambrecht & Quist Capital Management LLC; Chairman (from July 2002), President (from 1992-2000) (From 1986 to July 2002) and Senior Vice President (from 1986-1992) of Hambrecht & Quist Capital Management, Inc.; Managing Director

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Daniel R. Omstead, President (since 2001)  
ENGSCD  
49

1992-1999) of Hambrecht & Quist Gro  
President Emeritus (since 2001), Pr  
(from 1987-2001) and Trustee (since  
H&Q Healthcare Investors (HQH) and  
of H&Q Life Sciences Investors (HQL

Manager (since July 2002) of Hambre  
Capital Management LLC; President o  
of HQL (since 2001); President, Chi  
Officer (from 2001 to July 2002)  
and Managing Director (from 2000 to  
July 2002) of Hambrecht & Quist  
Capital Management Inc.; formerly  
President and Chief Executive  
Officer (from 1997-2000) and Chief  
Operating Officer (1997) of  
Reprogenesis, Inc.

Kimberley L. Carroll Treasurer (since 1987)  
46

Treasurer and Chief Financial Offic  
of HQH and (since 1992) of HQL; and  
President (from 1991-July 2002) and  
Treasurer (from 2000 - July 2002)  
of Hambrecht & Quist Capital  
Management Inc.

Jennifer L. Morris Secretary (since 2001)  
34

Secretary (since 2001) of HQH and o  
Assistant Vice President (from 1999  
Manager, Corporate Communications (1  
1996-1999) of Hambrecht & Quist Cap  
Management Inc.

- (1) The address for each officer is c/o the Fund at the Fund's address as set forth above.
- (2) Each officer serves in such capacity for an indefinite period of time at the pleasure of the Trustees.

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H&Q HEALTHCARE INVESTORS

New York Stock Exchange Symbol: HQH

30 Rowes Wharf, 4th Floor  
Boston, Massachusetts 02110-3328  
www.hqcm.com

PLEASE NOTE OUR NEW PHONE NUMBER:  
(617) 772-8500

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.

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Eric Oddleifson  
Oleg M. Pohotsky  
Uwe E. Reinhardt, Ph.D.  
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 Price & Rhoads

Shareholders with questions regarding share transfers may call  
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

Out of concern for the environment and in an  
effort to reduce Fund expenses, this report is  
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HQHCM-AR-02