

# H&Q HEALTHCARE INVESTORS

**5,036,144 Shares**

**Issuable Upon Exercise of Non-Transferable Rights  
to Subscribe for Such Shares**

**New York Stock Exchange Symbol: HQH**

H&Q Healthcare Investors is issuing non-transferable Rights to its Shareholders of record as of the close of business on May 26, 2004. These Rights will allow you to subscribe for one (1) Share of the Trust for each three (3) Rights held. You will receive one Right for each whole Share that you hold of record as of May 26, 2004, rounded up to the nearest number of Rights evenly divisible by three. The Rights will not be listed for trading on the New York Stock Exchange or any other exchange. You may also purchase Shares not acquired by other Shareholders subject to certain limitations and subject to allotment.

**The Subscription Price per Share will be 95% of the lower of (a) the volume weighted average share price of a Share on the NYSE on June 21, 2004 and the four preceding business days or (b) the net asset value per Share on June 21, 2004.**

**Rights may be exercised at any time until 5:00 p.m., Eastern time, on June 18, 2004, unless the Offer is extended as discussed in this Prospectus.** Since the Offer closes before June 21, 2004, Shareholders who exercise their Rights will not know the Subscription Price at the time they exercise their Rights. For additional information regarding the Offer, please call The Altman Group, Inc. at (800) 870-0126.

The Trust is a diversified, closed-end management investment company whose shares of beneficial interest are listed and traded on the New York Stock Exchange under the symbol "HQH." The Trust's investment objective is to seek long-term capital appreciation by investing primarily in securities of companies in the healthcare industries ("Healthcare Companies"). The Trust will invest primarily in securities of companies that are believed by the Trust's investment adviser to have significant potential for above-average long-term growth in revenues and earnings. The Trust emphasizes investment in securities of emerging growth Healthcare Companies. The Trust may also invest up to 40% of its net assets in venture capital or other securities that are subject to legal or contractual restrictions as to resale. These types of securities may be acquired in connection with venture capital opportunities, as well as in private placements in public companies. The Trust may not be able to achieve its investment objective. **For a discussion of the risks associated with an investment in the Trust, see "Risks."**

This Prospectus sets forth concisely the information about the Trust you should know before investing, including information about risks. You should read this Prospectus and retain it for future reference. A Statement of Additional Information dated May 26, 2004 (the "SAI") containing additional information about the Trust has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this Prospectus. A copy of the SAI, the table of contents of which appears on page 53 of this Prospectus, may be obtained without charge by contacting the Information Agent at (800) 870-0126. The Securities and Exchange Commission maintains a website (<http://www.sec.gov>) that contains material incorporated by reference and other information regarding the Trust.

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

|                         | Estimated<br>Subscription<br>Price(1) | Estimated<br>Sales Load | Estimated Proceeds<br>to Trust or Other<br>Persons(2) |
|-------------------------|---------------------------------------|-------------------------|---|
| Per Share . . . . .     | \$18.73                               | None                    | \$18.73   |
| Total Maximum . . . . . | \$94,326,977.12                       | None                    | \$94,326,977.12                                       |

*Footnotes set forth on next page*

*(continued from previous page)*

- (1) Estimated on the basis of the volume weighted average share price of a Share on the NYSE on May 26, 2004 and the four preceding business days. The Trust may increase the number of Shares subject to subscription by up to 25% of the Shares offered hereby, or up to an additional 1,259,036 Shares, for an aggregate total of 6,295,180 Shares. If the Trust increases the number of Shares subject to subscription by 25%, the total maximum Estimated Subscription Price will be approximately \$117,908,721.40 and the total maximum Estimated Proceeds to the Trust will be approximately \$117,908,721.40. No sales load will be charged by the Trust in connection with this Offer. However, Shareholders that choose to exercise their Rights through broker-dealers, banks and nominees may incur a servicing fee charged by such broker-dealer, bank or nominee.
- (2) Before deduction of expenses related to the Offer incurred by the Trust, estimated at approximately \$390,000.

The Trust announced the Offer after the close of trading on the NYSE on April 8, 2004. The NAV at the close of business on April 8, 2004 and May 26, 2004 was \$21.36 and \$19.88, respectively, and the last reported sales price of a Share on the NYSE on those dates was \$20.70 and \$19.51, respectively.

The Trust may increase the number of Shares subject to subscription by up to 25%, or up to an additional 1,259,036 Shares, for an aggregate total of 6,295,180 Shares.

As a result of the terms of the Offer, Shareholders who do not fully exercise their Rights, including the Over-Subscription Privilege described in the section of this Prospectus entitled “The Offer—Over-Subscription Privilege,” will, upon the completion of the Offer, own a smaller proportional interest in the Trust than they owned before the Offer. The Offer will result in a dilution of NAV for all Shareholders, whether or not they exercise some or all of their Rights, because the Subscription Price per Share will be less than the then-current NAV. The amount of dilution might be significant. See “The Offer.”

The Trust’s investment adviser is Hambrecht & Quist Capital Management, LLC. The employees of the Trust’s investment adviser and the Trustees and officers of the Trust may purchase Shares through the Primary Subscription and the Over-Subscription Privilege on the same terms as other Shareholders.

Information about the Trust can be reviewed and copied at the Securities and Exchange Commission’s Public Reference Room in Washington, DC. Call (202) 942-8090 for information on the operation of the Public Reference Room. This information is also available in the Commission’s Internet site at <http://www.sec.gov>, and copies may be obtained upon payment of a duplicating fee by writing the Public Reference Section of the Securities and Exchange Commission, Washington, DC 20549-0102.

## PROSPECTUS SUMMARY

*You should consider the matters discussed in this summary before investing in the Trust through the Offer. The following summary is qualified in its entirety by reference to the more detailed information appearing elsewhere in this Prospectus.*

### THE OFFER

|                             |   |
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| The Offer                   | H&Q Healthcare Investors (the “Trust”) is issuing to its shareholders of record (“Shareholders”) as of the close of business on May 26, 2004 (the “Record Date”) non-transferable rights (“Rights”) to subscribe for an aggregate of 5,036,144 shares of beneficial interest (“Shares”) of the Trust (the “Offer”). You will receive one Right for each whole Share you held as of the Record Date, rounded up to the nearest number of Rights evenly divisible by three. You may subscribe for one Share for each three Rights you hold (the “Primary Subscription”).  |
| Subscription Price          | The subscription price per Share (the “Subscription Price”) will be 95% of the lower of (a) the volume weighted average share price of a Share on the New York Stock Exchange (the “NYSE”) on June 21, 2004 (the “Pricing Date”) and the four preceding business days or (b) the net asset value per Share (the “NAV”) on the Pricing Date.   |
| Subscription Period         | Rights may be exercised at any time during the subscription period (the “Subscription Period”), which starts on June 1, 2004 and ends at 5:00 p.m., Eastern time, on June 18, 2004 (the “Expiration Date”).   |
| Over-Subscription Privilege | The Trust may, at its discretion, issue up to an additional 25% of the Shares in the Offer to honor over-subscription requests if there are not enough Shares available from the Primary Subscription to honor all over-subscription requests (the “Over-Subscription Privilege”). If there are enough Shares left after the Primary Subscription, all over-subscriptions will be honored in full. If there are not enough Shares available to honor all over-subscriptions (after giving effect to any increase in the number of Shares to be offered), the available Shares will be allocated pro rata among those who over-subscribe based on the number of Rights originally issued to them by the Trust. |
| Fractional Shares           | Fractional Shares will not be issued upon the exercise of Rights. In the case of shares held of record by a broker-dealer, bank or other financial intermediary (each, a “Nominee”), the number of Rights issued to the Nominee will be adjusted to permit rounding up (to the nearest number of Rights evenly divisible by three) of the Rights to be received by each of the beneficial owners for whom it is the holder of record only if the Nominee provides to the Trust, on or before the close of business on June 11, 2004, a written representation of the number of Rights required for such rounding.   |

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| <p>Purpose of the Offer</p>  | <p>The Trust’s investment adviser believes that increasing the Trust’s assets for investment through the Offer will benefit the Trust and its Shareholders by allowing the Trust to take further advantage of available investment opportunities in securities of companies in the healthcare industries (“Healthcare Companies”). While there can be no assurance that any benefits will be realized, increasing the Trust’s investment assets through the Offer is intended to:</p> <ul style="list-style-type: none"> <li>• allow the Trust to increase its investments at a time when the Trust’s investment adviser believes that securities of selected Healthcare Companies including specialty and generic pharmaceuticals companies, medical devices, healthcare information services and other innovative healthcare product and biotechnology companies, are positioned for price appreciation due to (i) demographic changes, (ii) recent developments in the pharmaceutical, biotechnology and medical technology industries relating to products that have or will extend or improve the quality of patients’ lives, and (iii) the recent passage of a Medicare reform bill, to be implemented by 2006, which may result in dramatic growth in prescription volume;</li> <li>• increase the Trust’s average investment size, giving the Trust additional negotiating leverage and pricing influence over venture capital, private investments in public entities (PIPEs) and other private equity investments and in the public markets;</li> <li>• provide the Trust with the ability to make additional investments without realizing capital gains on current investments or otherwise selling current investments at an unfavorable time; and</li> <li>• reduce operating costs per Share.</li> </ul> <p>The Offer allows you the opportunity to purchase additional Shares of the Trust at a price that will be below market value and NAV at the Expiration Date. See “The Offer—Purpose of the Offer.”</p> |
| <p>Use of Proceeds</p>       | <p>The Trust expects to invest the net proceeds of the Offer primarily in securities of Healthcare Companies, particularly investments in specialty and generic pharmaceuticals companies, medical devices, healthcare information services and other innovative healthcare product and biotechnology companies. Any investments will be made in accordance with the Trust’s investment objective and policies. Investment of the proceeds is expected to take up to six months from their receipt by the Trust, depending on market conditions and the availability of appropriate securities. See “Use of Proceeds.”</p>  |
| <p>Notice of NAV Decline</p> | <p>The Trust will suspend the Offer until it amends this Prospectus if, after the effective date of this Prospectus, the Trust’s NAV declines more than 10% from its NAV as of that date. If that occurs, the Trust will notify you of the decline and permit you to cancel your exercise of your Rights.</p>   |

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| How to Obtain Subscription Information | <ul style="list-style-type: none"> <li>• Contact your broker, bank or trust company.</li> <li>• Contact The Altman Group (the “Information Agent”) toll-free at (800) 870-0126.</li> </ul>   |
| How to Subscribe                       | <p>You may subscribe in one of two ways:</p> <ul style="list-style-type: none"> <li>• Deliver a completed Exercise Form and payment to EquiServe Trust Company (the “Subscription Agent”) by the Expiration Date.</li> <li>• If your Shares are held in a brokerage, bank or trust account, have your broker, bank or trust company deliver a Notice of Guaranteed Delivery to the Subscription Agent by the Expiration Date.</li> </ul> |
| Tax Consequences                       | <p>For Federal income tax purposes, neither the receipt nor the exercise of the Rights will result in taxable income to Shareholders. You will not realize a taxable loss if your Rights expire without being exercised. See “The Offer—Certain Federal Income Tax Consequences of the Offer.”</p>   |

**IMPORTANT DATES TO REMEMBER**

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|---|-----------------------|
| Record Date . . . . .   | May 26, 2004          |
| Subscription Period . . . . .   | June 1—June 18, 2004* |
| Deadline for delivery of Exercise Form together with payment of Estimated Subscription Price or for delivery of Notice of Guaranteed Delivery . . . . .       | June 18, 2004*        |
| Expiration Date . . . . .   | June 18, 2004*        |
| Pricing Date . . . . .  | June 21, 2004*        |
| Deadline for payment of final Subscription Price pursuant to Notice of Guaranteed Delivery . . . . .  | June 23, 2004*        |
| Confirmation to Registered Shareholders . . . . .   | June 27, 2004*        |
| For Registered Shareholder Purchases—deadline for payment of unpaid balance if final Subscription Price is higher than Estimated Subscription Price . . . . . | June 30, 2004*        |

\* Unless the Offer is extended.

