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H&Q HEALTHCARE INVESTORS
Form N-CSRS
June 07, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-4889

H&Q HEALTHCARE INVESTORS
(Exact name of registrant as specified in charter)

30 Rowes Wharf, Fourth Floor, Boston, MA 02110-3328
(Address of principal executive offices) (Zip code)

Daniel R. Omstead, 30 Rowes Wharf, Fourth Floor, Boston, MA 02110-3328
(Name and address of agent for service)

Registrant's telephone number, including area code: 617-772-8500

Date of fiscal year end: September 30

Date of reporting period: October 1, 2003 to March 31, 2004

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. Section 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

H&Q HEALTHCARE INVESTORS

[GRAPHIC]

SEMIANNUAL REPORT

MARCH 31, 2004

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To our Shareholders:

At quarter end on March 31, 2004, the net asset value per share of your Fund was \$20.80. During the six month period ending March 31, 2004, total return at net asset value of your Fund was 11.7%, a change that was equal or unfavorable to the comparative indices listed below. During the most recent quarter ending March 31, 2004, total return at net asset value of your Fund was 7.5%, a change that was favorable to all these same indices. The total return at market was 18.7% during the six month period ended March 31, 2004 and was 9.2% during the most recent quarter ended March 31, 2004.

| | FISCAL YEAR TO DATE (6 MONTHS) | QUARTER ENDED 3/31/04 |
|------------------------------|-----------------------------------|--------------------------|
| | ----- | ----- |
| Net Asset Value | +11.7% | +7.5% |
| AMEX Biotech Index | +16.1% | +7.4% |
| Dow Jones Industrial Average | +11.7% | -0.9% |
| NASDAQ Industrials | +19.3% | +4.0% |
| Russell 2000 | +21.0% | +6.0% |

In the first calendar quarter of 2004, there were several positive signs for the general economy. Overall economic growth was solid and consumer sales continued to be strong. Rebates, associated with recent tax reductions, are likely to make additional resources available to consumers (although we hope that some of this one time benefit will be allocated to savings). As of May 2004, the Federal Reserve continues to maintain interest rates at historically low levels. And after a relatively long period, it appears that there may be an upward trend in the creation of new jobs. Furthermore, business activity appears to be increasing. First quarter reports from a number of companies and sectors have been positive. All these trends are encouraging for the short term. On the other hand, there are also factors which give us concern. Energy prices are increasing. We believe there is general concern that interest rates, while low, will increase if and when the Federal Reserve reacts to the potential for economic inflation. And, most concerning to us, is the geopolitical situation in general and the conflict in Iraq, in particular. We are unclear about the exit strategy in Iraq and worry about the intermediate term impact on the economy. Overall, we think that the positives outlined above will dominate in the near term but that there will be some volatility in stock prices. In the intermediate term we are less certain.

As for the healthcare sector, we continue to be generally upbeat, particularly in the long term. As we have said several times, demographics favor this sector. The population is getting older and healthcare spending increases as people age. Having said this, the first

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calendar quarter of 2004 was not a good one for large pharmaceutical companies as they generally lagged the broader market. Apparently, there is concern among investors about product pipelines, pricing power and generic competition in the large pharma group. In our view there is some basis for these concerns. However, we have generally high regard for the management teams of companies in this group and think, on a select basis, that there is opportunity for upside appreciation.

In contrast to the large pharma group, the biotechnology sector performed well in the first quarter. This was likely due to continued evidence of maturation of

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the group, as evidenced by product approvals and other positive developments. Two products in the cancer area, Genentech's Avastin and Imclone's Erbitux have been recently approved, and are of particular note. Many analysts believe these will be very successful drugs. We think such approvals are crucial to the general advancement of the group.

The recent development of the initial public offering market for biotechnology stocks is also a good sign for the sector. More than a dozen companies have completed IPOs in recent months after a period of several years in which there was little or no market for such offerings. Furthermore, the stock price of a good number of these stocks has risen since their IPO. A number of other companies are in registration, with the intent to test the public market. We think that the demand for new public companies is good for the sector and encouraging for your Fund.

During the first calendar quarter of 2004, your Fund established positions in Elan, Cyberonics, and Genta and increased its positions in Amgen, Durect, Genzyme, Teva, United Therapeutics and Vivus. Your Fund also made an initial investment in restricted securities of I-Trax and follow on investments in TherOx and Zyomyx. In addition, one of the Fund's venture investments, Novacept, was acquired by Cytoc. The Fund sold out of positions in EP MedSystems and Vicuron Pharmaceuticals and decreased its ownership of deCODE Genetics, Endocardial Solutions and Sontra Medical.

