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

H&Q HEALTHCARE INVESTORS

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[GRAPHIC]

SEMIANNUAL REPORT

MARCH 31, 2001

To our Shareholders:

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

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

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

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

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

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

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

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

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

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

/s/ Alan G. Carr

Alan G. Carr  
President

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H&Q HEALTHCARE INVESTORS

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PRIVACY NOTICE

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

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& Quist Capital Management, the Funds' investment adviser, may receive nonpublic personal information about you from the information collected by the transfer agent from your transactions in Fund shares. Any nonpublic personal information is not disclosed to third parties, except as permitted or required by law. In connection with servicing your account and effecting transactions, the information received may be shared with the investment adviser and non-affiliates, including transfer agents, custodians or other service companies. Access to your nonpublic personal information is restricted to employees who need to know that information to provide products or services to you. To maintain the security of your nonpublic personal information, physical, electronic, and procedural safeguards are in place that comply with federal standards. The policies and practices described above apply to both current and former shareholders.

If your Fund shares are held in "street name" at a bank or brokerage, we do not have access to your personal information and you should refer to your bank's or broker's privacy policies for a statement of the treatment of your personal information.

[CHART]

### H&Q HEALTHCARE INVESTORS

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 PORTFOLIO  
 AS OF MARCH 31, 2001

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

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### H&Q HEALTHCARE INVESTORS

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 LARGEST HOLDINGS  
 AS OF MARCH 31, 2001

% OF NET ASSETS  
 -----

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

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Scios 2.57%  
 MedImmune 2.51%

H&Q HEALTHCARE INVESTORS  
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 SIGNIFICANT PORTFOLIO TRANSACTIONS  
 QUARTER ENDED MARCH 31, 2001

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

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H&Q HEALTHCARE INVESTORS  
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 SCHEDULE OF INVESTMENTS  
 March 31, 2001  
 (UNAUDITED)

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

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

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

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H&Q HEALTHCARE INVESTORS

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SCHEDULE OF INVESTMENTS

March 31, 2001

(CONTINUED)

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

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

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

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### H&Q HEALTHCARE INVESTORS

#### ----- SCHEDULE OF INVESTMENTS

March 31, 2001

(CONTINUED)

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

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

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

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H&Q HEALTHCARE INVESTORS

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SCHEDULE OF INVESTMENTS

March 31, 2001

(CONTINUED)

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

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

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

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

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H&Q HEALTHCARE INVESTORS

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BALANCE SHEET  
March 31, 2001  
(UNAUDITED)

ASSETS:

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



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

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

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H&Q HEALTHCARE INVESTORS  
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STATEMENT OF OPERATIONS  
For the Six Months Ended March 31, 2001  
(UNAUDITED)

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

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

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

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H&Q HEALTHCARE INVESTORS  
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STATEMENTS OF CHANGES IN NET ASSETS

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

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

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

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H&Q HEALTHCARE INVESTORS

STATEMENT OF CASH FLOWS

For the Six Months Ended March 31, 2001

(UNAUDITED)

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

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

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

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

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### H&Q HEALTHCARE INVESTORS

#### FINANCIAL HIGHLIGHTS

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

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

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\*Annualized

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

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H&Q HEALTHCARE INVESTORS  
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NOTES TO FINANCIAL STATEMENTS  
March 31, 2001  
(UNAUDITED)

## (1) ORGANIZATION

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

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

### INVESTMENT SECURITIES

Transactions related to the investments of the Fund are recorded on the date the securities are purchased or sold. Investments traded on national securities exchanges or in the over-the-counter market that are National Market System securities are valued at the last sale price or, lacking any sales, at the mean between the last bid and asked prices. Other over-the-counter securities are valued at the most recent bid prices as obtained from one or more dealers that make markets in the securities. As indicated in Note 5, investments for which market quotations are not readily available are valued at fair value as determined in good faith by the Board of Trustees of the Fund. Temporary cash investments with maturities of 60 days or less are valued at amortized cost.

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

### FEDERAL INCOME TAXES

It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute to its shareholders substantially all of its taxable income and its net realized capital gains, if any. Therefore, no Federal income tax provision is required.