## THE TRUST

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| <p>The Trust</p>                     | <p>The Trust is a diversified, closed-end management investment company. The Trust was organized as a Massachusetts business trust on October 31, 1986 and commenced operations on April 22, 1987. As of May 26, 2004, the Trust had 15,108,430 Shares outstanding. Shares of the Trust are traded on the NYSE under the symbol “HQH.” As of May 26, 2004, the Trust’s NAV was \$19.88 and the Trust’s last reported share price of a Share on the NYSE was \$19.51.</p>   |
| <p>Distributions</p>                 | <p>The Trust intends to make quarterly distributions to its Shareholders equal to 2.0% of the Trust’s net asset value. Net realized capital gains in excess of the total distributed under this policy are generally included in the December distribution. These quarterly distributions are generally reinvested in additional Shares through the Trust’s Dividend Reinvestment Plan. The Trust’s quarterly distribution policy may be changed by the Board of Trustees without Shareholder approval.</p> <p>The current distribution policy is to declare distributions in stock. Stock distributions will automatically be paid in newly-issued full Shares of the Trust plus cash in lieu of any fraction of a Share, unless otherwise instructed by the Shareholder. If a Shareholder elects to receive a distribution in cash, rather than in Shares, the Shareholder’s relative ownership in the Trust will be reduced.</p> <p>The first regular quarterly distribution to be paid on Shares acquired upon exercise of Rights will be the first quarterly distribution the record date for which occurs after the issuance of the Shares. The Shares issued in the Offer will not be entitled to the distribution to be declared to Shareholders of record on May 25, 2004 which is payable in June 2004.</p>  |
| <p>General Investment Guidelines</p> | <p>The Trust’s investment objective is to seek long-term capital appreciation by investing primarily in securities of Healthcare Companies. Under normal market conditions, the Trust expects to invest at least 80% of its net assets in securities of Healthcare Companies. This policy may not be changed without 60 days’ prior notice to Shareholders. The Trust will not have less than 25% of its net assets invested in Healthcare Companies. A company will be deemed to be a Healthcare Company if, at the time the Trust makes an investment in the company, 50% or more of such company’s sales, earnings or assets arise from or are dedicated to healthcare products or services or medical technology activities. The Trust may also invest in companies that do not satisfy the above criteria but that are expected by the Investment Adviser to have 25% or more of sales, earnings or assets arising from or dedicated to such activities. Investments in those types of companies will not exceed 20% of the Trust’s net assets at the time of investment. The Investment Adviser determines, in its discretion, whether a company is a Healthcare Company. The Trust may also invest up to 20% of its net assets in the securities of foreign issuers, expected to be located primarily in Western Europe, Canada and Japan, and securities of United States (“U.S.”) issuers traded in foreign markets (“Foreign Securities”).</p> |

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| <p>Venture Capital Investments</p>        | <p>The Trust emphasizes investment in securities of emerging growth Healthcare Companies. These investments are often venture capital investments. The Trust may invest up to 40% of its net assets in securities subject to legal or contractual restrictions as to resale (“Restricted Securities”) including venture capital investments. The Trust’s investments in Restricted Securities may include “start-up,” early and later stage financings of privately-held companies and private placements in public companies. See “Investment Objective and Policies.”</p>   |
| <p>Investment Adviser</p>                 | <p>Hambrecht &amp; Quist Capital Management, LLC (the “Investment Adviser”) serves as investment adviser to the Trust. The Investment Adviser also serves as investment adviser to H&amp;Q Life Sciences Investors (“HQL”), a closed-end management investment company that invests in companies in the healthcare industries. See “Management of the Trust—Investment Adviser.” The majority of the Trust’s Board of Trustees is unaffiliated with the Investment Adviser; nevertheless, the Trust may be subject to certain potential conflicts of interest. See “Portfolio Transactions and Brokerage.”</p>  |
| <p>Portfolio Management</p>               | <p>Currently Daniel R. Omstead, Eng.ScD., Christopher F. Brinzey, M.B.A., Frank T. Gentile, Ph.D., Jason C. Akus, M.D./M.B.A. and Michael S. Tung, M.D./M.B.A. are members of the team that makes investments on behalf of the Trust. These members also perform other duties, including making investment decisions on behalf of HQL. See “Management of the Trust—Investment Adviser.”</p>  |
| <p>Compensation of Investment Adviser</p> | <p>For the services provided by the Investment Adviser under the Advisory Agreement, the Trust pays a fee, computed and payable monthly, equal when annualized to (i) 2.5% of the average net assets for the month of its venture capital and other Restricted Securities (as defined) 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 monthly fee may not exceed a rate when annualized of 1.375% (approximately 0.115% per month). Because the advisory fee is based on the average net assets of the Trust, and since the Offer is expected to result in an increase in net assets, the Investment Adviser will benefit from the Offer by an increase in the dollar amount of the fee.</p> |

## RISK FACTORS AND SPECIAL CONSIDERATIONS

*This Prospectus contains certain statements that may be deemed to be “forward-looking statements.” Actual results could differ materially from those projected in the forward-looking statements as a result of uncertainties set forth below and elsewhere in the Prospectus. See “Risks” for a more complete description of risks that may be associated with an investment in the Trust.*

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| <p>Dilution—Net Asset Value and Non-Participation in the Offer</p> | <p>The Offer will result in dilution.</p> <p>Shareholders who do not fully exercise their Rights will experience dilution of NAV, dilution of a proportionate ownership interest in the Trust, and dilution of voting power. All Shareholders will experience an immediate dilution of NAV, regardless of whether they exercise any or all of their Rights, because the Subscription Price will be less than the then-current NAV, and the number of Shares outstanding after the Offer will increase by a greater percentage than the increase in the size of the Trust’s assets. For example, if the assumed Subscription Price is \$18.89, representing a market price which is only 95% of NAV, assuming that all Rights are exercised in the Primary Subscription and no Shares are issued pursuant to the Over-Subscription Privilege, the Trust’s NAV would be reduced by approximately \$0.267 per Share or approximately 1.34% of NAV. The actual Subscription Price may be greater or less than the Subscription Price assumed above. The example assumes a net asset value per Share of \$19.88 which is based on the Trust’s NAV after the close of trading on Wednesday, May 26, 2004.</p> |
| <p>Market Risk</p>   | <p>As with any investment company that invests in equity securities, the Trust is subject to market risk—the possibility that the prices of equity securities will decline over short or extended periods of time. As a result, the value of an investment in the Trust’s Shares will fluctuate with the market. You could lose money over short or long periods of time.</p>   |
| <p>Selection Risk</p>  | <p>Different types of equity securities tend to shift into and out of favor with investors, depending on market and economic conditions. The performance of funds that invest in healthcare industry equity securities may at times be better or worse than the performance of funds that focus on other types of securities or that have a broader investment style.</p>   |
| <p>Concentration in the Healthcare Industries</p>                  | <p>Under normal market conditions, the Trust expects to invest at least 80% of its net assets in securities of Healthcare Companies. The Trust will not have less than 25% of its net assets invested in Healthcare Companies. As a result, the Trust’s portfolio may be more sensitive to, and possibly more adversely affected by, regulatory, economic or political factors or trends relating to the healthcare industries than a portfolio of companies representing a larger number of industries. As a result of its concentration policy, the Trust’s investments may be subject to greater risk and market fluctuation than a fund that has securities representing a broader range of investments.</p>  |

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|  | <p>Healthcare Companies have in the past been characterized by limited product focus, rapidly changing technology and extensive government regulation. In particular, technological advances can render an existing product, which may account for a disproportionate share of a company's revenue, obsolete. Obtaining governmental approval from agencies such as the Food and Drug Administration (FDA) for new products can be lengthy, expensive and uncertain as to outcome. These factors may result in abrupt advances and declines in the securities prices of particular companies and, in some cases, may have a broad effect on the prices of securities of companies in particular healthcare industries.</p> <p>Intense competition exists within and among certain healthcare industries, including competition to obtain and sustain proprietary technology protection, including patents, trademarks and other intellectual property rights, upon which Healthcare Companies can be highly dependent for maintenance of profit margins and market exclusivity. The complex nature of the technologies involved can lead to patent disputes, including litigation that could result in a company losing an exclusive right to a patent.</p> <p>Cost containment measures implemented by the federal government, state governments and the private sector have adversely affected certain sectors of the healthcare industries. The implementation of any such further cost containment measures may have an adverse effect on some companies in the healthcare industries.</p> <p>Product development efforts by Healthcare Companies may not result in commercial products. Even after a product is commercially released, governmental agencies may require additional clinical trials or change the labeling requirements for products if additional product side effects are identified, which could have a material adverse effect on the market price of the securities of those Healthcare Companies.</p> <p>Certain Healthcare Companies in which the Trust may invest may be exposed to potential product liability risks that are inherent in the testing, manufacturing, marketing and sale of pharmaceutical, medical device or other products. There can be no assurance that a product liability claim would not have a material adverse effect on the business, financial condition or securities prices of a company in which the Trust has invested.</p> <p>All of these factors may cause the value of the Trust's Shares to fluctuate significantly over relatively short periods of time.</p> |
| <p>Investment in Emerging Growth Companies</p> | <p>The Trust emphasizes investment in equity securities of emerging growth Healthcare Companies. While these securities offer the opportunity for significant capital gains, these investments also involve a degree of risk that can result in substantial losses. There can be no assurance that securities of start-up or emerging growth companies will, in the future, yield returns commensurate with their associated risks.</p>   |

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| <p>Liquidity of Portfolio Investments</p>                                 | <p>The Trust may invest substantially all of its net assets in securities of emerging growth Healthcare Companies, including venture capital and other private equity investments, although the latter, if restricted, are limited to 40% of its net assets. Some of these securities are traded in the over-the-counter market or on regional stock exchanges where the low trading volume of a particular security may result in abrupt and erratic price movements. An investment in such securities may have limited liquidity, and the Trust may find it necessary to sell at a discount from recent prices or to sell over extended periods of time when disposing of such securities. Restricted Securities in which the Trust may invest cannot be sold except in a public offering registered under the Securities Act of 1933, as amended (the “Securities Act”), pursuant to an exemption from the Securities Act or in compliance with applicable Securities and Exchange Commission (the “Commission”) regulations.</p>  |
| <p>Valuation of Venture Capital Investments and Restricted Securities</p> | <p>Since there is typically no readily available market value for the venture capital investments and some of the Restricted Securities in the Trust’s portfolio, venture capital investments and some Restricted Securities in the Trust’s Portfolio are valued substantially at fair value as determined in good faith by the Board of Trustees pursuant to a valuation policy and a consistently applied valuation process. Because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Trust’s investments determined in good faith by the Board of Trustees, or in accordance with valuation procedures approved by the Board of Trustees, may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. There is no single standard for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments the Trust makes.</p> <p>Some of the Trust’s investments are subject to restrictions on resale and generally have no established trading market. Because of the type of investments that the Trust makes and the nature of its business, the valuation process requires an analysis of various factors. The Trust’s fair value methodology includes the examination of, among other things, the underlying investment performance, financial condition, and market changing events that impact valuation.</p> |
| <p>Foreign Securities</p>   | <p>The Trust may invest up to 20% of its net assets in securities of foreign issuers, expected to be located primarily in Western Europe, Canada and Japan, and securities of U.S. issuers traded in foreign markets. Foreign Securities may be less liquid and have prices that are more volatile than securities of comparable U.S. companies. An investment in Foreign Securities may also involve currency risk.</p>  |

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| Key Personnel        | There may be only a limited number of securities professionals who have comparable experience to that of the Trust's existing portfolio management team in the area of Healthcare Companies. If one or more of the team members dies, resigns, retires or is otherwise unable to act on behalf of the Investment Adviser, there can be no assurance that a suitable replacement could be found immediately.  |
| Diversified Status   | The Trust may from time to time concentrate its investments in a few issuers and take large positions in those issuers. As a result, the Trust may be subject to a greater risk of loss than an investment company that diversifies its investments more broadly. Taking larger positions is also likely to increase the volatility of the Trust's net asset value reflecting fluctuation in the value of its large holdings.  |
| Discount to NAV      | Market price risk is a risk separate and distinct from the risk that the Trust's net asset value will decrease. Although the Trust's Shares have recently traded on the NYSE at a market price above their net asset value (a premium), the Trust's Shares have traded in the market below (a discount), at and above net asset value since the commencement of the Trust's operations. There can be no assurance that the Trust's shares will trade at a premium in the future, or that any such premium is sustainable. The Trust's Shares have traded at discounts of as much as (30.90)% since the Trust commenced operations. In the year ended December 31, 2003, the Trust's Shares traded in the market at an average discount to net asset value of (10.32)%. As of April 30, 2004, the Trust's shares traded in the market at a 1.59% discount to their net asset value. The Trust cannot predict whether the Shares will trade in the future at, above or below their net asset value.              |
| Declaration of Trust | The Trust's Amended and Restated Declaration of Trust ("Declaration of Trust"), dated April 21, 1987, presently has provisions that could have the effect of limiting the ability of other entities or persons to (1) acquire control of the Trust, (2) cause it to engage in certain transactions, or (3) modify its structure. These provisions may be considered "anti-takeover" provisions.  |
| Repurchase of Shares | You may dispose of your Shares on the NYSE or other markets on which the Shares may trade, but because the Trust is a closed-end investment company, you do not have the right to redeem your Shares. At least once a year the Trustees consider whether the Trust should repurchase its Shares in the open market or make a tender offer. Any repurchases will comply with the provisions of the Investment Company Act and Massachusetts law that apply to open market transactions. There is no assurance that any action undertaken to repurchase Shares will result in the Shares trading at a price which approximates net asset value. Repurchases of Shares by the Trust would also decrease its total assets and may increase its expenses as a percentage of average net assets as a result. The Trust's net income will be reduced by the amount of any interest owed on any borrowings made to finance any Share repurchase transactions. The Trust has no current plans to repurchase its Shares. |

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| Related Party Transactions | <p>The majority of the Board will be unaffiliated with the Investment Adviser; nevertheless, the Trust may be subject to certain potential conflicts of interest. Although the Trust has no obligation to do so, it may place brokerage orders with brokers who provide supplemental investment research and market and statistical information about the healthcare industries. In addition, other investment companies advised by the Investment Adviser may concurrently invest with the Trust in Restricted Securities under certain conditions. The Investment Adviser may also provide managerial assistance to issuers of securities in which the Trust invests. The Trust also may invest, subject to applicable law, in companies in which the principals of the Investment Adviser or Trustees of the Trust have invested, or for which they serve as directors or executive officers.</p> |
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## TRUST EXPENSES

### Fees and Expenses

#### Annual Expenses (as a percentage of average net assets attributable to Shares)

|                                    |                     |
|------------------------------------|---------------------|
| Management Fee . . . . .           | 1.32%               |
| Other Expenses(1) . . . . .        | <u>0.23%</u>        |
| Total Annual Expenses(2) . . . . . | <u><u>1.55%</u></u> |

(1) “Other Expenses” have been estimated for the current fiscal year.

(2) The estimated 1.55% expense ratio assumes that the Offer is fully subscribed, yielding estimated net proceeds of approximately \$94,326,977.12 (assuming a Subscription Price of \$18.73 per Share) and that, as a result, based on the Trust’s net assets attributable to Shareholders on May 26, 2004 of \$300,355,568.52, the net assets attributable to Shareholders would be \$394,682,545.64.

The purpose of the table above is to assist you in understanding the various costs and expenses that you will bear directly or indirectly as an investor in the Trust. For more information regarding the management fees paid by the Trust, refer to the section of this Prospectus entitled “Management of the Trust—Investment Adviser.”

### Hypothetical Example

The following hypothetical example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in Shares of the Trust. These amounts are based upon payment by the Trust of investment advisory fees and other expenses at the levels set forth in the table above.

