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

H&Q HEALTHCARE INVESTORS

[H&Q HEALTHCARE INVESTORS LOGO]

SEMIANNUAL REPORT

March 31, 2002

To our Shareholders:

At quarter-end on March 31, 2002 the net asset value of your Fund was $25.61 per share. Performance data for the six months and the quarter ended March 31 compared to the indices is as follows:

	FISCAL YEAR TO DATE 9/30/01 - 3/31/02	QUARTER ENDED 3/31/02
Net Asset Value	+1.9%	-14.0%
Dow Jones Industrial Average	+17.6%	+3.8%
NASDAQ Industrials	+30.1%	+2.1%
Russell 2000	+25.1%	+3.1%

The Fund's second fiscal quarter ended March 31, 2002 was particularly disappointing following the Fund's strong performance during the prior quarter. During the quarter, the biotechnology sector retrenched due to both sector-specific and general factors. However, we continue to be confident in the future of healthcare in general and in emerging biotech and medtech growth companies in particular. We believe that the companies in this sector will continue to lead the advancement of knowledge and remain confident this progress will improve the human condition by providing products and services that will enhance the quality and duration of life. We have no doubt that Americans will appreciate the values of these products and will pay a premium price for them. As such we continue to believe that the investment opportunities in the future will be abundant. We also believe that as the economy generally improves over time, the healthcare sector will play a significant role in any advancement.

While the stock prices of public biotechnology companies have declined during the most recent quarter, we were not aggressive buyers. Rather, we selectively reduced positions and allowed liquidity, as a percent of total assets, to rise to its highest level in recent years. We believe the Fund is well positioned to take advantage of the current situation. Valuations are becoming particularly attractive for both publicly traded and private companies. We expect that in the weeks and months ahead we will have opportunities to invest much of this liquidity at very attractive levels. Many public companies have equity market values with historically low premiums to their liquid assets creating unusual values for their technology and product opportunities. In our venture capital activity, we are now frequently seeing attractive valuations and some transactions are being done at a very significant discount to previous investment rounds completed 1-2 years ago. We believe that this also bodes well for the future.

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Having made these assertions, it is also true that there are a number of factors that may have a mitigating impact on the Fund's performance. Certainly, the heightened scrutiny of accounting practices at a number of individual companies, as well as other corporate governance issues, is sobering to the general market. Furthermore, there are a number of issues specific to the pharmaceutical industry that are unsettling to investors.

The Food and Drug Administration is still without a Commissioner, and seems to have recently become even more risk averse than usual. With several product approvals delayed, investors have concerns that product approval cycles are once again lengthening. This comes at a time when patent expirations are increasing with the threat of generic competition. These issues come amidst discussion of the control of drug pricing by government and increasing uncertainty about the ability of healthcare companies to sustain the ever-increasing cost of drug development.

While these concerns are most apparent to major pharmaceutical companies, and less so for the emerging companies, sentiment does affect valuations. Some of these issues are likely to persist at least through the elections in November but we continue to believe that new products that cure or mediate the course of disease will continue to be rewarded.

Two new venture investments were made in the quarter. SENOMYX discovers and develops novel flavor and fragrance molecules by combining its understanding of the biology of taste with receptor biology, combinatorial chemistry, high throughput screening and bioinformatics. AGENSYS develops fully human monoclonal antibodies to treat solid tumor cancers based on the Company's own proprietary drug targets. A follow-on investment was made in Sontra Medical in connection with its merger with ChoiceTel, a publicly traded company.

This was a difficult quarter, but we believe strongly in the future growth of healthcare and in the entrepreneurial approach of the companies in which we invest. We continue to believe that attractive investment opportunities in the future will be abundant.