As always, we encourage the Fund's shareholders to contact us with any questions or concerns you may have relating to the Fund.

/s/ Daniel R. Omstead

Daniel R. Omstead
President

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H&Q HEALTHCARE INVESTORS PRIVACY NOTICE

If you are a registered shareholder of the Fund, the Fund and Hambrecht & Quist Capital Management LLC, the Fund's 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.

CHANGE IN INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP ("PwC") had been selected as the independent

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accountants of the Fund for its fiscal year ending September 30, 2004. On May 7, 2004, PwC resigned as the Fund's independent accountants for its fiscal year ending September 30, 2004 effective upon the completion of services related to the Fund's semi-annual financial statements. The reports provided by PwC for the fiscal years ending September 30, 2002 and September 30, 2003 were unqualified and contained no adverse opinion or disclaimer of opinion, nor were the reports modified as to uncertainty, audit scope, or accounting principle. Further, in connection with its audits for the two previous fiscal years and through May 31, 2004, there have been no disagreements between PwC and the Fund on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to their satisfaction, would have caused PwC to reference the subject matter of the disagreements in its report on the financial statements for such years. The Fund is currently seeking to retain new independent auditors for its fiscal year ending September 30, 2004.

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H&Q HEALTHCARE INVESTORS

[CHART]

PORTFOLIO AS OF MARCH 31, 2004

| | RESTRICTED | PUBLIC | TOTAL |
|-------------------------|------------|--------|-------|
| BIOPHARMACEUTICALS | 0.0% | 31.4% | 31.4% |
| DRUG DELIVERY | 0.0% | 3.3% | 3.3% |
| DRUG DISCOVERY TECH. | 4.3% | 3.2% | 7.5% |
| EMERGING BIOPHARM. | 5.1% | 14.1% | 19.2% |
| GENERICS | 0.0% | 8.6% | 8.6% |
| HEALTHCARE SERVICES | 4.8% | 3.3% | 8.1% |
| DEVICES AND DIAGNOSTICS | 5.6% | 6.8% | 12.4% |
| LIQUID ASSETS | 0.0% | 9.5% | 9.5% |

H&Q HEALTHCARE INVESTORS LARGEST HOLDINGS AS OF MARCH 31, 2004

| | % OF NET ASSETS ----- |
|------------------------------------|--------------------------|
| Impax Laboratories | 3.87% |
| Telik | 3.68% |
| Celgene | 3.11% |
| Genzyme | 3.10% |
| Pfizer | 2.98% |
| Amgen | 2.63% |
| Elan | 2.53% |
| Cubist Pharmaceuticals | 2.41% |
| IVAX | 2.37% |
| Teva Pharmaceutical Industries ADR | 2.36% |

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H&Q HEALTHCARE INVESTORS
SIGNIFICANT PORTFOLIO TRANSACTIONS
QUARTER ENDED MARCH 31, 2004

| | UNITS HELD 12/31/03 ----- | UNITS HELD 3/31/04 ----- |
|------------------------------------|---------------------------------|--------------------------------|
| PURCHASES | | |
| Amgen | 81,000 | 142,000 |
| Cyberonics | 0 | 115,260 |
| Direct | 738,080 | 918,080 |
| Elan | 0 | 385,000 |
| Genta | 0 | 127,000 |
| Genzyme | 120,000 | 207,000 |
| I-Trax (Restricted) Series A | 0 | 160,000 |
| Teva Pharmaceutical Industries ADR | 62,100 | 117,100 |
| TherOx (Restricted) Bridge Note | \$ 0 | \$ 200,272 |
| United Therapeutics | 60,600 | 132,000 |
| Vivus | 574,500 | 652,400 |
| Zyomyx (Restricted) Series A New | 0 | 299,700 |
| Zyomyx (Restricted) Series B New | 0 | 300 |
| SALES | | |
| deCODE Genetics | 697,800 | 634,800 |
| Endocardial Solutions | 754,900 | 320,034 |
| EP MedSystems | 103,880 | 0 |
| Sontra Medical | 282,571 | 97,020 |
| Vicuron Pharmaceuticals | 103,665 | 0 |