You would directly or indirectly pay the following expenses on a \$1,000 investment in the Trust, assuming (i) all dividends and other distributions are reinvested at NAV, (ii) the market price at the time of investment was equal to the net asset value per share, (iii) the percentage amounts listed under Annual Expenses above remain the same in the years shown, and (iv) a 5% annual return:

| 1 Year | 3 Years | 5 Years | 10 Years |
|--------|---------|---------|----------|
| \$16   | \$49    | \$86    | \$193    |

See also Note (2) above for assumptions made in calculating the expenses in this hypothetical example. See “Financial Highlights” for the Trust’s actual ratio of expenses to average net assets for the fiscal year ended September 30, 2003.

The above tables and the assumption in the hypothetical example of a 5% annual return are required by regulations of the Commission applicable to all investment companies. The assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of the Trust’s Shares. For more complete descriptions of certain of the Trust’s costs and expenses, see “Management of the Trust—Investment Adviser.”

**This Hypothetical Example should not be considered a representation of past or future expenses, and the Trust’s actual expenses may be greater or less than those shown.**

## FINANCIAL HIGHLIGHTS AND INVESTMENT PERFORMANCE

### Financial Highlights

The financial highlights table is intended to help you understand the Trust's financial performance. Information is shown for the Trust's last ten fiscal years. Certain information reflects financial results from a single Trust share. The information for the fiscal years ended September 30, 2003, September 30, 2002 and September 30, 2001 was audited by PricewaterhouseCoopers LLP, independent accountants. The information included in the Trust's financial statements for the fiscal years ended September 30, 2000 and September 30, 1999 was audited by other independent accountants, whose reports expressed an unqualified opinion on those financial statements and financial highlights. The report of PricewaterhouseCoopers LLP, together with the financial statements of the Trust, are included in the Trust's September 30, 2003 Annual Report, and are included elsewhere in this Prospectus.

|   | For the Year Ended September 30, |               |               |               |               |
|---|----------------------------------|---------------|---------------|---------------|---------------|
|   | 2003                             | 2002(1)       | 2001          | 2000          | 1999          |
| Net asset value per share:  |                                  |               |               |               |               |
| Beginning of year . . . . .   | \$ 18.160                        | \$ 27.350     | \$ 46.147     | \$ 21.771     | \$ 16.711     |
| Net investment loss . . . . .   | \$ (0.231)(2)                    | \$ (0.283)(2) | \$ (0.195)(2) | \$ (0.290)    | \$ (0.176)    |
| Net realized and unrealized gain<br>(loss) on investments . . . . .                               | 3.871                            | (5.727)       | (13.822)      | 28.131        | 5.596         |
| Federal income taxes on retained<br>long-term capital gains . . . . .                             | —                                | —             | —             | —             | —             |
| Total increase (decrease) from<br>investment operations . . . . .                                 | \$ 3.640                         | \$ (6.010)    | \$ (14.017)   | \$ 27.841     | \$ 5.420      |
| Dilutive effect of sale of common<br>stock and related expenses from<br>rights offering . . . . . | —                                | —             | —             | —             | —             |
| Capital gains distributions to<br>shareholders . . . . .  | \$ (2.170)                       | \$ (3.180)    | \$ (4.780)    | \$ (3.465)    | \$ (0.360)    |
| Net asset value per share:  |                                  |               |               |               |               |
| End of year . . . . .   | \$ 19.630                        | \$ 18.160     | \$ 27.350     | \$ 46.147     | \$ 21.771     |
| Per share market value:   |                                  |               |               |               |               |
| End of year . . . . .   | \$ 17.66                         | \$ 14.10      | \$ 21.74      | \$ 36.19      | \$ 16.31      |
| Total investment return at market<br>value . . . . .  | 43.49%                           | (25.24)%      | (27.23)%      | 151.66%       | 27.39%        |
| <b>RATIOS AND SUPPLEMENTAL<br/>DATA:</b>  |                                  |               |               |               |               |
| Net assets at end of year . . . . .   | \$286,754,854                    | \$242,005,778 | \$329,373,206 | \$485,582,570 | \$209,519,627 |
| Ratio of operating expenses to<br>average net assets . . . . .                                    | 1.65%                            | 1.64%         | 1.42%         | 1.45%         | 1.46%         |
| Ratio of net investment loss to<br>average net assets . . . . .                                   | (1.27)%                          | (1.16)%       | (0.62)%       | (0.86)%       | (0.91)%       |
| Portfolio turnover rate . . . . .   | 32.80%                           | 17.40%        | 16.17%        | 12.90%        | 24.88%        |
| Number of shares outstanding at<br>end of year . . . . .  | 14,608,952                       | 13,323,483    | 12,042,064    | 10,522,490    | 9,623,524     |

(1) The Trust adopted the provisions of 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.

**FINANCIAL HIGHLIGHTS AND INVESTMENT PERFORMANCE (Continued)**

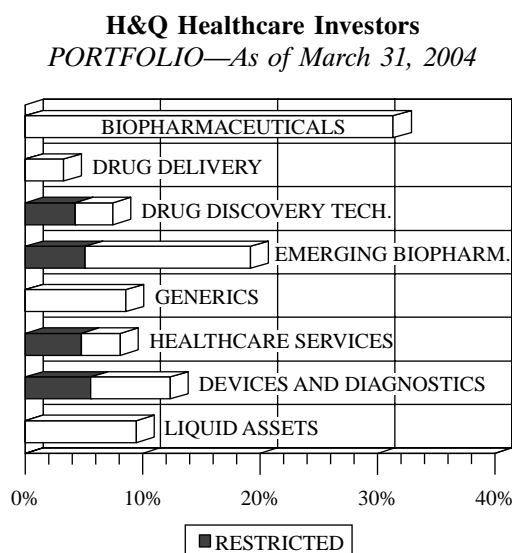
|   | For the Year Ended September 30, |               |               |               |              |
|---|----------------------------------|---------------|---------------|---------------|--------------|
|   | 1998                             | 1997          | 1996          | 1995          | 1994         |
| Net asset value per share:  |                                  |               |               |               |              |
| Beginning of year . . . . .   | \$ 23.106                        | \$ 25.754     | \$ 21.818     | \$ 16.609     | \$ 17.604    |
| Net investment loss . . . . .   | \$ (0.217)                       | \$ (0.224)    | \$ (0.331)    | \$ (0.228)    | \$ (0.199)   |
| Net realized and unrealized gain (loss)<br>on investments . . . . .                               | (5.108)                          | 4.524         | 5.487         | 5.437         | (0.230)      |
| Federal income taxes on retained<br>long-term capital gains . . . . .                             | —                                | —             | —             | —             | (0.566)      |
| Total increase (decrease) from<br>investment operations . . . . .                                 | \$ (5.325)                       | \$ 4.300      | \$ 5.156      | \$ 5.209      | \$ (0.995)   |
| Dilutive effect of sale of common<br>stock and related expenses from<br>rights offering . . . . . | —                                | (2.458)       | —             | —             | —            |
| Capital gains distributions to<br>shareholders . . . . .  | \$ (1.070)                       | \$ (4.490)    | \$ (1.220)    | —             | —            |
| Net asset value per share:  |                                  |               |               |               |              |
| End of year . . . . .   | \$ 16.711                        | \$ 23.106     | \$ 25.754     | \$ 21.818     | \$ 16.609    |
| Per share market value:   |                                  |               |               |               |              |
| End of year . . . . .   | \$ 13.13                         | \$ 19.00      | \$ 20.88      | \$ 18.25      | \$ 15.13     |
| Total investment return at market<br>value . . . . .  | (26.05)%                         | 14.01%        | 22.03%        | 20.66%        | (17.69)%     |
| <b>RATIOS AND SUPPLEMENTAL<br/>DATA:</b>  |                                  |               |               |               |              |
| Net assets at end of year . . . . .   | \$157,976,073                    | \$207,728,666 | \$147,552,505 | \$121,072,675 | \$92,169,061 |
| Ratio of operating expenses to<br>average net assets . . . . .                                    | 1.46%                            | 1.57%         | 1.62%         | 1.76%         | 1.74%        |
| Ratio of net investment loss to<br>average net assets . . . . .                                   | (1.11)%                          | (1.13)%       | (1.44)%       | (1.31)%       | (1.13)%      |
| Portfolio turnover rate . . . . .   | 17.15%                           | 17.47%        | 22.41%        | 22.81%        | 28.10%       |
| Number of shares outstanding at end<br>of year . . . . .  | 9,453,317                        | 8,990,179     | 5,729,160     | 5,549,198     | 5,549,198    |

## Portfolio Characteristics

A substantial portion of the Trust's investment portfolio consists of venture capital and private equity investments. As of March 31, 2004, 19.88% of the Trust's assets were invested in Restricted Securities of 26 Healthcare Companies, one of which was publicly-traded. The Trust continues to value this security below current market prices as it remains restricted as to resale.

From inception, the Trust has made 270 venture capital investments in 93 private companies and 16 private placements in public companies. There have been 45 initial public offerings and 12 acquisitions of restricted portfolio companies as of March 31, 2004.

The following sets forth certain information with respect to the composition of the Trust's investment portfolio as of March 31, 2004.



The following table sets forth the Trust's ten largest holdings as a percentage of net assets as of March 31, 2004.

### The Trust's Ten Largest Holdings (as of March 31, 2004)

|  | <u>% of Net Assets</u> |
|--|------------------------|
| 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%                  |
| Tera Pharmaceutical Industries ADR . . . . . | 2.36%                  |

## Share Price and NAV

The Trust's Shares are publicly-held and have been listed and are trading on the NYSE. The following table sets forth for the quarters indicated the high and low closing prices per Share on the

NYSE, the corresponding NAV, the percentage premium or discount at such closing prices, and the number of Shares traded. The NAV as of the close of business on May 26, 2004 was \$19.88 and the last reported sales price of a Share that day was \$19.51.

| Quarter Ending     | Market Price(1) High | Corresponding Net Asset Value(2) | Premium/(Discount)(2) | Market Price(1) Low | Corresponding Net Asset Value(2) | Premium/(Discount)(2) | Trading Volume |
|--------------------|----------------------|----------------------------------|-----------------------|---------------------|----------------------------------|-----------------------|----------------|
| Fiscal 2002        |                      |                                  |                       |                     |                                  |                       |                |
| Dec. 31 . . . . .  | \$26.48              | \$30.90                          | (14.30)%              | \$21.50             | \$27.33                          | (21.33)%              | 1,784,000      |
| Mar. 31 . . . . .  | 25.63                | 29.91                            | (14.31)               | 22.00               | 25.38                            | (13.32)               | 1,628,000      |
| June 30 . . . . .  | 22.02                | 25.56                            | (13.85)               | 16.45               | 20.05                            | (17.96)               | 1,880,000      |
| Sept. 30 . . . . . | 16.40                | 19.62                            | (16.41)               | 13.80               | 17.78                            | (22.38)               | 2,300,000      |
| Fiscal 2003        |                      |                                  |                       |                     |                                  |                       |                |
| Dec. 31 . . . . .  | 16.05                | 19.28                            | (16.75)               | 13.10               | 17.40                            | (24.71)               | 2,531,000      |
| Mar. 31 . . . . .  | 15.70                | 17.33                            | (9.41)                | 13.08               | 15.84                            | (17.42)               | 3,862,000      |
| June 30 . . . . .  | 18.24                | 19.81                            | (7.93)                | 14.52               | 16.76                            | (13.37)               | 1,803,000      |
| Sept. 30 . . . . . | 18.63                | 20.94                            | (11.03)               | 17.14               | 18.84                            | (9.02)                | 2,414,000      |
| Fiscal 2004        |                      |                                  |                       |                     |                                  |                       |                |
| Dec. 31 . . . . .  | 18.91                | 20.16                            | (6.20)                | 17.83               | 19.37                            | (7.95)                | 1,624,000      |
| Mar. 31 . . . . .  | 21.53                | 21.15                            | 1.80                  | 18.56               | 19.73                            | (5.93)                | 2,075,000      |

(1) As reported by the NYSE.

(2) Based on the Trust's computations, on the day that the high or low market price was recorded.

Shares of the Trust have frequently traded at a discount to NAV but have occasionally traded at a premium to NAV. There can be no assurance that Shares will trade at premium to NAV in the future. Certain features of and steps taken by the Trust may have tended to reduce the discount from net asset value at which its Shares might otherwise have traded, although the Trust is not able to determine what effect, if any, these various features and steps may have had. The Trust's current 2% distribution policy (see "Dividends and Distributions"), begun in May 1999, may have contributed to this effect. This trend may also have resulted in whole or in part from other factors, such as the Trust's investment performance and the performance of the healthcare industry generally.

### Investment Performance

The table below presents average annual total returns of the Trust's Shares on two separate bases. The first column presents the Trust's market value return, which is the average annual rate of return, based on the Trust's market value, on an amount invested in the Trust from the beginning to the end of the stated period and assumes reinvestment of net investment income dividends and capital gains distributions. This figure reflects the actual experience of a Shareholder, before commission costs, who bought and sold Shares of the Trust at the beginning and ending dates. The second column features the NAV return, which presents the same information, but values the Trust at NAV rather than market value.

The record of the AMEX Biotech Index has been included so that the Trust's results may be compared with an unmanaged equal-dollar weighted index designed to measure the performance of a cross-section of core issuers in the biotechnology industry. The record of the Russell 2000 has been included so that the Trust's results may be compared with an unmanaged index reflecting the performance of the 2,000 smallest companies in the Russell 3000 Index (which in turn represents the 3,000 largest U.S. companies based on total market capitalization). The record of the NASDAQ Industrials has been included so that the Trust's results may be compared with an unmanaged, market value-weighted index reflecting all Nasdaq National Market System issues classified as industrial based on Standard Industrial Classification codes relative to a company's major source of revenue. The record of the Dow Jones Industrial Average has been included so that the Trust's results may be compared with an unmanaged, market value-weighted index composed of 30 large "blue-chip" industrial stocks.