/s/ Alan G. Carr

Alan G. Carr
President Emeritus

/s/ Daniel R. Omstead

Daniel R. Omstead
President

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H&Q HEALTHCARE INVESTORS

PRIVACY NOTICE

If you are a registered shareholder of the Fund, the Fund and Hambrecht & Quist Capital Management, the Funds' investment adviser, may receive nonpublic personal information about you from the information collected by the transfer agent from your transactions in Fund shares. Any nonpublic personal information is not disclosed to third parties, except as permitted or required by law. In connection with servicing your account and effecting transactions, the information received may be shared with the investment adviser and non-affiliates, including transfer agents, custodians or other service companies. Access to your nonpublic personal information is restricted to employees who need to know that information to provide products or services to

you. To maintain the security of your nonpublic personal information, physical, electronic, and procedural safeguards are in place that comply with federal standards. The policies and practices described above apply to both current and 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

PORTFOLIO

AS OF MARCH 31, 2002

[CHART]

	TOTAL	VENTURE	DIFFERENCE
AGRI/ENVIRONMENTAL	1.4%	1.3%	0.1%
BIOTECHNOLOGY	45.2%	10.0%	35.3%
CROs	0.5%	0.0%	0.5%
DIAGNOSTICS	6.8%	2.7%	4.2%
HEALTHCARE INFO SERVICES	3.5%	2.5%	0.9%
MEDICAL SPECIALTY	12.2%	3.9%	8.3%
MEDICAL SUPPLIES	1.4%	0.9%	0.5%
PHARMACEUTICALS	6.5%	2.0%	4.5%
LIQUID ASSETS	22.5%	0.0%	22.5%

RESTRICTED

H&Q HEALTHCARE INVESTORS

LARGEST HOLDINGS

AS OF MARCH 31, 2002

	% OF NET ASSETS
Gilead Sciences	4.67%
Martek Biosciences	4.23%
Cubist Pharmaceuticals	3.94%
Transkaryotic Therapies	3.47%
CV Therapeutics	3.45%
Celgene	3.09%
Cytyc	2.66%
Biovail	2.52%
MedImmune	2.51%
Endocardial Solutions	2.47%

H&Q HEALTHCARE INVESTORS

SIGNIFICANT PORTFOLIO TRANSACTIONS

QUARTER ENDED MARCH 31, 2002

PURCHASES	UNITS HELD 12/31/01	UNITS HELD 3/31/02
Agensys (Restricted)	0	952,381
Exelixis	98,000	226,500
Rigel Pharmaceuticals	0	508,500
Senomyx (Restricted)	0	1,034,519
Sontra (Restricted) Series B	536,460	933,837
WebMD	283,500	403,500
SALES		
Affymetrix	60,000	0
Biovail	345,924	165,924
Curis	205,311	92,500
Gilead Sciences	413,318	426,636
Scios	109,500	0
Sepracor	217,138	0
Versicor	628,165	418,165

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS
March 31, 2002
(UNAUDITED)

SHARES	CONVERTIBLE SECURITIES - 23.3% OF NET ASSETS CONVERTIBLE PREFERRED (RESTRICTED) - 21.3%	VALUE
	AGRICULTURAL/ENVIRONMENTAL TECHNOLOGIES - 1.3%	
375,000	Ceres Series C*	$2,250,000
27,443	Ceres Series C-1*#	164,658
277,967	Ceres Series D*#	1,667,802
222,222	EPR Series A*	333,333
	BIOTECHNOLOGY - 8.8%	
400,000	ACADIA Pharmaceuticals Series E*	3,000,000
952,381	Agensys Series C*	3,000,000
2,380,953	Agilix Series B*	3,000,001
850,436	Avalon Pharmaceuticals Series B*	2,999,998
1,818,182	Raven biotechnologies Series B*^	3,000,000
47,407	Therion Biologics Series A*	177,776
240,000	Therion Biologics Series B*#	900,000
407,712	Therion Biologics Series C*#	1,528,920
36,092	Therion Biologics Sinking Fund*	135,345
1,750,000	Triad Therapeutics Series A*	3,500,000