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H&Q HEALTHCARE INVESTORS
SCHEDULE OF INVESTMENTS
March 31, 2004
(UNAUDITED)

| SHARES ----- | | VALUE ----- |
|-----------------|--|----------------|
| | CONVERTIBLE SECURITIES - 20.0% OF NET ASSETS | |
| | CONVERTIBLE PREFERRED (RESTRICTED) - 19.9% | |
| | DRUG DISCOVERY TECHNOLOGIES - 4.4% | |
| 2,380,953 | Agilix Series B* | \$ 571,429 |
| 850,436 | Avalon Pharmaceuticals Series B* | 1,998,525 |
| 375,000 | Ceres Series C*# | 2,250,000 |
| 27,443 | Ceres Series C-1* | 164,658 |
| 277,967 | Ceres Series D*# | 1,667,802 |
| 139,873 | Galileo Laboratories Series F* | 489,555 |
| 1,212,709 | Idun Pharmaceuticals Series A-1*^ | 3,000,000 |
| 1,034,519 | Senomyx Series E* | 3,000,002 |
| 1,750,000 | Triad Therapeutics Series A*^ | 1,750 |
| 525,000 | Triad Therapeutics Series B*^ | 525 |
| 1,200,000 | Triad Therapeutics Series C*^ | 180,000 |

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| | | |
|-----------|---|-----------|
| 299,700 | Zyomyx Series A New* | 299,700 |
| 300 | Zyomyx Series B New* | 300 |
| | EMERGING BIOPHARMACEUTICALS - 5.1% | |
| 453,828 | ACADIA Pharmaceuticals Series E* | 1,225,336 |
| 277,778 | ACADIA Pharmaceuticals Series F* | 750,001 |
| 952,381 | Agensys Series C* | 3,000,000 |
| 1,818,182 | Raven biotechnologies Series B*^ | 1,509,091 |
| 2,809,157 | Raven biotechnologies Series C*^ | 2,331,600 |
| 211,765 | Theravance Series C* | 1,905,885 |
| 200,000 | Theravance Series D-1* | 1,800,000 |
| 47,407 | Therion Biologics Series A* | 85,333 |
| 240,000 | Therion Biologics Series B*# | 432,000 |
| 407,712 | Therion Biologics Series C*# | 733,882 |
| 36,092 | Therion Biologics Sinking Fund* | 361 |
| 2,100,000 | Xanthus Life Sciences Series B* | 2,100,000 |
| | HEALTHCARE SERVICES - 4.8% | |
| 1,577,144 | CardioNet Series C*^ | 5,520,004 |
| 484,829 | CytoLogix Series A*^ | 399,984 |
| 227,130 | CytoLogix Series B*#^ | 187,382 |
| 160,000 | I-Trax Series A* | 4,000,000 |
| 5,384,615 | PHT Series D*^ | 4,200,000 |
| 906,261 | PHT Series E*^ | 706,883 |
| | MEDICAL DEVICES AND DIAGNOSTICS - 5.6% | |
| 4,852,940 | Concentric Medical Series B*^ | 3,105,882 |
| 1,744,186 | Concentric Medical Series C*^ | 1,116,279 |
| 2,000,000 | Conor MedSystems Series D* | 2,400,000 |
| 222,222 | EPR Series A* | 2,222 |
| 160,000 | Masimo Series D* | 1,760,000 |
| 1,632,653 | Omnisonics Medical Technologies Series B* | 2,181,224 |
| 1,547,988 | Omnisonics Medical Technologies Series C* | 1,800,000 |

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

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| SHARES | | VALUE |
|------------|---|---------------|
| ----- | | ----- |
| | CONVERTIBLE PREFERRED (RESTRICTED) - CONTINUED | |
| 639,659 | Songbird Hearing Series D* | \$ 6,397 |
| 652,173 | TherOx Series H* | 965,216 |
| 820,313 | VNUS Medical Technologies Series E* | 4,200,003 |
| | | ----- |
| | | \$ 62,049,211 |
| | | ----- |
| | PRINCIPAL AMOUNT | |
| | ----- | |
| | CONVERTIBLE BONDS AND NOTES (RESTRICTED) - 0.1% | |
| | HEALTHCARE SERVICES - 0.0% | |
| \$ 168,337 | CytoLogix 6.75% Cvt. Note, due 2004*^ | \$ 168,337 |
| | MEDICAL DEVICES AND DIAGNOSTICS - 0.1% | |
| 200,272 | TherOx 6% Bridge Note, due 2004# | 200,272 |
| | | ----- |
| | | \$ 368,609 |