The figures for each index assume reinvestment of dividends. It is not possible to invest directly in any index.

**H&Q Healthcare Investors Annualized Returns  
(for periods ending March 31, 2004)**

|                           | HQH<br>Stock** | HQH<br>NAV* | AMEX<br>Biotech<br>Index** | Russell<br>2000** | NASDAQ<br>Industrials** | Dow Jones<br>Industrial<br>Average** |
|---------------------------|----------------|-------------|----------------------------|-------------------|-------------------------|--------------------------------------|
| <b>1 Year</b> . . . . .   | 54.02%         | 36.26%      | 57.93%                     | 61.93%            | 63.15%                  | 29.60%                               |
| <b>3 Years</b> . . . . .  | 11.66%         | 2.63%       | 3.83%                      | 9.43%             | 10.68%                  | 1.59%                                |
| <b>5 Years</b> . . . . .  | 23.97%         | 14.17%      | 23.00%                     | 8.22%             | 3.76%                   | 1.14%                                |
| <b>10 Years</b> . . . . . | 13.09%         | 12.25%      | 19.05%                     | 8.93%             | 7.91%                   | 11.04%                               |

\* Source: Lipper Closed-End Equity Funds Analysis

\*\* Source: Factset, Total Annualized Compounded Return, dividends reinvested on ex-date

**The above results represent past performance and should not be considered an indication of future performance.** The information is provided for purposes of presenting an historical perspective of the Trust. The investment return and net asset and market prices will fluctuate, so that Shares may be worth more or less than their original cost when sold.

**THE OFFER**

**Terms of the Offer**

The Trust is issuing to its Shareholders non-transferable Rights to subscribe for an aggregate of 5,036,144 Shares. The Trust may increase the number of Shares subject to subscription by up to 25% of the Shares, for an aggregate total of 6,295,180 Shares. Shareholders will receive one non-transferable Right for each Share held as of the Record Date, rounded up to the nearest number of Rights evenly divisible by three. The Rights entitle a Shareholder to acquire, at the Subscription Price, one Share for each three Rights held. If you exercise all of the Rights issued to you, you may subscribe for Shares which were not otherwise subscribed for by others in the Primary Subscription.

Rights may be exercised at any time during the Subscription Period, which commences on June 1, 2004 and ends at 5:00 p.m., Eastern time, on June 18, 2004, unless extended by the Trust (such date, as it may be extended, is referred to in this Prospectus as the “Expiration Date”).

Fractional Shares will not be issued upon the exercise of Rights. In the case of shares held of record by a broker-dealer, bank or other financial intermediary (each, a “Nominee”), the number of Rights issued to such Nominee will be adjusted to permit rounding up (to the nearest number of Rights evenly divisible by three) of the Rights to be received by each of the beneficial owners for whom it is the holder of record only if the Nominee provides to the Trust, on or before the close of business on June 11, 2004, a written representation of the number of Rights required for such rounding.

The Rights are non-transferable. Therefore, only the underlying Shares will be listed for trading on the NYSE or any other exchange.

For purposes of determining the number of Shares a Shareholder may acquire pursuant to the Offer, broker-dealers whose Shares are held of record by Cede & Co., Inc. (“Cede”), nominee for the Depository Trust Company, or by any other depository or nominee, will be deemed to be the holders of the Rights that are issued to Cede or such other depository or nominee on their behalf. Shares acquired pursuant to the Over-Subscription Privilege are subject to allotment, which is more fully discussed under “The Offer—Over-Subscription Privilege.”

The Subscription Price will be 95% of the lower of (i) the volume weighted average share price of a Share on the NYSE on June 21, 2004 (the "Pricing Date") and the four preceding business days or (ii) the net asset value ("NAV") of a Share on the Pricing Date. Since the time of the close of the Offer on the Expiration Date is before the Pricing Date, Shareholders who choose to exercise their Rights will not know the Subscription Price at the time they exercise their Rights.

The Rights will be evidenced by Exercise Forms which will be mailed to Shareholders. You may exercise your Rights by completing an Exercise Form and delivering it, together with payment by means of (i) a check or money order or (ii) a Notice of Guaranteed Delivery to the Subscription Agent during the Subscription Period. The methods by which Rights may be exercised and Shares paid for are set forth below in "Exercise of Rights" and "Payment for Shares."

### **Purpose of the Offer**

The Board of Trustees of the Trust (the "Board") has determined that it is in the best interests of the Trust and its Shareholders to increase the assets of the Trust available for investment through the Offer, so that the Trust will be in a better position to more fully take advantage of available investment opportunities in Healthcare Companies, including investments in specialty and generic pharmaceuticals companies, medical devices, healthcare information services and other innovative healthcare products and biotechnology companies. The Board was informed by the Investment Adviser that many high quality venture capital investment opportunities are available, and that Shareholders could potentially realize significant benefits from increased investment in both venture capital securities and publicly-traded Healthcare Companies. The Board also reviewed data suggesting that increased asset size could favorably affect the Trust's expense ratio since the additional assets raised in the Offer were expected to allow the Trust to reach a breakpoint in the investment advisory fee and spread fixed costs over a larger number of Shares. The Board unanimously approved the Offer and concluded that increasing the assets of the Trust through the Offer would be beneficial to the Trust and its Shareholders. However, there can be no assurance that the anticipated benefits discussed herein will occur as a result of increasing the assets of the Trust through the Offer.

In determining that the initiation of the Offer and the proposed terms of the Offer were in the best interest of Shareholders, the Board considered a variety of factors, including those set forth below:

*Recent Developments in Certain Healthcare Sectors.* Demographic changes continue to create new medical opportunities. It is estimated that by the year 2010 over 13.4% of the U.S. population will be 65 or older vs. 12.9% in 2002. This segment of the U.S. population consumes three to four times the healthcare goods and services as the rest of the U.S. population. The Investment Adviser expects that this will drive an increase in all types of medical products, from drugs to orthopedic procedures. Furthermore, the Managed Care Institute expects this trend to drive Medicare enrollment from 40 million enrollees to an estimated 75-77 million by the year 2030. The Investment Adviser believes that this trend will dramatically increase the demand for new healthcare services and technologies.

In addition, recent developments in the pharmaceutical, biotechnology, and medical technology industries have produced a series of products that the Investment Adviser believes have extended or improved, or will extend or improve, the quality of patients' lives, and as a result are expected to be commercially successful. As of March 2004, more than 406 therapeutic products to treat a variety of diseases or conditions have completed human clinical trials and are awaiting FDA marketing approval. There are approximately 1,125 products in late stage (Phase III) human clinical trials, and 9,428 products are in earlier stage trials and pre-clinical development. The last five years have seen the commercialization of products that have made incredible advances in treating cancer, rheumatoid arthritis, erectile dysfunction, psoriasis, multiple sclerosis and depression. In the next five years, the Investment Adviser anticipates approval of other novel products which will have a comparable impact in treating such conditions as sleep disorders, obesity, cardiovascular disease, cancer, and chronic and acute pain.

The Investment Adviser also believes that the recent passage of a Medicare reform bill, to be implemented by 2006, will dramatically alter the healthcare landscape. Under this bill, it is estimated that at least 10 million people will gain new coverage of a prescription drug benefit. The Investment Adviser believes that there will be a dramatic growth in prescription volume resulting from passage of the Medicare bill.

Based on these trends and events, the Investment Adviser continues to believe there are outstanding opportunities for investment in healthcare and biotechnology related companies. In addition to the companies and products in which the Trust has already invested, the Investment Adviser sees great promise from several developing trends. Among others, the Investment Adviser sees tremendous potential in the areas of (1) generic pharmaceuticals, (2) specialty pharmaceuticals, (3) disease management, (4) novel medical devices, (5) novel drugs derived from known and novel targets and (6) products which will benefit from impending changes in the regulatory landscape. The Trust intends to use the net proceeds from the Offer to capitalize on such investment opportunities.

A benefit to Shareholders from the Offer is expected to be the Trust's ability to incrementally invest in additional companies on the forefront of these developing trends. Completion of the Offer is expected to allow the Trust to continue to invest in and/or own securities of companies in which it has already invested and still take advantage of these developing trends. Without completing the proposed offering, the Trust may have to choose between maintaining some of its existing investments and investing in companies which will take advantage of developing trends.

*Increased Investment Size.* The Investment Adviser believes that larger investments by the Trust provide additional negotiating leverage and pricing influence over venture capital, private investments in public entities (PIPEs), and other private equity investments and in the public markets. With an increased asset base through the Offer, the Trust may be able to make investments of the size necessary to achieve more favorable investment terms.

*Additional Investments.* In order to take advantage of new investment opportunities in the healthcare industries without the Offer, the Trust would be required to sell a portion of its existing investments which would result in transaction costs and may result in a realization of significant capital gains or otherwise take place at a time when the investment sold may not have fully achieved the Trust's investment objective for it. The Offer provides the Trust with the ability to both capitalize on new investment opportunities and maintain its investment in existing assets.

*Opportunity to Purchase Below Market Price and NAV.* The Offer affords existing Shareholders the opportunity to purchase additional Shares at a price that will be below market value and NAV at the Expiration Date. However, Shareholders who do not fully exercise their Rights will own, upon completion of the Offer, a smaller proportional interest in the Trust than they owned before the Offer. The Board of Trustees took this into account in adopting the Subscription Price formula applicable to the Offer and selecting the ratio of Rights offered relative to the number of Shares held on the Record Date. See "The Offer" and "Risks."

*Reduction in Operating Costs Per Share.* The Board was advised by the Investment Adviser that the Trust could potentially achieve additional economies of scale as a result of an increase in the Trust's total assets. The Investment Adviser believes that the increase in assets from the Offer will reduce the Trust's expenses as a percentage of average net assets per Share because the Trust is expected to reach a breakpoint in the investment advisory fee if the Offer is fully subscribed and fixed costs would be spread over a greater number of Shares.

The Trust's Board of Trustees voted unanimously to approve the terms of the Offer. One of the Trust's Trustees who voted to authorize the Offer is affiliated with the Investment Adviser and, therefore, could benefit indirectly from the Offer. The other six Trustees are not "interested persons" of the Trust within the meaning of the Investment Company Act of 1940, as amended (the "Investment Company Act"). The Investment Adviser may also benefit from the Offer because its fee is based on

the net assets of the Trust. See “Management of the Trust—Investment Adviser.” It is not possible to state precisely the amount of additional compensation the Investment Adviser might receive as a result of the Offer because it is not known how many Shares will be subscribed for and because the proceeds of the Offer will be invested in additional portfolio securities, which will fluctuate in value.

The Trust may, in the future, choose to make additional rights offerings from time to time for a number of shares and on terms that may or may not be similar to this Offer. Any such future rights offerings will be made in accordance with the then applicable requirements of the Investment Company Act and the Securities Act.

There can be no assurance that the Trust or its Shareholders will achieve any of the foregoing objectives or benefits through the Offer.

### **Over-Subscription Privilege**

If some Shareholders do not exercise all of the Rights initially issued to them in the Primary Subscription, such Shares which have not been subscribed for will be offered, by means of the Over-Subscription Privilege, to Shareholders who have exercised all the Rights initially issued to them and who wish to acquire more than the number of Shares for which the Rights issued to them are exercisable. Shareholders who exercise all the Rights initially issued to them will be asked to indicate, on the Exercise Form which they submit with respect to the exercise of the Rights, how many Shares they are willing to acquire pursuant to the Over-Subscription Privilege. The Trust may, at its discretion, issue up to an additional 25% of the Shares in the Offer to honor over-subscription requests if sufficient Shares are not available from the Primary Subscription to honor all over-subscriptions. If sufficient Shares remain, all over-subscriptions will be honored in full. If sufficient Shares are not available to honor all over-subscriptions (after giving effect to any increase in the number of Shares to be offered), the available Shares will be allocated among those who over-subscribe based on the number of Rights originally issued to them by the Trust, so that the number of Shares issued to Shareholders who subscribe pursuant to the Over-Subscription Privilege will generally be in proportion to the number of Shares owned by them in the Trust on the Record Date. The allocation process may involve a series of allocations to assure that the total number of Shares available for over-subscriptions is distributed on a pro-rata basis. The Over-Subscription Privilege may result in additional dilution of interest and voting rights to Shareholders, and additional reduction in the Trust’s NAV per share.

The Trustees and officers of the Trust and employees of the Investment Adviser may purchase Shares in the Offer and pursuant to the Over-Subscription Privilege. Any such purchases will be made on the same terms applicable to other Shareholders.

### **The Subscription Price**

The Subscription Price per Share will be 95% of the lower of (a) the volume weighted average share price of a Share on the NYSE on June 21, 2004 and the four preceding business days OR (b) the NAV as of the Pricing Date.

The Trust announced the Offer after the close of trading on the NYSE on April 8, 2004. The NAV at the close of business on April 8, 2004 and May 26, 2004 was \$21.36 and \$19.88, respectively, and the last reported share price of a Share on the NYSE on those dates was \$20.70 and \$19.51, respectively. Since the Expiration Date occurs before the Pricing Date, Shareholders who decide to acquire Shares on the Primary Subscription or pursuant to the Over-Subscription Privilege will not know the purchase price for such Shares when they make such decision. Information about the Trust’s NAV may be obtained by calling (800) 451-2597.

### **Expiration of the Offer**

Rights will expire at 5:00 p.m., Eastern time, on the Expiration Date and thereafter may not be exercised, unless the Offer is extended.

Any extension, termination, or amendment will be followed as promptly as practical by announcement thereof, such announcement in the case of an extension to be issued no later than 9:00 a.m., Eastern time, on the next business day following the previously scheduled Expiration Date. The Trust will not, unless otherwise obligated by law, have any obligation to publish, advertise, or otherwise communicate any such announcement other than by making a release to the Dow Jones News Service or such other means of announcement as the Trust deems appropriate.