825,000	Triad Therapeutics Series B*	1,650,000
923,077	Zyomyx Series B*	3,692,308
600,000	Zyomyx Series C*	2,400,000
	DIAGNOSTICS - 2.6%	
1,371,429	CardioNet Series C*^	4,800,002
484,829	CytoLogix Series A*^	400,178
227,130	CytoLogix Series B*#^	187,473
160,000	Masimo Series D*	1,760,000
1,724,138	Sontra Medical Series A*^	867,759
933,837	Sontra Medical Series B*^	470,000
	HEALTHCARE INFORMATION SERVICES - 1.8%	
338,983	KVM Technologies Series B*#^	1,500,000
5,384,616	PHT Series D*^	4,200,000
	MEDICAL SPECIALTY - 3.9%	
636,364	AbTox Series F*	6,364
1,632,653	OmniSonics Medical Technologies Series B*^	2,400,000
1,034,519	Senomyx Series E*	3,000,002
639,659	Songbird Hearing Series D*	6,397
652,173	TherOx Series H*	2,999,996
820,313	VNUS Medical Technologies Series E*^	4,200,003
	MEDICAL SUPPLIES - 0.9%	
343,750	LocalMed Series D*	3,438
631,580	Novacept Series G*#	3,000,005

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

SHARES	CONVERTIBLE SECURITIES - CONTINUED CONVERTIBLE PREFERRED (RESTRICTED) - 21.3%	VALUE
	PHARMACEUTICALS/DRUG DELIVERY - 2.0%	
211,765	Advanced Medicine Series C*	$1,905,885
200,000	Advanced Medicine Series D-1*	1,800,000
1,398,732	Galileo Laboratories Series F*	3,000,000
		$69,907,643

PRINCIPAL AMOUNT	CONVERTIBLE BONDS AND NOTES - 2.0%	
	BIOTECHNOLOGY - 1.5%	
$6,800,000	CuraGen 6% Cvt. Deb. due 2007 ii	$5,049,000
	HEALTHCARE INFORMATION SERVICES - 0.4%	
1,577,366	FitForAll.com (Restricted) 10% Prom. Note*#+	158
1,350,000	KVM Technologies (Restricted) Adj. Cvt. Demand Note*#^	1,350,000

	MEDICAL SPECIALTY - 0.1%	
180,000	AbTox (Restricted) 12% Prom. Note*+	180,000
		$6,579,158
	TOTAL CONVERTIBLE SECURITIES (Cost $82,888,416)	$76,486,801

SHARES	COMMON STOCKS - 54.3%	
	AGRICULTURAL/ENVIRONMENTAL TECHNOLOGY - 0.1%	
71,483	Catalytica Energy Systems*	$240,898
		240,898
	BIOTECHNOLOGY - 34.9%	
	BIOPHARMACEUTICALS - 29.5%	
429,898	BioTransplant*	2,256,964
2,760	BioTransplant (Restricted) Wts. (expire 8/12/04)*	2,070
6,300	BioTransplant (Restricted) Wts. (expire 10/31/04)*	4,725
1,150	BioTransplant (Restricted) Wts. (expire 8/15/05)*	3,595
410,400	Celgene*	10,157,400
54,000	Cephalon*	3,402,000
246,389	Corixa*	1,520,220
550,556	Cubist Pharmaceuticals*	10,174,275
200,001	Cubist Pharmaceuticals (Restricted) Wts. (expire 9/23/03)*	2,759,114
312,823	CV Therapeutics*	11,324,193
163,000	Genzyme*	7,118,210
426,636	Gilead Sciences*	15,354,630

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

SHARES	BIOTECHNOLOGY - CONTINUED	VALUE
210,000	MedImmune*	$8,259,300
226,760	Therion Biologics (Restricted)*	850,350
264,912	Transkaryotic Therapies*	11,404,462
270,270	Tularik*	4,443,239
418,165	Versicor*	7,560,423
18,696	Versicor (Restricted) Wts. (expire 8/3/05)*	199,823
	GENOMICS/DRUG DISCOVERY - 5.4%	
150,000	Abgenix*	2,833,500
299,302	Dyax*	1,101,431
226,500	Exelixis*	3,123,435
78,500	Lexicon Genetics*	741,825
225,000	Lynx Therapeutics*	490,500
174,461	Molecular Devices*	3,169,956
508,500	Rigel Pharmaceuticals*	1,805,175
370,237	Telik*	4,487,272