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| | | |
|------------------------------|-----------------------------------|---------------|
| TOTAL CONVERTIBLE SECURITIES | | ----- |
| (Cost \$86,089,770) | | \$ 62,417,820 |
| | | ----- |
| SHARES | | |
| ----- | | |
| COMMON STOCKS - 70.9% | | |
| BIOPHARMACEUTICALS - 31.5% | | |
| 142,000 | Amgen* | \$ 8,260,140 |
| 101,848 | Biopure Class A* | 160,920 |
| 204,900 | Celgene* | 9,763,485 |
| 441,471 | Corixa* | 2,826,650 |
| 33,164 | Corixa Warrants (expire 8/14/07)* | 6,268 |
| 821,657 | Cubist Pharmaceuticals* | 7,559,244 |
| 312,823 | CV Therapeutics* | 4,733,012 |
| 385,000 | Elan* | 7,938,700 |
| 308,400 | Enzon Pharmaceuticals* | 4,758,612 |
| 127,000 | Genta* | 1,333,500 |
| 207,000 | Genzyme* | 9,737,280 |
| 107,000 | Gilead Sciences* | 5,967,390 |
| 279,000 | MedImmune* | 6,439,320 |
| 108,100 | Neurocrine Biosciences* | 6,388,710 |
| 267,000 | Pfizer | 9,358,350 |
| 51,000 | Pharmion* | 1,154,640 |
| 290,400 | Pozen* | 4,013,328 |
| 132,000 | United Therapeutics* | 3,145,560 |
| 113,700 | Vertex Pharmaceuticals* | 1,071,054 |
| 652,400 | Vivus* | 3,960,068 |
| | | ----- |
| | | 98,576,231 |
| | | ----- |
| DRUG DELIVERY - 3.3% | | |
| 225,000 | Aradigm* | 522,000 |
| 833,333 | DepoMed* | 6,524,997 |

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

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| SHARES | | VALUE |
|------------------------------------|--|--------------|
| ----- | | ----- |
| DRUG DELIVERY - CONTINUED | | |
| 918,080 | Durect* | \$ 3,121,472 |
| 97,020 | Sontra Medical* | 192,100 |
| | | ----- |
| | | 10,360,569 |
| | | ----- |
| DRUG DISCOVERY TECHNOLOGIES - 3.2% | | |
| 634,800 | deCODE Genetics* | 6,728,880 |
| 507,200 | Lexicon Genetics* | 3,180,144 |
| 386,400 | Lynx Therapeutics Warrants (expire 4/29/07)* | 0 |
| 300,001 | Zyomyx (Restricted) Common* | 3,000 |
| | | ----- |
| | | 9,912,024 |

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| | | |
|---------|---|------------|
| | EMERGING BIOPHARMACEUTICALS - 14.2% | |
| 311,300 | Adolor* | 4,678,839 |
| 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)* | 0 |
| 387,802 | Dyax* | 3,990,482 |
| 303,100 | Encysive Pharmaceuticals* | 3,115,868 |
| 732,600 | Exelixis* | 6,263,730 |
| 568,600 | Kosan Biosciences* | 6,010,102 |
| 99,314 | Rigel Pharmaceuticals* | 2,197,819 |
| 431,237 | Telik* | 11,574,401 |
| 33,332 | Therion Biologics (Restricted) C-2 Units*# | 59,998 |
| 226,760 | Therion Biologics (Restricted)* | 2,268 |
| 270,270 | Tularik* | 6,635,128 |
| | | ----- |
| | | 44,528,635 |
| | | ----- |
| | GENERIC PHARMACEUTICALS - 8.6% | |
| 543,067 | Impax Laboratories* | 12,148,409 |
| 326,600 | IVAX* | 7,436,682 |
| 117,100 | Teva Pharmaceutical Industries ADR | 7,425,311 |
| | | ----- |
| | | 27,010,402 |
| | | ----- |
| | HEALTHCARE SERVICES - 3.3% | |
| 85,200 | Charles River Labs* | 3,650,820 |
| 754,500 | WebMD* | 6,707,505 |
| 306,208 | Syntiro Healthcare Services (Restricted)* | 3,062 |
| 188,096 | Syntiro Healthcare Services (Restricted) Warrants (expire 10/15/04)* | 0 |
| | | ----- |
| | | 10,361,387 |
| | | ----- |

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

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| SHARES | | VALUE |
|-----------|--|----------------|
| ----- | | ----- |
| | MEDICAL DEVICES AND DIAGNOSTICS - 6.8% | |
| 1,122,517 | Biofield* | \$ 594,934 |
| 365,000 | CTI Molecular Imaging* | 5,325,350 |
| 115,260 | Cyberonics* | 2,761,629 |
| 320,034 | Endocardial Solutions* | 2,777,895 |
| 101,000 | IDEXX Laboratories* | 5,743,870 |
| 160,000 | Masimo Labs (Restricted)* | 1,600 |
| 1,020,000 | Orthovita* | 4,100,400 |
| | | ----- |
| | | 21,305,678 |
| | | ----- |
| | TOTAL COMMON STOCKS | |
| | (Cost \$144,885,684) | \$ 222,054,926 |

