

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<br>9/30/02 - 3/31/03<br>----- | QUARTER ENDED<br>3/31/03<br>----- |
|------------------------------|---|-----------------------------------|
| 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

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

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

2

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

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

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%        |

3

### 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

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

|  | 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   |

4

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%                             |                                  |              |

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

|           |  |           |
|-----------|--|-----------|
| 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.

5

| 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,<br>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 |
|             |   | -----         |

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

SHARES

-----

|  |  |            |
|--|--|------------|
| 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.

6

SHARES

-----

VALUE

-----

|                                |   |              |
|--------------------------------|---|--------------|
| BIOTECHNOLOGY - CONTINUED      |   |              |
| 550,556                        | Cubist Pharmaceuticals*   | \$ 4,409,954 |
| 200,001                        | Cubist Pharmaceuticals (Restricted) Warrants<br>(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<br>(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   |

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

|  |                               | -----     |
|--|-------------------------------|-----------|
| 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.

7

| 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)<br>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 |
|  |   | -----         |

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

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.

8

H&Q HEALTHCARE INVESTORS

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

ASSETS:

|   |                |
|---|----------------|
| Investments, at value (identified cost<br>\$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



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

|  |                |
|--|----------------|
| 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<br>share based on 14,227,676 shares outstanding) | \$ 237,072,318 |
|  | =====          |

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

9

### H&Q HEALTHCARE INVESTORS

#### STATEMENT OF OPERATIONS For the Six Months Ended March 31, 2003 (UNAUDITED)

|  |              |                |
|--|--------------|----------------|
| INVESTMENT INCOME:   |              |                |
| Dividend income (net of foreign<br>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<br>(LOSS) ON INVESTMENTS: |              |                |
| Net realized gain on investments                           |              | \$ 13,732,359  |
| Decrease in net unrealized gain on<br>investments          |              | (10,854,871)   |
|  |              | -----          |
| Net gain on investments                                    |              | \$ 2,877,488   |
|  |              | -----          |
| Net increase in net assets<br>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<br>MONTHS ENDED<br>MARCH 31, 2003<br>(UNAUDITED) | FOR THE<br>YEAR ENDED<br>SEPTEMBER 30,<br>2002 |
|---|--|--|
|   | -----  | -----  |
| NET INCREASE (DECREASE) IN NET<br>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<br>gain on investments   | (10,854,871)   | (106,220,050)                                  |
|   | -----  | -----  |
| Net increase (decrease) in net<br>assets resulting from operations  | \$ 1,463,870   | \$ (75,938,263)                                |
|   | -----  | -----  |
| DISTRIBUTIONS TO SHAREHOLDERS<br>FROM:  |  |  |
| Net realized capital gains  | \$ (19,552,950)  | \$ (39,468,231)                                |
|   | -----  | -----  |
| CAPITAL SHARE TRANSACTIONS:   |  |  |
| Value of shares issued in<br>reinvestment of distributions<br>(904,193 and 1,281,419 shares,<br>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 |

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

|   |                 |
|---|-----------------|
| 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.

12

H&Q HEALTHCARE INVESTORS

FINANCIAL HIGHLIGHTS

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

|                            | FOR THE SIX<br>MONTHS ENDED<br>MARCH 31, 2003<br>(UNAUDITED) | -----<br>2002 (1)<br>----- | FOR THE YEARS ENDED SE<br>-----<br>2001<br>----- | 2000<br>----- |
|----------------------------|--|----------------------------|--|---------------|
| Net asset value per share: |  |                            |  |               |
| Beginning of period        | \$ 18.160  | \$ 27.350                  | \$ 46.147  | \$ 21.7       |

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

|  |                |                |                |         |
|--|----------------|----------------|----------------|---------|
| 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

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

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

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

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.

15

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

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

|                                   |                 |              |          |  |
|-----------------------------------|-----------------|--------------|----------|--|
| 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                          |                 |              |          |  |

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

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

16

| 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                   |



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

|                            |          |               |       |
|----------------------------|----------|---------------|-------|
| 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.

17

H&Q HEALTHCARE INVESTORS

New York Stock Exchange Symbol: HQH  
 30 Rowes Wharf, 4th Floor  
 Boston, Massachusetts 02110-3328  
 (617) 772-8500  
 www.hqcm.com

OFFICERS

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

TRUSTEES

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

INVESTMENT ADVISER

Hambrecht & Quist Capital Management LLC

CUSTODIAN AND TRANSFER AGENT

State Street Bank and Trust Company

INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP

LEGAL COUNSEL

Dechert LLP

-----

Shareholders with questions regarding share transfers may call

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

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 printed on recycled paper.

HQHCM-SAR-03