**Subscription Agent**

The Subscription Agent is EquiServe Trust Company, 66 Brooks Drive, Braintree, MA 02184, which will receive, for its administrative, processing, invoicing and other services as Subscription Agent, a fee estimated to be \$30,000, which includes reimbursement for all out-of-pocket expenses related to the Offer. The Subscription Agent is also the Trust’s Transfer Agent and Registrar with respect to the Shares. **Signed exercise forms should be sent to EquiServe Trust Company**, by one of the methods described below:

| Subscription Certificate<br>Delivery Method                                    | Address   |
|--|---|
| By First Class Mail . . . . .  | EquiServe Trust Company<br>Corporate Reorganization<br>P.O. Box 859208<br>Braintree, MA 02185   |
| By Hand . . . . .  | EquiServe Trust Company<br>c/o Securities Transfer & Reporting<br>100 Williams Street, 3 <sup>rd</sup> Floor<br>New York, NY 10038  |
| By Overnight Courier or Express Mail . . . . .                                 | EquiServe Trust Company<br>161 Baystate Drive<br>Braintree, MA 02184  |
| By Broker-Dealer or other Nominee . . . . .<br>(Notice of Guaranteed Delivery) | Shareholders whose Shares are held in a<br>brokerage, bank or trust account may contact<br>their broker or other nominee and instruct them<br>to submit a Notice of Guaranteed Delivery and<br>Payment on their behalf. |

**Delivery to an address other than as set forth above does not constitute a valid delivery.**

## **Information Agent**

Any questions or requests for assistance may be directed to the Information Agent at its telephone number and address listed below:

The Altman Group, Inc.  
1275 Valley Brook Avenue  
Lyndhurst, New Jersey 07071

Toll Free: (800) 870-0126

You may also call the Trust at (617) 772-8500 or contact your bank, broker or other nominee for information with respect to the Offer.

The Information Agent will receive a fee estimated to be approximately \$7,500, which includes reimbursement for all out-of-pocket expenses related to its services as Information Agent.

## **Exercise of Rights**

Rights may be exercised by completing and signing the reverse side of the Exercise Form which accompanies this Prospectus and mailing it in the envelope provided, or otherwise delivering the completed and signed Exercise Form to the Subscription Agent, together with payment for the Shares as described below under "Payment for Shares." Completed Exercise Forms and related payments must be received by the Subscription Agent before 5:00 p.m., Eastern time, on or before the Expiration Date (unless payment is effected by means of a Notice of Guaranteed Delivery as described below under "Payment for Shares") at the offices of the Subscription Agent at the address set forth above. A Shareholder who exercises Rights pursuant to the Primary Subscription is hereinafter referred to as an "Exercising Shareholder." Rights may also be exercised through an Exercising Shareholder's broker, who may charge such Exercising Shareholder a servicing fee.

Shareholders for whom there is not a current address ("stop mail" accounts) will not be mailed this Prospectus or other subscription materials.

*Exercising Shareholders Who Are Record Owners.* Exercising Shareholders may choose between either option set forth under "Payment for Shares" below. If time is of the essence, option (2) will permit delivery of the Exercise Form and payment after the Expiration Date.

*Investors Whose Shares are Held By A Broker-Dealer or Other Nominee.* Exercising Shareholders whose Shares are held by a nominee such as a broker-dealer, bank or trust company must contact the nominee to exercise their Rights. In that case, the nominee will complete the Exercise Form on behalf of the Exercising Shareholder and arrange for proper payment by one of the methods set forth under "Payment for Shares" below.

*Nominees.* Nominees who hold Shares for the account of others should notify the respective beneficial owners of such Shares as soon as possible to ascertain such beneficial owners' intentions and to obtain instructions with respect to exercising the Rights. If the beneficial owner so instructs, the nominee should complete the Exercise Form and submit it to the Subscription Agent with the proper payment described under "Payment for Shares" below.

All questions as to the validity, form, eligibility (including times of receipt and matters pertaining to beneficial ownership) and the acceptance of subscription forms and the Subscription Price will be determined by the Trust, which determinations will be final and binding. No alternative, conditional or contingent subscriptions will be accepted. The Trust reserves the absolute right to reject any or all subscriptions not properly submitted or the acceptance of which would, in the opinion of the Trust's counsel, be unlawful. The Trust also reserves the right to waive any irregularities or conditions, and the Trust's interpretations of the terms and conditions of the Offer shall be final and binding. Any

irregularities in connection with subscriptions must be cured within such time as the Trust shall determine unless waived. Neither the Trust nor the Subscription Agent shall be under any duty to give notification of defects in such subscriptions or incur any liability for failure to give such notification. Subscriptions will not be deemed to have been made until such irregularities have been cured or waived.

### **Payment for Shares**

You may exercise your Rights and pay for Shares subscribed for pursuant to the Primary Subscription and Over-Subscription Privilege in one of the following ways:

*(1) Deliver Exercise Form and Payment to the Subscription Agent by the Expiration Date:*

Exercising Shareholders may deliver to the Subscription Agent at any of the offices set forth above on page 20 (i) a completed and executed Exercise Form indicating the number of Rights they have been issued and the number of Shares they are acquiring pursuant to the Primary Subscription, as well as the number of any additional Shares they would like to subscribe for under the Over-Subscription Privilege and (ii) payment for all such ordered Shares based on the Estimated Subscription Price of \$18.73 per Share, both no later than 5:00 p.m., Eastern time, on the Expiration Date.

The Subscription Agent will deposit all checks received by it for the purchase of Shares into a segregated interest bearing account of the Trust (the interest from which will belong to the Trust) pending proration and distribution of Shares.

**A payment pursuant to this method (1) must be in U.S. dollars by money order or check drawn on a bank located in the U.S., (2) must be payable to “H&Q Healthcare Investors” and (3) must accompany an executed Exercise Form for such subscription to be accepted. Third (or multiple) party checks will not be accepted.**

*(2) Contact Your Broker, Bank or Trust Company to Deliver Notice of Guaranteed Delivery to the Subscription Agent by the Expiration Date:*

Exercising Shareholders may request a NYSE or National Association of Securities Dealers, Inc. member, bank or trust company (each a “nominee”) to execute a Notice of Guaranteed Delivery (or equivalent electronic information) and deliver it, by facsimile or otherwise, to the Subscription Agent by 5:00 p.m., Eastern time, on the Expiration Date indicating (i) the number of Rights they wish to exercise, the number of Primary Subscription Shares they wish to acquire, and the number of Over-Subscription Privilege Shares for which they wish to subscribe and (ii) guaranteeing delivery of payment and a completed Exercise Form from such Exercising Shareholder by June 23, 2004. You must arrange for payment to the nominee, who will in turn submit the Exercise Form and payment on your behalf by June 18, 2004. The Subscription Agent will not honor a Notice of Guaranteed Delivery unless the completed Exercise Form is received by the Subscription Agent by the close of business on June 23, 2004 and full payment for the Shares is received by it by the close of business on June 30, 2004.

On June 27, 2004 (the “Confirmation Date”), the Subscription Agent will send a confirmation to each Exercising Shareholder (or, if the Shares are held by a depository or other nominee, to such depository or other nominee), showing (i) the number of Shares acquired pursuant to the Primary Subscription, (ii) the number of Shares, if any, acquired pursuant to the Over-Subscription Privilege, (iii) the per Share and total purchase price for the Shares, and (iv) any additional amount payable by such Exercising Shareholder to the Trust or any excess to be refunded by the Trust to such Exercising Shareholder in each case based upon the final Subscription Price. Any additional payment required from an Exercising Shareholder must be received by the Subscription Agent by June 30, 2004 (the “Final Payment Date”). Any excess payment to be refunded by the Trust to an Exercising Shareholder

will be mailed by the Subscription Agent to the holder as promptly as practicable after the Final Payment Date. In the case of any Shareholder who exercises his or her right to acquire Shares pursuant to the Over-Subscription Privilege, any excess payment which would otherwise be refunded to the Shareholder will be applied by the Trust toward payment for additional Shares acquired pursuant to exercise of the Over-Subscription Privilege. Any additional payment required from a Shareholder must be received by the Subscription Agent by the close of business on June 30, 2004. Any excess payment to be refunded by the Trust to a Shareholder will be mailed by the Subscription Agent to such Shareholder as promptly as possible within ten (10) business days after the Confirmation Date. All payments by a Shareholder must be made in United States dollars by money order or check drawn on a bank located in the United States of America and payable to H&Q HEALTHCARE INVESTORS.

Issuance and delivery of certificates for the Shares purchased are subject to actual collection of checks and actual payment pursuant to any Notice of Guaranteed Delivery.

If an Exercising Shareholder does not make payment of any additional amounts due by June 28, 2004, the Trust reserves the right to take any or all of the following actions: (i) apply any payment received by it toward the purchase of the greatest whole number of Shares which could be acquired by such Exercising Shareholder upon exercise of the Primary Subscription and/or Over-Subscription Privilege based on the amount of such payment; (ii) allocate the Shares subject to subscription rights to one or more other Shareholders; (iii) sell all or a portion of the Shares deliverable upon exercise of subscription rights on the open market and apply the proceeds thereof to the amount owed; and/or (iv) exercise any and all other rights or remedies to which it may be entitled, including, without limitation, the right to set-off against payments actually received by it with respect to such subscribed Shares.

**An Exercising Shareholder will not have the right to cancel the exercise of Rights or rescind a purchase after the Subscription Agent has received payment, either by means of a Notice of Guaranteed Delivery or a check or money order, except as described under “The Offer—Notice of NAV Decline.”**

The risk of delivery of subscription forms and payments to the Subscription Agent will be borne by the Exercising Shareholder and not the Trust, the Subscription Agent or the Information Agent. If the mail is used to exercise Rights, it is recommended that such Exercise Forms and payment be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Trust and clearance of payment before 5:00 p.m., Eastern time, on the Expiration Date. Because uncertified personal checks may take at least five business days to clear and may, at the discretion of the Trust, not be accepted if not cleared before the Expiration Date, you are strongly encouraged to pay, or arrange for payment, by means of certified or bank cashier’s check.

#### **Notice of NAV Decline**

The Trust will suspend the Offer until it amends this Prospectus if, after the effective date of this Prospectus, the Trust’s NAV declines more than 10% from its NAV as of that date. In such event, the Trust will notify you of any such decline and thereby permit you to cancel your exercise of your Rights.

#### **Delivery of Share Certificates**

Registered Shareholders who are participants in the Trust’s Dividend Reinvestment Plan (the “Plan”) will have any Shares that they acquire pursuant to the Offer credited to their Shareholder dividend reinvestment accounts in the Plan. Shareholders whose Shares are held of record by Cede or by any other depository or nominee on their behalf or their broker-dealers’ behalf will have any Shares that they acquire pursuant to the Offer credited to the account of Cede or such other depository or nominee. With respect to all other Shareholders, certificates for all Shares acquired pursuant to the

Offer will be mailed after payment for all the Shares subscribed for has cleared, which clearance may take up to 15 days from the date of receipt of the payment.

### **Employee Plan Considerations**

Shareholders that are employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) (including corporate savings and 401(k) plans), and plans that are subject to Code Section 4975, such as profit sharing/retirement plans for self-employed individuals and Individual Retirement Accounts (collectively, “Retirement Plans”) should be aware that additional contributions of cash to the Retirement Plan (other than rollover contributions or trustee-to-trustee transfers from other Retirement Plans) to exercise Rights would be treated as Retirement Plan contributions and therefore, when taken together with contributions previously made, may be treated as excess or nondeductible contributions and may be subject to excise taxes. In the case of Retirement Plans qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended (the “Code”), additional cash contributions could cause violations of the maximum contribution limitations of Section 415 of the Code or other qualification rules. Retirement Plans in which contributions are so limited should consider whether there is an additional source of funds available within the Retirement Plan, such as a reallocation from another investment option or other liquidation of assets, with which to exercise the Rights. Because the rules governing Retirement Plans are extensive and complex, Retirement Plans contemplating the exercise of Rights should consult with their counsel before such exercise.

Retirement Plans and other tax exempt entities should also be aware that if they borrow to finance their exercise of Rights, they may become subject to the tax on unrelated business taxable income under Section 511 of the Code. If any portion of an Individual Retirement Account (“IRA”) is used as security for a loan, the portion so used will be treated as a distribution to the IRA depositor.

ERISA contains fiduciary responsibility requirements, and ERISA and the Code contain prohibited transactions rules that may affect the exercise of Rights. Due to the complexity of these rules and the penalties for noncompliance, Retirement Plans should consult with their counsel regarding the consequences of their exercise of Rights under ERISA and the Code.

### **Certain Federal Income Tax Consequences of the Offer**

The following discussion summarizes the principal federal income tax consequences of the Offer to Shareholders and Exercising Shareholders. It is based upon the Code, U.S. Treasury regulations, Internal Revenue Service rulings and policies and judicial decisions in effect on the date of this Prospectus. This discussion does not address all federal income tax aspects of the Offer that may be relevant to a particular Shareholder because of his individual circumstances or to Shareholders subject to special treatment under the Code (such as insurance companies, financial institutions, tax-exempt entities, dealers in securities, foreign corporations, and persons who are not citizens or residents of the U.S.), and it does not address any state, local or foreign tax consequences. Accordingly, each Shareholder should consult his or her own tax advisor as to the specific tax consequences of the Offer to him or her. Each Shareholder should also review the discussion of certain tax considerations affecting the Trust and Shareholders set forth under “Taxation” below.

For federal income tax purposes, neither the receipt nor the exercise of the Rights by Shareholders will result in taxable income to those Shareholders, and no loss will be realized if the Rights expire without exercise.