		114,548,087
	CONTRACT RESEARCH ORGANIZATIONS - 0.5%	
91,400	Quintiles Transnational*	1,622,350
		1,622,350
	DIAGNOSTICS - 4.2%	
522,617	Biofield*	237,791
600,000	Biofield (Restricted)*	218,400
324,330	Cytyc*	8,730,963
18,500	Digene*	661,375
152,000	IDEXX Laboratories*	4,079,680
160,000	Masimo Labs (Restricted)*	1,600
900,000	Sontra Medical (Restricted)*^	9,000
		13,938,809
	HEALTHCARE INFORMATION SERVICES - 1.3%	
4,366,920	Codman Group (Restricted)*	10,917
306,208	Physician WebLink (Restricted)*	1,200,473
188,096	Physician WebLink (Restricted) Wts. (expire 10/15/04)*	18,810
403,500	WebMD*	3,098,880
		4,329,080
	MEDICAL SPECIALTY - 8.3%	
381,818	ATS Medical*	763,636
130,900	Bioject Medical Technologies*	503,965
101,848	Biopure*	1,079,589
8,333	Biopure (Restricted) Wts. (expire 8/4/03)*	0

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

SHARES	MEDICAL SPECIALTY - CONTINUED	VALUE
92,500	Curis*	$197,025
1,000,000	Endocardial Solutions*	8,110,000
441,409	Martek Biosciences*	13,895,114
1,020,000	Orthovita*^	2,499,000
198,000	Radiance Medical Systems*	247,500
		27,295,829
	MEDICAL SUPPLIES - 0.5%	
645,000	EP MedSystems*^	1,631,850
		1,631,850
	PHARMACEUTICALS/DRUG DELIVERY - 4.5%	
225,000	Aradigm*	1,057,500
165,924	Biovail*	8,292,881

91,500	Emisphere Technologies*	1,556,415
70,000	Teva Pharmaceutical Industries ADR	3,826,900
		14,733,696
	TOTAL COMMON STOCKS (Cost $82,321,214)	$178,340,599

PRINCIPAL AMOUNT	TEMPORARY CASH INVESTMENTS - 22.0%	
$7,000,000	American Express Credit, 1.45%, due 4/2/02	$6,999,718
16,500,000	American Express Credit, 1.80%, due 4/29/02	16,476,900
16,000,000	General Electric Capital Corp., 1.82%, due 5/8/02	15,970,071
8,000,000	U.S. Treasury Bill, 1.69%, due 4/11/02	7,996,244
5,900,000	U.S. Treasury Bill, 1.73%, due 4/25/02	5,893,195
19,000,000	U.S. Treasury Bill, 1.71%, due 5/2/02	18,972,023
	TOTAL TEMPORARY CASH INVESTMENTS (Cost $72,308,151)	$72,308,151
	TOTAL INVESTMENTS (Cost $237,517,781)	$327,135,551

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* Non income-producing security.

\# With warrants attached.

^ Affiliated issuers in which the Fund holds 5% or more of the voting securities (Total Market Value of $27,515,265).

ii Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

\+ Issuer filed for bankruptcy.