### DISTRIBUTIONS

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

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book/tax differences in accounting for certain transactions, certain distributions may be treated as distributions from capital as opposed to distributions of net investment income or realized capital gains.

### DISTRIBUTION POLICY

The current distribution policy is to declare distributions in stock. Stock distributions will automatically be paid in newly issued shares of the Fund unless otherwise instructed by the shareholder. The shares will be valued at the lower of net asset value or market price on the pricing date. The Fund has implemented a fixed distribution policy that permits the Fund to make quarterly distributions at a rate of 2% of the Fund's net assets to shareholders of record. The Fund intends to use net realized capital gains when making quarterly distributions. This

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### H&Q HEALTHCARE INVESTORS

#### NOTES TO FINANCIAL STATEMENTS

March 31, 2001

(continued)

could result in a return of capital to shareholders if the amount of the distribution exceeds the Fund's net investment income and realized capital gains. It is anticipated that net realized capital gains in excess of the total distributed under this policy would be included in the December distribution.

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

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

#### (2) PURCHASES AND SALES OF INVESTMENT SECURITIES

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

#### (3) TAX BASIS OF SECURITIES

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

#### (4) ADVISORY AGREEMENT

The Fund has entered into an Investment Advisory Agreement (the Advisory Agreement) with Hambrecht & Quist Capital Management Incorporated (the Adviser). Pursuant to the terms of the Advisory Agreement, the Fund pays the

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Adviser a monthly fee at the rate when annualized of (i) 2.5% of the average net assets for the month of its venture capital and other restricted securities up to 25% of net assets and (ii) for the month, for all other assets, 1.0% of the average net assets up to \$250 million, 0.9% of the average net assets for the next \$250 million, 0.8% of the average net assets for the next \$500 million and 0.7% of the average net assets thereafter. The aggregate fee may not exceed a rate when annualized of 1.375%. Certain officers and Trustees of the Fund are also officers of the Adviser. The Adviser is an indirect wholly owned subsidiary of J.P. Morgan Chase & Co.

### (5) VENTURE CAPITAL AND OTHER RESTRICTED SECURITIES

The Fund may invest in venture capital and other restricted securities if these securities would currently comprise 40% or less of net assets. The value of these securities represents 23.1% of the Fund's net assets at March 31, 2001.

The value of the venture capital and other restricted securities is determined in good faith by the Board of Trustees. However, because of the inherent uncertainty of valuations, these estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. The following table details the acquisition date, cost, carrying value per unit, and value of the Fund's venture capital and other restricted securities at March 31, 2001, as determined by the Board of Trustees of the Fund.

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H&Q HEALTHCARE INVESTORS  
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NOTES TO FINANCIAL STATEMENTS  
March 31, 2001  
(continued)

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

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

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H&Q HEALTHCARE INVESTORS  
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 NOTES TO FINANCIAL STATEMENTS  
 March 31, 2001  
 (continued)

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



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

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H&Q HEALTHCARE INVESTORS

FINANCIAL HIGHLIGHTS

March 31, 2001

(continued)

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

\* Represents 60% of equivalent current market value.

\*\* Represents 75% of equivalent current market value.

# Represents 80% of equivalent current market value.

## Represents 85% of equivalent current market value.

^ Represents 90% of equivalent current market value.

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

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(617) 310-0567

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Uwe E. Reinhardt, Ph.D.  
Henri A. Termeer

INVESTMENT ADVISER

Hambrecht & Quist Capital Management Incorporated

CUSTODIAN AND TRANSFER AGENT

State Street Bank and Trust Company

LEGAL COUNSEL

Dechert Price & Rhoads

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Shareholders with questions regarding share transfers may call  
1-800-426-5523

Interim daily net asset value may be obtained by calling  
1-800-451-2597

For copies of the Fund's  
DIVIDEND REINVESTMENT PLAN,  
please contact the Plan Agent, State Street Bank & Trust Co.  
P.O. Box 8200, Boston, MA 02266-8200  
Telephone: 1-800-426-5523

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