A Shareholder’s holding period for a Share acquired upon exercise of a Right begins with the date of exercise. A Shareholder’s basis for determining gain or loss upon the sale of a Share acquired upon the exercise of a Right will be equal to the sum of the Shareholder’s basis in the Right, if any, and the Subscription Price per Share. The Shareholder’s basis in the Right will be zero unless either (i) the fair

market value of the Right on the date of distribution is 15% or more of the fair market value on such date of the Shares with respect to which the Right was distributed, or (ii) the Shareholder elects, on its federal income tax return for the taxable year in which the Right is received, to allocate part of the basis of such Shares to the Right. If either of clauses (i) and (ii) is applicable, then if the Right is exercised, the Exercising Shareholder will allocate its basis in the Shares with respect to which the Right was distributed between such Shares and the Right in proportion to the fair market values of each on the date of distribution. A Shareholder's gain or loss recognized upon a sale of a Share acquired upon the exercise of a Right will be a capital gain or loss (assuming the Share was held as a capital asset at the time of sale) and will be a long-term capital gain or loss if the Share was held at the time of sale for more than one year.

The foregoing is only a summary of the applicable federal income tax laws presently in effect and does not include any state or local tax consequences of the Offer. Moreover, the foregoing does not address the many factors that may determine whether an investor will be liable for the federal alternative minimum tax. You should consult your own tax advisor concerning the tax consequences of this transaction.

### **Special Considerations**

Shareholders who do not fully exercise their Rights should expect that they will, at the completion of the Offer, own a smaller proportional interest in the Trust than would otherwise be the case if they exercised their Rights. The Trust cannot determine the extent of this dilution at this time because it does not know what proportion of the Trust's Shares will be purchased as a result of the Offer.

Shareholders may experience dilution in their holdings because they will indirectly bear the expenses of the Offer. Further, Shareholders that do not submit subscription requests pursuant to the Over-Subscription Privilege may also experience dilution in their holdings if the Trust offers additional Shares for subscription. The Trust cannot state precisely the amount of any such decrease in NAV because it does not know at this time how many Shares will be subscribed for or what the NAV or market price per Share will be at the Pricing Date. As of May 26, 2004, the Trust's Shares traded at a 1.86% discount to NAV. If the Trust's Shares trade at a similar discount to NAV as of the Pricing Date, the Trust estimates that such dilution would be minimal. See "Risks—Dilution of NAV and Effect of Non-Participation in the Offer." Except as described in this Prospectus, you will have no right to rescind your subscription requests after receipt of your payment for Shares by the Subscription Agent.

### **Other Rights Offerings**

The Trust made a rights offering in February 1997 at a price that was lower than its then-current NAV, and may have similar rights offerings in the future. Any such future rights offerings would be separately registered with the Commission and made by means of separate prospectuses.

### **Restriction on Foreign Shareholders**

Shareholders on the Record Date whose record addresses are outside the United States will receive written notice of the Offer; however, Exercise Forms will not be mailed to such Shareholders. The Rights to which those Exercise Forms relate will be held by the Subscription Agent for such foreign Shareholders' accounts until instructions are received in writing with payment to exercise the Rights. If no such instructions are received by the Expiration Date, such Rights will expire. See "Subscription Agent."

## USE OF PROCEEDS

Assuming all Shares offered hereby are sold at an estimated Subscription Price (the “Estimated Subscription Price”) of \$18.73 per Share, the net proceeds of the Offer will be approximately \$93,936,977.12, after deducting expenses payable by the Trust estimated at approximately \$390,000. The net proceeds of the Offer will be invested in accordance with the Trust’s investment objective and policies. See “Investment Objective and Policies.” Various factors affect investments in emerging growth companies that are different from factors affecting investments in large well-known companies, including the additional research required to investigate a large number of small companies and the volatility and illiquidity of securities of those companies. Accordingly, initial investment of the proceeds in publicly-traded securities may take place during a period of up to six months following completion of the Offer, depending on market conditions and the availability of appropriate securities. Restricted Securities may be purchased as appropriate opportunities arise, which could take up to one year or longer, and the Trust may choose to be more fully invested in publicly-traded securities during such period. Pending investment in the securities described above, the proceeds will be held in obligations of the U.S. Government, its agencies or instrumentalities (“U.S. Government Securities”), highly rated money market instruments or mutual funds that invest in such instruments. As a result of this short-term investment of the proceeds, a lower return may be realized.

## INVESTMENT OBJECTIVE AND POLICIES

### General

The Trust’s investment objective is to seek long-term capital appreciation by investing primarily in Healthcare Companies. The Trust’s investment objective is a fundamental policy and may not be changed without the affirmative vote of the holders of a majority of the Trust’s outstanding Shares (as that term is defined in Section 2(a)(42) of the Investment Company Act). For a more detailed description of the Trust’s investment objective and policies see “Additional Information about Investments and Investment Techniques” and “Investment Restrictions” in the SAI. For a description of the risks that may be associated with an investment in the Trust, see the section of this Prospectus entitled “Risks.”

In an effort to achieve its investment objective, the Trust will invest primarily in securities of U.S. and foreign companies that are believed by the Investment Adviser to have significant potential for above-average long-term growth in revenues and earnings. The Investment Adviser expects that such companies generally will, in its judgment, possess most of the following characteristics: (1) current or anticipated strong market position for their services or products, (2) experienced business management, (3) recognized technological expertise, and (4) the ability either to generate funds internally to finance growth or to secure outside sources of capital. For companies with earnings, the Investment Adviser will attempt to invest in securities that sell at price-earnings ratios or at multiples of underlying asset values which, relative to other comparable securities or to the company’s growth expectations, do not fully reflect the company’s potential.

The Trust emphasizes investment in securities of emerging growth Healthcare Companies, some of which may offer limited products or services or which are at the research and development stage with no marketable or approved products or technologies. The securities of most emerging growth Healthcare Companies in which the Trust will invest are expected to be traded in the over-the-counter market or restricted as to public resale. The Trust may invest up to 40% of its net assets in Restricted Securities. The Trust may invest in securities of large, well-known companies with existing products in the healthcare industries that are believed by the Investment Adviser to be undervalued in relation to their long-term growth potential or asset value.

The Trust may invest up to 20% of its net assets in Foreign Securities. The Trust may buy and sell currencies for the purpose of settlement of transactions in Foreign Securities, but presently does not intend to engage in hedging operations.

Under normal market conditions, the Trust will invest at least 80% of its net assets in securities of Healthcare Companies and in no event will have less than 25% of its net assets so invested. For purposes of satisfying the foregoing requirements, a company will be deemed to be a Healthcare Company if, at the time the Trust makes an investment therein, 50% or more of such company's sales, earnings or assets arise from or are dedicated to healthcare products or services or medical technology activities. The Trust may also invest in companies that do not satisfy the above criteria but that are expected by the Investment Adviser to have 25% or more of sales, earnings or assets arising from or dedicated to such activities, but investments in such companies will not at the time of investment exceed 20% of the Trust's net assets. Determinations as to whether a company is a Healthcare Company will be made by the Investment Adviser in its discretion. The Trust's 80% policy stated above may not be changed without 60 days' prior notice to Shareholders.

The equity and related securities in which the Trust may invest consist of common stock of Healthcare Companies and, to a lesser extent, of preferred stock, convertible debt, and warrants or other rights to acquire common or preferred stocks of such companies. The Trust's investments in venture capital opportunities will be made primarily in convertible preferred stock. The Trust may also purchase non-convertible debt securities in connection with its venture capital investments, and otherwise when the Investment Adviser believes that such investments would be consistent with the Trust's investment objective. Because of the risk characteristics associated with venture capital investments for emerging growth companies, such investments may be regarded as highly speculative.

Investments will not be made in any company with the objective of exercising control over that company's management. The Trust may make investments contemporaneously with other venture capital groups that may provide issuers with significant managerial assistance. The Investment Adviser may also provide managerial assistance.

When, in the opinion of the Investment Adviser, adverse market conditions or industry expectations support such action, the Trust may, for temporary defensive purposes, invest up to 75% of its net assets in money market instruments. See "Investment Techniques—Money Market Instruments" for a description of money market instruments in which the Trust may invest.

The Trust may from time to time lend its portfolio securities. See "Investment Techniques."

In addition, the Trust may, to a limited degree, enter into when-issued and delayed delivery transactions, forward foreign currency contracts and repurchase agreements. Under normal market conditions, the Trust does not intend to engage in such practices. See "Risks" and "Investment Techniques."

The Trust also has adopted certain other investment restrictions in an effort to achieve its investment objective. See "Investment Restrictions" in the Trust's SAI.

### **Healthcare Industries**

Investments in the healthcare industries are likely to continue to be the principal component of the Trust's portfolio and, except when the Trust assumes a temporary defensive position, will represent at least 25% of the Trust's net assets. This predominance reflects the size and diversity of the healthcare industries.

The healthcare industries constitute a large segment of the U.S. economy. The U.S. Centers for Medicare and Medicaid Services (CMS) estimate national healthcare expenditures in 2003 at 15.3% of U.S. Gross Domestic Product (GDP). This constitutes a 7.8% growth over U.S. healthcare expenditures

in 2002. U.S. GDP is a measure of the total value of all goods and services produced in the U.S. over the course of a year. CMS estimates that by 2013 healthcare spending is projected to reach \$3.4 trillion and 18.4% of U.S. GDP. While these projections do not reflect the impacts of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), they serve as a baseline for health care spending trends over the next 10 years. The Investment Adviser currently expects there will not be a substantial change in aggregate spending due to the MMA, but that there will likely be a shift of spending by payers. The Investment Adviser expects that the largest impacts will begin in 2006 with the start of the Medicare prescription drug benefit and the increased payments for Medicare Advantage plans. There will likely be a large shift in prescription drug spending by payers, from private spending and Medicaid to Medicare. The Investment Adviser believes that, while the healthcare industries are undergoing significant change, they serve market sectors that are generally growing at above-average rates; thus providing potential investment opportunities for the Trust.

### **Market Forces in Healthcare**

Markets for healthcare products and services have undergone significant growth over the last 25 years. Factors contributing to this growth include demographic shifts tending to a more elderly population and technological advances which may lead to therapy, or possibly cures, for many disease states for which there are no currently effective treatments. In addition, the Investment Adviser believes that worldwide consumer awareness and acceptance of new and innovative healthcare products continues to rise, stimulating demand, and that the rate of demographic and technological change may accelerate in the future, causing certain segments of the business to decline and others to experience growth. Investments in the companies developing products that benefit from these market forces may present potentially profitable opportunities.

*Demographics.* Demographic changes continue to create new medical opportunities. It is estimated that by the year 2010 over 13.4% of the U.S. population will be 65 or older vs. 12.9% in 2002. This segment of the U.S. population consumes three to four times the healthcare goods and services as the rest of the U.S. population. Recent developments in the pharmaceutical, biotechnology, and medical technology industries have produced a series of products that the Investment Adviser believes have extended or improved, or will extend or improve, the quality of patients' lives, and as a result are expected to be commercially successful. The Investment Adviser expects that this will drive an increase in all types of medical products, from drugs to orthopedic procedures. Furthermore, the Managed Care Institute expects this trend to drive Medicare enrollment from 40 million enrollees to an estimated 75-77 million enrollees by the year 2030. This trend is expected to dramatically increase the demand for new healthcare services and technologies.

*Technology.* Advances in the fields of biotechnology, diagnostics, tools and electronics are enhancing medical applications in existing markets and creating new markets. These advances have contributed to longevity as well as to an improved quality of life. Specifically, the Investment Adviser believes that diagnostic techniques and therapeutic products have significantly changed the practice of medicine and will continue to do so for the foreseeable future. Diagnostic techniques have become more sophisticated and accurate. Likewise, therapeutics are becoming more effective, and as a result of improved diagnostics, are being utilized at an earlier stage of treatment for many diseases. Increasingly, new therapeutic products are being developed for previously diagnosable diseases for which no therapy was available. Once incurable fatal diseases are now not only being diagnosed earlier, but therapies that can effect a change in the course of these diseases are now available.

*Demand.* The demographic and technological advancements described above have both led to significant increases in demand for healthcare products and services in recent years, and the trend looks to continue. Consumers have become accustomed to access to a variety of healthcare products and services, and their awareness of the availability of innovations has increased with the proliferation

of the internet and direct to consumer advertisements. People expect to live longer and better than in generations past, and in the opinion of the Investment Adviser, the demand for such healthcare products and services should remain strong.

*Cost Containment.* The growing cost of providing healthcare has placed financial strains on the government, employers, and individuals. The goal of containing cost increases is a double-edged sword. While healthcare inflation will adversely affect certain segments of the healthcare industries, these increases also create significant opportunities for new products and services that enable care to be delivered more effectively in other settings. The increasing financial pressure caused by the constraints of paying for the rising demand for healthcare with limited financial resources is a trend that is expected to continue if not accelerate. For these reasons, the Investment Adviser favors investments in Healthcare Companies that the Investment Adviser believes can provide products and services of comparable quality to, but at a lower cost than, existing products and services; or that can develop more cost effective technologies, products, and services. Cost containment can be achieved in a number of ways, including but not limited to: the development of products and procedures that reduces the number of hospitalizations or the recovery time from an illness or injury, products and services that result in fewer side effects than existing treatments, and healthcare delivery facilities and services which provide treatment or therapy in a less costly environment.

*Regulation.* The FDA requires that approvals be obtained before marketing new products. The approval process can be lengthy, expensive, and uncertain as to outcome; and, when successful, can create barriers to competition not generally present in other industries. For companies with established approved products, these barriers to entry can result in longer and more profitable product cycles than might otherwise exist. As of March 2004, more than 406 therapeutic products to treat a variety of diseases or conditions have completed human clinical trials and are awaiting FDA marketing approval, there are approximately 1,125 products in late stage (Phase III) human clinical trials, and 9,428 products are in earlier stage trials and pre-clinical development. The last five years have seen the commercialization of products that have made incredible advances in treating cancer, rheumatoid arthritis, erectile dysfunction, psoriasis, multiple sclerosis and depression. In the next five years, the Investment Adviser anticipates approval of other novel products which will have a comparable impact in treating such conditions as sleep disorders, obesity, cardiovascular disease, cancer, and pain. While the appointment of a new FDA commissioner may generate some uncertainty in the short term, it is the Investment Adviser's opinion that the trend of recent years towards more rapid and greater total number of approvals, may improve.