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| PRINCIPAL AMOUNT | | |
|---------------------|---|----------------|
| | TEMPORARY CASH INVESTMENTS - 9.1% | |
| \$ 9,500,000 | American Express Credit Corp.; .97%, due 4/1/04 | \$ 9,500,000 |
| 6,400,000 | General Electric Capital Corp.; .95%, due 4/7/04 | 6,398,986 |
| 12,445,000 | State Street Bank Repurchase Agreement; .15%, dtd 3/31/04 due 4/1/04 Collateralized by US Treasury Note, 1.5% due 7/31/05 with a market value of \$12,694,767, (repurchase proceeds of \$12,445,052) | 12,445,000 |
| | TOTAL TEMPORARY CASH INVESTMENTS (Cost \$28,343,986) | \$ 28,343,986 |
| | TOTAL INVESTMENTS (Cost \$259,319,440) | \$ 312,816,732 |

-
- * 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 \$22,427,717).

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

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H&Q HEALTHCARE INVESTORS
STATEMENT OF ASSETS AND LIABILITIES
March 31, 2004
(UNAUDITED)

| | | |
|---|----|----------------|
| ASSETS: | | |
| Investments, at value (identified cost \$259,319,440; see Schedule of Investments) | | \$ 312,816,732 |
| Cash | | 765,493 |
| Interest receivable | | 17,305 |
| Receivable for investments sold | | 1,859,092 |
| Prepaid expenses | | 16,292 |
| | | ----- |
| Total assets | | \$ 315,474,914 |
| | | ----- |
| LIABILITIES: | | |
| Payable for investments purchased | \$ | 643,548 |
| Accrued advisory fee | | 330,024 |
| Accrued other | | 243,184 |
| | | ----- |
| Total liabilities | \$ | 1,216,756 |
| | | ----- |

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| | | |
|---|--|-----------------------------|
| NET ASSETS | | \$ 314,258,158 ===== |
| SOURCES OF NET ASSETS: | | |
| Shares of beneficial interest, par value \$.01 per share, unlimited number of shares authorized, amount paid in on 15,108,429 shares issued and outstanding | | \$ 244,537,756 |
| Accumulated net investment loss | | (2,163,903) |
| Accumulated net realized gain on investments | | 18,387,013 |
| Net unrealized gain on investments | | 53,497,292 ----- |
| Total net assets (equivalent to \$20.80 per share based on 15,108,429 shares outstanding) | | \$ 314,258,158 ===== |

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

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H&Q HEALTHCARE INVESTORS STATEMENT OF OPERATIONS For the Six Months Ended March 31, 2004 (UNAUDITED)

| | | |
|--|--|-------------------------|
| INVESTMENT INCOME: | | |
| Dividend income (net of foreign tax of \$3,348) | | \$ 98,231 |
| Interest income | | 141,021 ----- |
| Total investment income | | \$ 239,252 |
| EXPENSES: | | |
| Advisory fees | | \$ 1,978,232 |
| Legal fees | | 79,665 |
| Trustees' fees and expenses | | 69,741 |
| Shareholder reporting | | 61,930 |
| Custodian fees | | 47,830 |
| Accounting and auditing fees | | 40,577 |
| Transfer agent fees | | 29,267 |
| Stock exchange listing fee | | 17,268 |
| Other | | 78,645 ----- |
| Total expenses | | 2,403,155 ----- |
| Net investment loss | | \$ (2,163,903) ----- |
| NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS: | | |
| Net realized gain on investments | | \$ 23,793,037 |
| Increase in net unrealized gain on investments | | 11,218,434 ----- |

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| | |
|---|---------------|
| Net gain on investments | \$ 35,011,471 |
| | ----- |
| Net increase in net assets resulting from operations | \$ 32,847,568 |
| | ===== |