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

H&Q HEALTHCARE INVESTORS

STATEMENT OF ASSETS AND LIABILITIES
March 31, 2002
(UNAUDITED)

ASSETS:	
Investments, at value (identified cost $237,517,781; see Schedule of Investments)	$327,135,551
Cash	656,175
Interest receivable	66,867
Receivable for investments sold	2,103,347

Prepaid expenses	36,391
Total assets	$329,998,331
LIABILITIES:	
Payable for investments purchased	$866,988
Accrued advisory fee	393,595
Accrued other	74,448
Total liabilities	$1,335,031
NET ASSETS	$328,663,300
SOURCES OF NET ASSETS:	
Shares of beneficial interest, par value $.01 per share, unlimited number of shares authorized, amount paid in on 12,833,980 shares issued and outstanding	$210,436,463
Accumulated net investment loss	(1,802,602)
Accumulated net realized gain on investments	30,411,669
Net unrealized gain on investments	89,617,770
Total net assets (equivalent to $25.61 per share based on 12,833,980 shares outstanding)	$328,663,300

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

H&Q HEALTHCARE INVESTORS

STATEMENT OF OPERATIONS
For the Six Months Ended March 31, 2002
(UNAUDITED)

INVESTMENT INCOME:		
Dividend income (net of foreign tax of $1,736)	$9,121	
Interest income	752,373	
Total investment income		$761,494
EXPENSES:		
Advisory fees	$2,339,010	
Legal fees	89,182	
Trustees' fees and expenses	85,716	
Shareholder reporting	49,725	
Accounting and auditing fees	44,348	
Custodian fees	42,205	
Stock exchange listing fee	30,922	
Transfer agent fees	23,969	
Other	13,059	

Total expenses	2,718,136
Net investment loss	($1,956,642)
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:	
Net realized gain on investments	$36,438,345
Decrease in net unrealized gain on investments	(27,463,909)
Net gain on investments	$8,974,436
Net increase in net assets resulting from operations	$7,017,794

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

H&Q HEALTHCARE INVESTORS

STATEMENTS OF CHANGES IN NET ASSETS

	FOR THE SIX MONTHS ENDED MARCH 31, 2002 (UNAUDITED)	FOR THE YEAR ENDED SEPTEMBER 30, 2001
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment loss	($1,956,642)	($2,222,151)
Net realized gain on investments	36,438,345	63,501,379
Increase (decrease) in net unrealized gain on investments	(27,463,909)	(201,564,026)
Net increase (decrease) in net assets resulting from operations	$7,017,794	($140,284,798)
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net realized capital gains	($27,561,544)	($52,289,670)
CAPITAL SHARE TRANSACTIONS:		
Value of shares issued in reinvestment of distributions (791,916 and 1,519,574 shares, respectively)	$19,833,844	$36,365,104
Net increase (decrease) in net assets	($709,906)	($156,209,364)
NET ASSETS:		
Beginning of year	329,373,206	485,582,570
End of year	$328,663,300	$329,373,206

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, 2002
(UNAUDITED)

CASH FLOWS USED FOR OPERATING ACTIVITIES:	
Interest income received	$696,153
Dividends received	9,121
Operating expenses paid	(2,788,312)
Net cash used for operating activities	($2,083,038)
CASH FLOWS PROVIDED FROM INVESTING ACTIVITIES	
Purchases of portfolio securities	($19,127,650)
Net purchases of temporary cash investments	(22,821,310)
Sales and maturities of portfolio securities	51,859,628
Net cash provided from investing activities	$9,910,668
CASH FLOWS USED FOR FINANCING ACTIVITIES:	
Cash distributions paid, net	($7,727,700)
Net cash used for financing activities	($7,727,700)
NET INCREASE IN CASH	$99,930
CASH AT BEGINNING OF PERIOD	556,245
CASH AT END OF PERIOD	$656,175
RECONCILIATION OF NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH USED FOR OPERATING ACTIVITIES:	
Net decrease in net assets resulting from operations	$7,017,794
Accretion of discount	(56,220)
Net realized gain on investments	(36,438,345)
Net decrease in unrealized gain on investments	27,463,909
Increase in prepaid expenses	(19,741)
Decrease in accrued expenses	(50,435)
Net cash used for operating activities	($2,083,038)

Noncash financing activities not included herein consist of stock distributions of $19,833,844.