The Investment Adviser believes that the FDA and CMS will continue to look for creative ways of bringing novel and safe drugs to the market faster, and to make them available to more people. In the very recent past, the FDA has made a number of changes to its requirements for drug development that the Investment Adviser believes create new opportunities for investment by the Trust. For example, the FDA's continued and even enhanced record of targeting breakthrough therapeutics for approval provides an investment opportunity. The Investment Adviser has already taken advantage of this trend and will continue to do so. Another regulatory change that should bode well for the approval process is the recently developed FDA special protocol assessment (SPA) development route for biologics. This approach allows sponsoring companies to obtain a binding a priori agreement with the FDA on the approvability of a clinical trial before that trial is completed. The Investment Adviser thinks this approach adds a level of clarity and direction that drug and biotech companies should be able to parlay into well-executed clinical trials that are designed around the endpoints the FDA needs to make an educated and informed decision. The Investment Adviser's experience and expertise in evaluating clinical trial design lends itself well to these FDA changes. The Investment Adviser also anticipates that the FDA will define a path for approval of generic biologics as there is uncertainty in this path at the current time. Once an approved approach is defined, the Investment Adviser believes a number of pharmaceutical and biotechnology companies will take advantage. The experience of the Investment

Adviser's staff in this area will allow the Investment Adviser to capitalize on this opportunity on behalf of the Trust.

*Patents.* Many companies in the healthcare industries are developing innovative technologies for commercial products which may receive patent protection. The granting of a patent may result in an extensive period of market exclusivity and protection against competition, allowing the patent holder to realize several years of high returns from product sales or royalty revenues. Such proprietary intellectual property positions may act as barriers to competition and may also increase the possibility that any acquisition of such a company would be at a premium over its public or private valuation.

*Industry Fragmentation.* Approximately 2,100 publicly-traded companies, as well as many private companies, compete in the worldwide healthcare markets today. The Investment Adviser believes that none of the industries within these markets are considered to be dominated by any one company or small group of companies, although certain companies may dominate a particular product segment. This industry fragmentation enhances the growth opportunities for both publicly and privately held companies, and increases the number and diversity of investment opportunities available to the Trust. The Investment Adviser also believes that the growth, size and fragmentation of the healthcare industries will continue to encourage entrepreneurial activity in spite of cost containment trends and thereby provide a broad range of attractive venture capital investment opportunities. In addition, mergers and acquisitions for access to technology or to gain perceived critical size may also provide opportunities for capital gains.

*Internationalization.* The healthcare industries have become increasingly internationalized. U.S. companies compete on a large scale in the markets of the European Union and Japan, which are the two principal non-U.S. healthcare markets. To a lesser extent, European and Japanese companies have increased their competition for U.S. markets. The Investment Adviser intends to continue to consider making public and private investments in Foreign Securities of Healthcare Companies, subject to the Trust's investment policies.

### **Sectors Within Healthcare**

In addition to the kinds of companies and products in which the Trust has already invested, the Investment Adviser sees great promise from several developing trends. Among others, the Investment Adviser sees tremendous potential in the areas of (1) generic pharmaceuticals, (2) specialty pharmaceuticals, (3) biotechnology, (4) medical devices, (5) diagnostics, (6) disease management, and (7) managed healthcare. A major benefit to the Trust's Shareholders from the Offer is expected to be the Trust's ability to incrementally invest in additional companies on the forefront of these developing trends. The following categories illustrate some of the sectors in which Healthcare Companies operate, and some of the sectors which may be of interest to the Trust:

*Generic Pharmaceuticals.* The U.S. generic drug industry is \$15 billion in size and according to numbers from the GPhA, this number is expected to more than double to \$38 billion by 2010. This growth has been driven by a number of factors, the most important of which has been the utilization of generic drugs as a low cost alternative. One recently published statistic by the Managed Care Institute showed that a 1% increase in generic drug utilization could generate savings to healthcare payors of \$1.2 billion each year. The Investment Adviser believes that the increased utilization of generic drugs will continue to gain momentum to offset rapidly growing drug expenditures.

While costs savings has motivated the success of generics to this point, the Investment Adviser believes it is other growth drivers that will motivate us to increase exposure to the generic drug space going forward. For starters, the Investment Adviser sees a more aggressive approach by the generic drug manufacturers to file for generic alternatives. This has led to an increase in the number of new ANDAs being filed to over 358 that exist as of March 2004. The Investment Adviser also sees a “more kind and gentle” FDA attitude towards the generic drug companies as exemplified by a median approval time that has dropped nearly nine months in the last eight years. Finally, the Investment Adviser expects over 170 drugs to go off patent over the next few years with branded product sales of close to \$40 billion. While these numbers are subject to a number of factors including patent disputes, the genericization of these products would double the size of the generic market, making it the fastest growing pharmaceutical sector in healthcare.

*Specialty Pharmaceuticals.* The specialty pharmaceutical sector is evolving into a sector that the Investment Adviser believes will be a high growth area of the healthcare industry and a key component to our portfolio. Early in the evolution of this sector, specialty pharmaceuticals were used to describe companies built around drug delivery systems or companies which focused on acquiring old and under-promoted products. The business models of these companies were characterized by low margin, commoditized products, and out-licensing agreements that yielded single digit royalty streams.

Today, these companies are migrating to higher value proprietary models. Drug delivery companies are taking existing, validated molecules and using their delivery systems, including oral, transdermal, and sustained release approaches, to supersede intravenous, injectable or multiple dose a day regimens. The companies pursuing this life cycle extension strategy are improving therapy not only through greater patient compliance with prescription directions but also by improved administration of consistently efficacious quantities of the compound. Companies pursuing the acquisitive business model are looking to in-license later-staged products, developing R&D budgets, expanding their sales forces and competing head to head with biotech and pharmaceuticals in niche markets. In both cases, these companies are characterized by low risk R&D strategies that are using validated targets, which typically means new drugs can reach the market faster. Furthermore, the highly targeted marketing approach complementing the niche product strategy is able to provide these specialty pharmaceutical companies with big pharmaceutical-like margins which ensure a high value, high profit business model. As a result, the Investment Adviser believes the specialty pharmaceuticals market will offer superior market returns.

*Biotechnology.* Biotechnology firms employ new techniques, such as monoclonal antibodies, recombinant DNA, molecular structure analysis, and genomics to produce novel therapeutic and diagnostic products. Advances in molecular biology and the screening of compounds of possible utility have the potential to materially enhance the process of discovering useful new therapeutic products and to shorten the development period for, and reduce the cost of developing, such products. As biotechnology evolves from a research and development stage to a commercial stage, these techniques and products will have the potential to expand existing markets and to create new ones. Public equity markets have provided substantial capital to the biotechnology industry, and a large number of major corporations have provided capital through significant acquisitions, equity investments and in connection with product license agreements. Federal government support of biotechnology research has contributed significantly to the invention and development of “break-through” products.

As an example, the Investment Adviser will consider investments in biotechnology companies developing novel drugs from known or novel targets. In this area, the Investment Adviser believes that the use of genomic approaches will continue to allow us to identify and clinically validate new molecular targets. Most existing drugs work by interacting with a relatively small number of target molecules in the body. The genomic era of the last five to ten years has identified thousands of new potential targets through which new and novel medicines might be able to beneficially intervene in disease processes, particularly in cancer. The recent approvals of Avastin™ (anti-VEGF) and Velcade™ (proteasome inhibitor) are examples of approved drugs that address new targets. In addition, the

Investment Adviser sees potential in the use of immuno-stimulation to help manage cancer. The Investment Adviser also sees continued development of monoclonal antibodies for oncology indications. Such antibodies are being developed today with and without specific cell toxins or payloads. The recent approvals of Rituxan™ and Bexxar™ and the clinical advancement of several drugs, which target the EGFR receptor, are a few examples. In the area of target selection, the Investment Adviser sees increased use of structural biology, pathways analysis, imaging technology, and biomarker development. The Investment Adviser also expects newer approaches to chemistry based on increased target understanding. In sum, this area presents a tremendous opportunity for expanded investments by the Trust.

*Medical Devices.* Novel medical technology is typically thought to include products used in healthcare other than pharmaceuticals. Products range from crutches to spine implants to drug-eluting stents to robotic surgical instruments. Overall, the medical technology sector is a market totaling more than \$200 billion which accounts for approximately 15% of all dollars spent in healthcare—more money than is spent on all pharmaceuticals and biotechnology products combined. However, despite the size of this sector, the Investment Adviser sees the medical technology market as a young sector with many future investment opportunities. This is exemplified by the fact that currently two-thirds of the publicly-traded medical technology companies have market capitalizations of under \$200 million. The Investment Adviser's investments include companies of this size. Many of these small market capitalization medical technology companies are on the cusp of launching key products that will validate their business models and drive significant growth. The Investment Adviser believes that medical technology companies may produce solid investment returns that are less susceptible to fluctuations in general market conditions which affect big pharmaceuticals, healthcare services, and biotechnology.

*Diagnostics.* The accuracy, sophistication and cost effectiveness of diagnosis has improved dramatically through imaging systems, such as ultrasound and magnetic resonance imaging (MRI) and Positron Emission Tomography (PET), as well as through improved chemical and biological tests. Many of the new systems and supplies are or will likely be available to the patient directly or at a physician's office, as well as in the hospital or independent laboratory. These innovations generally increase the likelihood of earlier diagnosis and more efficacious and cost effective treatment. Under development are new contrast agents to enhance the output from virtually all imaging modalities, which are being further improved by innovative computer software that prepare data for display. Advances in genetic testing are expected to improve the ability to treat diseases at earlier stages and to identify those people that may have a greater than average chance of contracting certain diseases. The Investment Adviser believes these current and potential advances may increase demand for diagnostic products.

*Disease Management.* As healthcare costs spiraled in the 1980's, the industry turned to managed care companies to minimize the excess administrative burden of the cost plus model. During the evolution of managed care, it began to rely on information technology to help manage the increasingly complex relationships and growing number of "transactions" between patient, provider, and payor. As healthcare services continue to evolve, new tools will be required. Today people are living longer and want to live better lives. This suggests that these individuals will both remain in the healthcare system longer as well as utilize more services while a part of the healthcare system. The Managed Care Institute expects Medicare enrollment to increase from 40 million enrollees to between 75-77 million enrollees by 2030. The Investment Adviser believes this trend will increase the demand for new healthcare services and technologies focused on maximizing the benefit of every healthcare dollar spent. Creative disease management programs to manage high risk populations could be implemented by large employers and other healthcare providers. New diagnostic devices and medical devices that improve overall wellness, and quality of life will become popular with the graying of America. Other services of healthcare with a focus on cutting unnecessary costs will be focused on the better management of information, particularly such areas as claims processing, patient management direct costs and quality

control, and ultimately automation of patient records. The Investment Adviser expects that these areas will receive increased emphasis in the portfolio in the future.

*Managed Healthcare.* Many varieties of companies are engaged directly or indirectly in the delivery of healthcare to patients, including hospitals, nursing homes, inpatient and outpatient rehabilitation services and therapeutic services delivered to the home. The Investment Adviser believes that healthcare cost containment efforts will continue to reduce revenues to acute care hospitals and promote the delivery of therapy in other more efficient settings. These trends should enhance the delivery of increasingly sophisticated care at home, and the potential of outpatient surgery and rehabilitation and of specialized free-standing facilities. The Investment Adviser also believes that cost pressures will, however, increasingly negatively impact many of such providers, and investment in these sectors is currently relatively underweighted in the portfolio. However, some sectors may benefit from these trends. In general, such companies are able simultaneously to improve quality and reduce the cost of care.

Completion of the Offer will allow the Trust to continue to invest in and/or own securities of the companies in which it has already invested and still take advantage of these developing trends. Without completing the Offer, the Trust would likely have to choose between maintaining some of its existing investments and investing in companies which will take advantage of the developing trends.

## **Other**

The Trust may also invest in companies and industries that are benefiting from the growth of healthcare industries. These companies may include real estate investment trusts (REITs) which derive their income from the ownership, leasing, or financing of healthcare facilities, manufacturers of nutritional products, and key suppliers of services or equipment.

Significant declines in the stock prices of many companies in the healthcare industries have constrained the ability of some private companies to raise capital to finance their growth and fund research. The Investment Adviser continues to believe that this presents opportunities, especially in its venture capital investing. In addition, shares of many publicly-traded Healthcare Companies also appear to be trading at attractive valuations when compared to stocks of companies in other industries.

## **RISKS**

An investment in the Shares of the Trust involves a high degree of risk. You should carefully consider the following risk factors in addition to the other information set forth in this Prospectus. For additional information of the risks that may be associated with an investment in the Trust, see “Additional Information About Investments and Investment Techniques” in the SAI.

Because the Trust intends to invest substantially all of its assets in equity securities of Healthcare Companies, you should be aware of certain special considerations and risk factors relating to investments in such companies. No assurance can be given that Healthcare Companies will grow, that a sufficient number of appropriate investments will be available or that the Trust’s particular investment choices will be successful. You should also be aware of considerations and risks relating to the Trust’s investment practices. You should not consider an investment in the Trust by itself to be a balanced investment program. An investment in the Trust should be treated as a way to provide diversification as part of a more complete investment program. The Trust is intended for long-term investors not seeking current income. You should carefully consider your ability to assume the risks described below before you make an investment in the Trust. An investment in Shares of the Trust is not appropriate for all investors.