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

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H&Q HEALTHCARE INVESTORS STATEMENTS OF CHANGES IN NET ASSETS

| | FOR THE SIX MONTHS ENDED MARCH 31, 2004 (UNAUDITED) | FOR THE YEAR ENDED SEPTEMBER 30, 2003 |
|---|--|--|
| | ----- | ----- |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS: | | |
| Net investment loss | \$ (2,163,903) | \$ (3,244,087) |
| Net realized gain on investments | 23,793,037 | 26,376,623 |
| Increase in net unrealized gain on investments | 11,218,434 | 31,417,229 |
| | ----- | ----- |
| Net increase (decrease) in net assets resulting from operations | \$ 32,847,568 | \$ 54,549,765 |
| | ----- | ----- |
| DISTRIBUTIONS TO SHAREHOLDERS FROM: | | |
| Net realized capital gains | \$ (14,733,429) | \$ (29,863,899) |
| | ----- | ----- |
| CAPITAL SHARE TRANSACTIONS: | | |
| Value of shares issued in reinvestment of distributions (499,477 and 1,285,469 shares, respectively) | \$ 9,389,165 | \$ 20,063,210 |
| | ----- | ----- |
| Net increase (decrease) in net assets | \$ 27,503,304 | \$ 44,749,076 |
| NET ASSETS: | | |
| Beginning of period | 286,754,854 | 242,005,778 |
| | ----- | ----- |
| End of period | \$ 314,258,158 | \$ 286,754,854 |
| | ===== | ===== |
| ACCUMULATED NET INVESTMENT LOSS INCLUDED IN NET ASSETS AT | | |

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| | | |
|---------------|----------------|-------|
| END OF PERIOD | \$ (2,163,903) | \$ 0 |
| | ===== | ===== |

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, 2004 (UNAUDITED)

| | | |
|---|----|--------------|
| CASH FLOWS USED FOR OPERATING ACTIVITIES: | | |
| Interest income received | \$ | 178,466 |
| Dividends received | | 98,231 |
| Operating expenses paid | | (2,275,619) |
| | | ----- |
| Net cash used for operating activities | \$ | (1,998,922) |
| | | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of portfolio securities | \$ | (55,414,126) |
| Net sales of temporary cash investments | | 12,341,258 |
| Sales and maturities of portfolio securities | | 49,182,576 |
| | | ----- |
| Net cash provided from investing activities | \$ | 6,109,708 |
| | | ----- |
| CASH FLOWS USED FOR FINANCING ACTIVITIES: | | |
| Cash distributions paid, net | \$ | (5,344,264) |
| | | ----- |
| Net cash used for financing activities | \$ | (5,344,264) |
| | | ----- |
| NET DECREASE IN CASH | \$ | (1,233,478) |
| CASH AT BEGINNING OF PERIOD | | 1,998,971 |
| | | ----- |
| CASH AT END OF PERIOD | \$ | 765,493 |
| | | ===== |
| 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 | \$ | 32,847,568 |
| Net realized gain on investments | | (23,793,037) |
| Increase in net unrealized gain on investments | | (11,218,434) |
| Decrease in dividends and interest receivable | | 37,445 |
| Increase in accrued expenses | | 92,609 |
| Decrease in prepaid expenses | | 34,927 |
| | | ----- |
| Net cash used for operating activities | \$ | (1,998,922) |
| | | ===== |

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Noncash financing activities not included herein consist of stock distributions of \$9,389,165. Noncash investing activities not included herein consist of the conversion of restricted preferred stock with a cost of \$3,601,240 to restricted common stock of the same issuer.

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, 2004 (UNAUDITED) | FOR THE YEAR ENDED SEPTEMBER | | |
|--|--|------------------------------|-------------------|----------------|
| | ----- | 2003 (3) ----- | 2002 (1) ----- | 2001 ----- |
| Net asset value per share: | | | | |
| Beginning of period | \$ 19.630 | \$ 18.160 | \$ 27.350 | \$ 46.147 |
| Net investment loss | \$ (0.146) (2) | \$ (0.231) (2) | \$ (0.283) (2) | \$ (0.195) (2) |
| Net realized and unrealized gain (loss) on investments | 2.316 | 3.871 | (5.727) | (13.822) |
| Total increase (decrease) from investment operations | \$ 2.170 | \$ 3.640 | \$ (6.010) | \$ (14.017) |
| Capital gains distributions to shareholders | \$ (1.000) | \$ (2.170) | \$ (3.180) | \$ (4.780) |
| Net asset value per share: | | | | |
| End of period | \$ 20.800 | \$ 19.630 | \$ 18.160 | \$ 27.350 |
| Per share market value: | | | | |
| End of period | \$ 19.89 | \$ 17.66 | \$ 14.10 | \$ 21.74 |
| Total investment return at market value | 18.69% | 43.49% | (25.24%) | (27.23%) |
| RATIOS AND SUPPLEMENTAL DATA: | | | | |
| Net assets at end of period | \$ 314,258,158 | \$ 286,754,854 | \$ 242,005,778 | \$ 329,373,206 |
| Ratio of operating expenses to average net assets | 1.62%* | 1.65% | 1.64% | 1.42% |
| Ratio of net investment loss to average net assets | (1.46%)* | (1.27%) | (1.16%) | (0.62%) |

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| | | | | |
|-------------------------|------------|------------|------------|------------|
| Portfolio turnover rate | 19.07% | 32.80% | 17.40% | 16.17% |
| Number of shares | | | | |
| outstanding at end | | | | |
| of period | 15,108,429 | 14,608,952 | 13,323,483 | 12,042,064 |

(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.