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, 2002 (UNAUDITED)(1)	FOR THE YEARS ENDED SEPTE			
		2001	2000	1999	
Net asset value per share:					
Beginning of period	$27.350	$46.147	$21.771	$16.711	
Net investment income (loss)	($0.158)*	($0.195)*	($0.290)	($0.176)	
Net realized and unrealized gain (loss) on investments	0.678	(13.822)	28.131	5.596	
Total increase (decrease) from investment operations	$0.520	($14.017)	$27.841	$5.420	
Dilutive effect of sale of common stock and related expenses from rights offering	--	--	--	--	
Capital gains distributions to shareholders	($2.260)	($4.780)	($3.465)	($0.360)	
Net asset value per share:					
End of period	$25.610	$27.350	$46.147	$21.771	
Per share market value:					
End of period	$22.200	$21.740	$36.188	$16.313	
Total investment return at market value	11.50%	(27.23%)	151.66%	27.39%	
RATIOS AND SUPPLEMENTAL DATA:					
Net assets at end of period	$328,663,300	$329,373,206	$485,582,570	$209,519,627	$
Ratio of operating expenses to average net assets**	1.55%	1.42%	1.45%	1.46%	
Ratio of net investment loss to average net assets**	(1.12%)	(0.62%)	(0.86%)	(0.91%)	
Portfolio turnover rate	6.54%	16.17%	12.90%	24.88%	
Number of shares outstanding at end of period	12,833,980	12,042,064	10,522,490	9,623,524	

(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 six months ended March 31, 2002 was a decrease in net investment loss per share of $.004, a decrease in net realized and unrealized gain (loss) per share of $.004, and a decrease in the ratio of net investment loss to average net assets from (1.15%) to (1.12%). Per share data and ratios for the periods prior to October 1, 2001 have not been restated to reflect this change in presentation.

* 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, 2002

(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" method. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

The Fund adopted the provisions of the AICPA Audit and Accounting

Guide for Investment Companies, as revised, effective October 1, 2001 and began accreting discounts and amortizing premiums on all debt securities. Prior to this date, the Fund did not accrete discounts or amortize premiums on long-term debt securities. The cumulative effect of this accounting change had no impact on the total net assets of the Fund, but resulted in an increase in cost of securities and a corresponding decrease in net unrealized appreciation of $154,000 based on securities held at September 30, 2001. The effect of this change for the six months ended March 31, 2002 was to decrease net investment loss by $56,220 with a corresponding decrease in the change in net unrealized appreciation of $56,220.

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 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, 2002.

(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, 2002 totaled $19,472,411 and $51,623,922, respectively.

At March 31, 2002, the total cost of securities for Federal income tax

purposes was $237,492,781. The net unrealized gain on securities held by the Fund was $89,617,770, including gross unrealized gain of $126,920,790 and gross unrealized loss of $37,303,020.

(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 Incorporated (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. The Adviser is an indirect wholly owned subsidiary of J.P. Morgan Chase & Co.

On March 22, 2002, the Trustees of the Fund approved a new investment advisory agreement with Hambrecht & Quist Capital Management LLC, subject to certain conditions, including approval by the Fund's shareholders. The terms of the new agreement are substantially identical to those in the current Advisory Agreement.

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 23% of the Fund's net assets at March 31, 2002.

The value of the venture capital and other restricted securities is determined in good faith by the Trustees. However, because of the inherent uncertainty of valuations, these estimated

values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. In fiscal 2001, the Fund sold a restricted security subject to future contingent payments whose estimated value of $1,647,054 has also been determined by the Trustees and which is included in the Receivable for Investments Sold in the Statement of Assets and Liabilities.

The following table details the acquisition date, cost, carrying value per unit, and value of the Fund's venture capital and other restricted securities at March 31, 2002, as determined by the Trustees of the Fund.

SECURITY	ACQUISITION DATE	COST	CARRYING VALUE PER UNIT
AbTox			

Series F Cvt. Pfd.	3/7/97	$1,415,569	$0.010
12% Promissory Note	2/26/98-3/26/98	180,000	1.000
ACADIA Pharmaceuticals			
Series E Cvt. Pfd.	5/2/00	3,000,273	7.500
Advanced Medicine			
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
Agensys			
Series C Cvt. Pfd.	2/14/02	3,000,000	3.150
Agilix			
Series B Cvt. Pfd.	11/18/01	3,000,001	1.260
Avalon Pharmaceuticals			
Series B Cvt. Pfd.	10/22/01	2,999,998	3.528
Biofield			
Common	12/15/00	302,984	0.364
Biopure			
Common Warrants (expire 8/4/03)	5/13/99	0	0.000
BioTransplant			
Common Warrants (expire 8/12/04)	8/12/94	0	0.750
Common Warrants (expire 10/31/04)	10/31/94	0	0.750
Common Warrants (expire 8/15/05)	8/18/95	0	3.126
CardioNet^			
Series C Cvt. Pfd.	5/3/01	4,823,275	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	1,667,802	6.000
Codman Group			
Common	1/26/96-8/24/97	2,552,759	0.002
Cubist Pharmaceuticals			
Common Warrants (expire 9/23/03)	9/23/98	235	13.796
CytoLogix^			
Series A Cvt. Pfd.	1/13/98-7/21/99	2,331,986	0.825
Series B Cvt. Pfd.*	1/11/01	1,150,335	0.825
EPR			
Series A Cvt. Pfd.	3/9/94	1,000,409	1.500
FitForAll.com			
10% Promissory Note*	2/22/00-9/18/00	1,613,493	0.000
Galileo Laboratories			
Series F Cvt. Pfd.	8/18/00	3,001,764	2.145

SECURITY	ACQUISITION DATE	COST	CARRYING VALUE PER UNIT	
KVM Technologies^				
Series B Cvt. Pfd.*	2/19/98	$1,501,320	$4.425	$
Adj. Cvt. Demand Note*	6/21/99-7/31/01	1,350,625	1.000	
LocalMed				
Series D Cvt. Pfd.	2/9/96	1,376,970	0.010	
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	3,000,005	4.750	
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	
Physician WebLink				
Common	2/5/97	1,200,325	3.920	
Warrants (expire 10/15/04)	10/15/98	0	0.100	
Raven biotechnologies^				
Series B Cvt. Pfd.	12/12/00	3,000,833	1.650	
Senomyx				
Series E Cvt. Pfd.	2/19/02	3,000,002	2.900	
Songbird Hearing				
Series D Cvt. Pfd.	12/14/00	3,002,086	0.010	
Sontra Medical^				
Common	3/26/01	0	0.010	
Series A Cvt. Pfd.	9/9/98	1,205,089	0.503	
Series B Cvt. Pfd.	3/26/01-2/28/02	470,000	0.503	
Therion Biologics				
Common	7/12/90-10/16/96	511,365	3.750	
Series A Cvt. Pfd.	8/20/96-10/16/96	444,850	3.750	
Series B Cvt. Pfd.*	2/24/99-6/22/99	900,914	3.750	
Series C Cvt. Pfd.*	9/26/01	1,528,920	3.750	
Sinking Fund Cvt. Pfd.	10/17/94-4/3/96	721,291	3.750	
TherOx				
Series H Cvt. Pfd.	9/11/00	3,001,873	4.600	
Triad Therapeutics				
Series A Cvt. Pfd.	6/8/99	1,750,860	2.000	
Series B Cvt. Pfd.	12/20/00	1,653,135	2.000	
Versicor				
Warrants (expire 8/3/05)	6/28/99	905	10.688	

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	4.000	
Series C Cvt. Pfd.	3/2/00	1,200,690	4.000	
		$81,203,137		$7

* With warrants attached.
^ Affiliated issuers.

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Hambrecht & Quist Capital Management Incorporated

CUSTODIAN AND TRANSFER AGENT
State Street Bank and Trust Company

LEGAL COUNSEL
Dechert Price & Rhoads

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

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

For copies of the Fund's
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please contact the Plan Agent, State Street Bank & Trust Co.
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