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H&Q HEALTHCARE INVESTORS
NOTES TO FINANCIAL STATEMENTS
March 31, 2004
(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 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"

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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.

REPURCHASE AGREEMENTS

In connection with transactions in repurchase agreements, the Fund's custodian takes possession of the underlying collateral securities, the market value of which is at least equal to the principal, including accrued interest, of the repurchase transaction at all times. In the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral by the Fund may be delayed or limited.

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.

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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 investments at March 31, 2004.

INDEMNIFICATIONS

Under the Fund's organizational documents, its officers and Trustees may be indemnified against certain liabilities and expenses arising out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into agreements with service providers that may contain indemnification clauses. The Fund's maximum exposure under these

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agreements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

(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, 2004 totaled \$51,839,837 and \$50,981,668, respectively.

At March 31, 2004, the total cost of securities for Federal income tax purposes was \$259,319,440. The net unrealized gain on securities held by the Fund was \$53,497,292, including gross unrealized gain of \$96,363,048 and gross unrealized loss of \$42,865,756.

(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 \$20,000 plus \$500 for each Committee on which they serve and \$1,000 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 20% of the Fund's net assets at March 31, 2004.

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, 2004, certain restricted securities were exchanged for cash in connection with a corporate action, a portion of which has been retained by the issuer in an escrow account pending resolution of certain contingencies and whose estimated value of \$582,000 at March 31, 2004 has also been determined by the Trustees. At March 31, 2004, the Fund has a proportionate interest in a 5% interest bearing promissory note due October 31, 2004 from the sale of restricted securities, with a par value of \$121,200 and an estimated value of \$120,000 as determined by the Trustees. The value of the escrow account and note are 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

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unit, and value of the Fund's venture capital and other restricted securities at March 31, 2004, as determined by the Trustees of the Fund.

| SECURITY | ACQUISITION DATE | COST | CARRYING VALUE PER UNIT |
|-----------------------------------|---------------------|--------------|----------------------------|
| ACADIA Pharmaceuticals | | | |
| Series E Cvt. Pfd. | 5/2/00-3/24/03 | \$ 3,000,594 | \$ 2.700 |
| Series F Cvt. Pfd. | 3/19/03 | 750,363 | 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 | 0.240 |
| Avalon Pharmaceuticals | | | |
| Series B Cvt. Pfd. | 10/22/01 | 3,008,325 | 2.350 |
| 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 | 0.000 |
| 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 | 0.640 |
| Series C Cvt. Pfd. | 12/19/03 | 1,501,155 | 0.640 |
| Conor MedSystems | | | |
| Series D Cvt. Pfd. | 10/23/03 | 2,403,660 | 1.200 |
| 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 | 0.010 |
| Galileo Laboratories | | | |
| Series F Cvt. Pfd. | 8/18/00 | 3,002,895 | 3.500 |

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| SECURITY | ACQUISITION DATE | COST | CARRYING VALUE PER UNIT |
|---------------------------------|---------------------|--------------|----------------------------|
| Idun Pharmaceuticals^ | | | |
| Series A-1 Cvt. Pfd. | 11/26/02 | \$ 3,001,966 | \$ 2.474 |
| I-Trax | | | |
| Series A Cvt. Pfd. | 3/18/04 | 4,000,000 | 25.000 |
| Masimo | | | |
| Series D Cvt. Pfd. | 8/14/96 | 1,120,040 | 11.000 |
| Masimo Labs | | | |
| Common | 8/14/96 | 0 | 0.010 |
| OmniSonics Medical Technologies | | | |
| Series B Cvt. Pfd. | 5/24/01 | 2,404,898 | 1.336 |

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| | | | |
|----------------------------|------------------|---------------|-------|
| Series C Cvt. Pfd. | 10/2/03 | 1,804,125 | 1.163 |
| PHT^ | | | |
| Series D Cvt. Pfd. | 7/23/01 | 4,202,025 | 0.780 |
| Series E Cvt. Pfd. | 7/15/03-12/17/03 | 710,613 | 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 |
| 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 | 1,801,329 | 9.000 |
| Therion Biologics | | | |
| C-2 Units* | 8/13/03 | 59,998 | 1.800 |
| Common | 7/12/90-10/16/96 | 511,365 | 0.010 |
| Series A Cvt. Pfd. | 8/20/96-10/16/96 | 444,850 | 1.800 |
| Series B Cvt. Pfd.* | 2/24/99-6/22/99 | 900,914 | 1.800 |
| Series C Cvt. Pfd.* | 9/26/01 | 1,529,348 | 1.800 |
| Sinking Fund Cvt. Pfd. | 10/17/94-4/3/96 | 721,291 | 0.010 |
| TherOx | | | |
| Series H Cvt. Pfd. | 9/11/00 | 3,001,873 | 1.480 |
| Bridge Note* | 1/28/04 | 200,272 | 1.000 |
| Triad Therapeutics^ | | | |
| Series A Cvt. Pfd. | 6/8/99 | 1,751,170 | 0.001 |
| Series B Cvt. Pfd. | 12/20/00 | 1,053,135 | 0.001 |
| Series C Cvt. Pfd. | 11/25/02 | 1,200,000 | 0.150 |
| VNUS Medical Technologies | | | |
| Series E Cvt. Pfd. | 8/20/01 | 4,200,003 | 5.120 |
| Xanthus Life Sciences | | | |
| Series B Cvt. Pfd. | 12/5/03 | 2,101,320 | 1.000 |
| Zyomyx | | | |
| Common | 2/19/99-2/6/04 | 3,602,065 | 0.010 |
| Series A New Cvt. Pfd. | 1/12/04 | 299,700 | 1.000 |
| Series B New Cvt. Pfd. | 1/12/04 | 300 | 1.000 |
| | | ----- | |
| | | \$ 91,463,523 | |
| | | ===== | |

* With warrants attached.

^ Affiliated issuers.

(5) RIGHTS OFFERING

On March 15, 2004, the Trustees of the Fund approved a rights offering to increase the Fund's assets available for investment. Pending approval by the SEC, it is anticipated that rights will be offered to shareholders of record as of the close of business on May 26, 2004 and that the subscription period will end in June 2004.

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(617) 772-8500

www.hqcm.com

OFFICERS

Daniel R. Omstead, ENGSCD, President
Kimberley L. Carroll, Treasurer and Secretary

TRUSTEES

Lawrence S. Lewin
Robert P. Mack, M.D.
Eric Oddleifson
Daniel R. Omstead, ENGSCD
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

LEGAL COUNSEL

Dechert LLP

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) or by calling
1-800-451-2597

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

HQHCM-SAR-04

ITEM 2. CODE OF ETHICS.

Not applicable to this semi-annual filing.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not applicable to this semi-annual filing.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable to this semi-annual filing.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not applicable to this semi-annual filing.

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ITEM 6. SCHEDULE OF INVESTMENTS.

Not applicable to this semi-annual filing.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable to this semi-annual filing.

ITEM 8. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Not applicable to this semi-annual filing.

ITEM 9. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no material changes to the procedures by which shareholders may recommend nominees to the registrant's board of directors, where those changes were implemented after the registrant last provided disclosure in response to the requirements of Item 7(d)(2)(ii)(G) of Schedule 14A, or this Item.

ITEM 10. CONTROLS AND PROCEDURES.

(a) The Chief Executive and Financial Officers concluded that the registrant's Disclosure Controls and Procedures are effective based on the evaluation of the Disclosure Controls and Procedures as of a date within 90 days of the filing date of this report.

(b) During the filing period of the report, management identified steps in the processing of the registrant's portfolio securities transactions and in the procedures for monitoring the percentage of voting securities of certain issuers held by the registrant that warranted enhancements to the internal control procedures. Management has instituted additional procedures, and is in the process of implementing them, to enhance its internal controls.

ITEM 11. EXHIBITS.

(a)(1) Not applicable to this semi-annual filing.

(a)(2) Filed as an attachment to this filing.

(a)(3) Not applicable.

(b) Filed as an attachment to this filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

H&Q HEALTHCARE INVESTORS

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By: /s/ Daniel R. Omstead

Daniel R. Omstead
President

Date: June 7, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Daniel R. Omstead

Daniel R. Omstead
President

Date: June 7, 2004

By: /s/ Kimberly L. Carroll

Kimberly L. Carroll
Treasurer

Date: June 7, 2004