## **Dilution of NAV and Effect of Non-Participation in the Offer**

As a result of the terms of the Offer, Shareholders who do not fully exercise their Rights, including the Over-Subscription Privilege, will, at the completion of the Offer, own a smaller proportional interest in the Trust than they owned before the Offer and will experience a dilution of NAV. Because the Subscription Price will be less than the then-current NAV, all Shareholders will experience an immediate dilution of NAV as a result of the Offer whether or not they exercise some or all of their Rights. Because it is not known at this time how many Shares will be subscribed for or what the Subscription Price will be, it is not possible to state precisely the amount of dilution you may experience. However, the dilution could be significant. For example, if the assumed Subscription Price is \$18.89, representing a market price which is only 95% of NAV, assuming that all Rights are exercised in the Primary Subscription and no Shares are issued pursuant to the Over-Subscription Privilege, the Trust's NAV would be reduced by approximately \$0.267 per Share or approximately 1.34% of NAV. The actual Subscription Price may be greater or less than the Subscription Price assumed above. The example assumes an NAV of \$19.88 per Share, based on the Trust's NAV after the close of trading on Wednesday, May 26, 2004. Since April 22, 1987 (commencement of operations), Shares of the Trust have traded at various times at, above and below the NAV.

## **Market Risk**

As with any investment company that invests in equity securities, the Trust is subject to market risk—the possibility that the prices of equity securities will decline over short or extended periods of time. As a result, the value of an investment in the Trust's Shares will fluctuate with the market. You could lose money over short or long periods of time.

## **Selection Risk**

Different types of equity securities tend to shift into and out of favor with investors, depending on market and economic conditions. The performance of funds that invest in healthcare industry equity securities may at times be better or worse than the performance of funds that focus on other types of securities or that have a broader investment style.

## **Concentration in the Healthcare Industries**

Under normal market conditions, the Trust expects to invest primarily in securities of Healthcare Companies representing a finite number of industries. The Trust will not have less than 25% of its net assets invested in Healthcare Companies. As a result, the Trust's portfolio may be more sensitive to, and possibly more adversely affected by, regulatory, economic or political factors or trends relating to the healthcare, agricultural and environmental technology industries than a portfolio of companies representing a larger number of industries. This risk is in addition to the risks normally associated with any strategy seeking capital appreciation by investing in a portfolio of equity securities. As a result of its concentration policy, the Trust's investments may be subject to greater risk and market fluctuation than a fund that has securities representing a broader range of investments.

Healthcare Companies have in the past been characterized by limited product focus, rapidly changing technology and extensive government regulation. In particular, technological advances can render an existing product, which may account for a disproportionate share of a company's revenue, obsolete. Obtaining governmental approval from agencies such as the FDA for new products can be lengthy, expensive and uncertain as to outcome. Such delays in product development may result in the need to seek additional capital, potentially diluting the interests of existing investors such as the Trust. In addition, governmental agencies may, for a variety of reasons, restrict the release of certain innovative technologies of commercial significance. These various factors may result in abrupt advances

and declines in the securities prices of particular companies and, in some cases, may have a broad effect on the prices of securities of companies in particular healthcare industries.

While a concentration of investments in any healthcare industry or in Healthcare Companies generally may increase the risk and volatility of an investment company's portfolio, the Trust will endeavor to reduce risk by having a portfolio of investments that is diversified within its stated objective and policies. Such volatility is not limited to the biotechnology industry, and companies in other industries may be subject to similar abrupt movements in the market prices of their securities. No assurance can be given that future declines in the market prices of securities of companies in the industries in which the Trust may invest will not occur, or that such declines will not adversely affect the NAV or the price of the Shares.

Intense competition exists within and among certain healthcare industries, including competition to obtain and sustain proprietary technology protection. Healthcare Companies can be highly dependent on the strength of patents, trademarks and other intellectual property rights for maintenance of profit margins and market exclusivity. The complex nature of the technologies involved can lead to patent disputes, including litigation that could result in a company losing an exclusive right to a patent. Competitors of Healthcare Companies, particularly of the emerging growth Healthcare Companies that the Trust emphasizes, may have substantially greater financial resources, more extensive development, manufacturing, marketing and service capabilities, and a larger number of qualified managerial and technical personnel. Such competitors may succeed in developing technologies and products that are more effective or less costly than any that may be developed by Healthcare Companies in which the Trust invests and may also prove to be more successful in production and marketing. Competition may increase further as a result of potential advances in health services and medical technology and greater availability of capital for investment in these fields.

With respect to healthcare, cost containment measures already implemented by the federal government, state governments and the private sector have adversely affected certain sectors of these industries. There is increasing discussion at all levels of government, as to how to extend health insurance coverage to the millions of people in the U.S. who are currently uninsured while also restraining the growth of total healthcare expenditures. The implementation of any of the measures under discussion may create increased demand for healthcare products and services but also may have an adverse effect on some companies in the healthcare industries. No assurance can be given that healthcare reform legislation will be enacted or, if enacted, as to its ultimate form. Increased emphasis on managed care in the United States may put pressure on the price and usage of products sold by Healthcare Companies in which the Trust may invest and may adversely affect the sales and revenues of Healthcare Companies.

Product development efforts by Healthcare Companies may not result in commercial products for many reasons, including, but not limited to, failure to achieve acceptable clinical trial results, limited effectiveness in treating the specified condition or illness, harmful side effects, failure to obtain regulatory approval, and high manufacturing costs. Even after a product is commercially released, governmental agencies may require additional clinical trials or change the labeling requirements for products if additional product side effects are identified, which could have a material adverse effect on the market price of the securities of those Healthcare Companies.

Certain Healthcare Companies in which the Trust may invest may be exposed to potential product liability risks that are inherent in the testing, manufacturing, marketing and sale of pharmaceutical, medical device or other products. There can be no assurance that a product liability claim would not have a material adverse effect on the business, financial condition or securities prices of a company in which the Trust has invested.

All of these factors may cause the value of the Trust's Shares to fluctuate significantly over relatively short periods of time.

## **Investment in Emerging Growth Companies**

The Trust emphasizes investment in equity securities of emerging growth Healthcare Companies. While these securities offer the opportunity for significant capital gains, such investments also involve a degree of risk that can result in substantial losses. Some of the Healthcare Companies in which the Trust may invest are expected to be companies that are in a “start-up” stage of development, have little or no operating history, operate at a loss or with substantial variations in operating results from period to period, have limited products, markets, financial resources or management depth, or have the need for substantial additional “follow-on” capital to support expansion or to achieve or maintain a competitive position. Some of these Healthcare Companies may be emerging companies at the research and development stage with no marketable or approved products or technology. There can be no assurance that securities of start-up or emerging growth companies will, in the future, yield returns commensurate with their associated risks.

## **Liquidity of Portfolio Investments**

The Trust may invest substantially all of its net assets in securities of emerging growth Healthcare Companies that are traded in the over-the-counter market or on regional stock exchanges where the low trading volume of a particular security may result in abrupt and erratic price movements. An investment in such securities may have limited liquidity, and the Trust may find it necessary to sell at a discount from recent prices or to sell over extended periods of time when disposing of such securities. In addition, the Trust may invest up to 40% of its net assets in Restricted Securities, which by their terms are illiquid because they are subject to legal or contractual restrictions on resale. The Trust cannot sell Restricted Securities except in a public offering registered under the Securities Act or pursuant to an exemption from registration under the Securities Act, including a transaction in compliance with Rule 144 under the Securities Act. Rule 144 permits only limited sales under specified conditions unless the Trust has held the securities for at least two years and is unaffiliated with the issuer. Restricted Securities are expected to include venture capital investments that may take many years from the date of initial investment to reach a state of maturity when public disposition can be considered. Adverse conditions in the securities markets at certain times may preclude a public offering of an issuer’s unregistered securities. The lack of an active secondary market and resale restrictions may result in the inability of the Trust to sell a security at a fair price and may substantially delay the sale of a security that the Trust seeks to sell. Companies whose securities are not publicly-traded are also not subject to the same disclosure and other legal requirements as are applicable to companies with publicly-traded securities. Restricted Securities eligible for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act are subject to the 40% limitation described above.

## **Valuation of Venture Capital Investments and Restricted Securities**

Since there is typically no readily available market value for the venture capital investments and some of the Restricted Securities in the Trust’s portfolio, venture capital investments and some Restricted Securities in the Trust’s Portfolio are valued substantially at fair value as determined in good faith by the Board of Trustees pursuant to a valuation policy and a consistently applied valuation process. Because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Trust’s investments determined in good faith by the Board of Trustees, or in accordance with valuation procedures approved by the Board of Trustees, may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material. There is no single standard for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments the Trust makes.

Some of the Trust's investments are subject to restrictions on resale and generally have no established trading market. Because of the type of investments that the Trust makes and the nature of its business, the valuation process requires an analysis of various factors. The Trust's fair value methodology includes the examination of, among other things, the underlying investment performance, financial condition, and market changing events that impact valuation.

### **Foreign Securities**

The Trust may invest up to 20% of its net assets in Foreign Securities. Foreign Securities may be less liquid and have prices that are more volatile than securities of comparable U.S. companies. Foreign stock exchanges and brokers are generally subject to less governmental supervision and regulation than U.S. exchanges and brokers, and commissions on foreign stock exchanges are generally higher than negotiated commissions in the U.S. Sometimes there are delays in the settlement of transactions effected in foreign markets. Certain countries restrict foreign investments in their securities markets. These restrictions may limit or prohibit investment in certain countries or in certain industries or market sectors, or may increase the cost of investing in securities of particular companies.

Foreign companies are not generally subject to uniform accounting, auditing and financial reporting standards or to other regulatory requirements comparable to those applicable to U.S. companies. There may be less available information concerning non-U.S. issuers of securities held by the Trust than is available concerning U.S. companies. In some foreign countries, nationalization, expropriation, confiscatory taxation or establishment of exchange controls are possible. Income earned in a foreign nation may be subject to taxation (including withholding taxes on interest and dividends), or other taxes may be imposed on investments in Foreign Securities. Other risks associated with investments in Foreign Securities include difficulties in pursuing legal remedies and obtaining judgments in foreign courts, political or social instability and diplomatic developments that could adversely affect the Trust's investments in companies located in foreign countries. An investment in Foreign Securities may also involve a degree of currency risk.

### **Key Personnel**

Investment decisions on behalf of the Trust are made by a team of individuals. Some members of the group have experience in financial analysis of public and private companies. Others have deep scientific backgrounds and considerable operating experience in biotechnology and/or pharmaceutical companies. Still others have medical degrees. The Investment Adviser believes that the investment process benefits from a considered evaluation of potential investments by a group containing a variety of specialized backgrounds. The team currently in place is composed of members with a variety of specialized backgrounds. The Investment Adviser believes that no single individual in the group is individually critical but believes that the overall capability is key. There may be only a limited number of professionals who have, in total, comparable relevant experience to that of the current group. If one or more team members dies, resigns, retires or is otherwise unable to act on behalf of the Investment Adviser, there can be no assurance that a suitable replacement could be found immediately.

### **Diversified Status**

The Trust operates as a "diversified" management investment company, as defined in the Investment Company Act. Under this definition, at least 75% of the value of the Trust's total assets must, at the time of investment, consist of cash and cash items (including receivables), U.S. Government securities, securities of other investment companies, and other securities limited in respect of any one issuer to an amount not greater in value than 5% of the value of the Trust's total assets and to not more than 10% of the voting securities of a single issuer. This limit does not apply, however, to 25% of the Trust's assets, which may be invested in a single issuer. Notwithstanding its diversified status, the Trust may, from time to time, concentrate its investments in a few issuers and take large

positions in those issuers, consistent with being a “diversified” investment company. As a result, the Trust may be subject to a greater risk of loss than an investment company that diversifies its investments more broadly. Taking larger positions is also likely to increase the volatility of the Trust’s net asset value reflecting fluctuation in the value of its large holdings.

### **Discount to NAV**

The Shares are listed on the New York Stock Exchange under the symbol “HQH.” The shares of closed-end investment companies frequently trade at a discount to NAV but may trade at a premium. This is characteristic of shares of a closed-end fund and is a risk separate and distinct from the risk of a decline in the NAV as a result of a fund’s investment activities. Because of this factor and the nature of the Trust’s investment objective and policies, the Trust is designed primarily for long-term investors and should not be considered a vehicle for trading purposes. Since its initial public offering in April 1987, Shares have traded at various times at both a discount and a premium to NAV. The risk that the Shares may trade at a discount to NAV may be greater for investors expecting to sell their Shares in a relatively short period of time. Since the inception of the Trust in April 1987, the longest consecutive period during which the Shares of the Trust traded at discount to NAV was 9.5 years and the longest consecutive period during which Shares of the Trust traded at a premium to NAV was 387 days. The Trust cannot predict whether the Shares will trade in the future at, above or below NAV.

### **Declaration of Trust**

The Trust’s Declaration of Trust has provisions that could have the effect of limiting the ability of other entities or persons to (1) acquire control of the Trust, (2) cause it to engage in certain transactions or (3) modify its structure. The Board is divided into three classes, each having a term of three years. Each year the term of office of one class will expire: Robert P. Mack, M.D., Eric Oddleifson and Oleg M. Pohotsky will continue in office until 2004, Henri A. Termeer will continue in office until 2005, and Daniel R. Omstead, Eng.ScD., Lawrence S. Lewin and Uwe E. Reinhardt, Ph.D. will continue in office until 2006. This provision could delay for up to two years the replacement of a majority of the Board. A Trustee may be removed from office by Shareholders only by a vote of two-thirds of the outstanding Shares of the Trust. Subject to the requirements of the Investment Company Act, vacancies on the Board of Trustees may be filled by the remaining Trustees for the balance of the term of the class.

When a Principal Shareholder (as defined below) is a Party to the transaction, the affirmative vote or consent of the holders of 75% of the Trust’s Shares outstanding and entitled to vote will be required to authorize any of the following types of transactions:

- (i) the merger or consolidation of the Trust with or into any Principal Shareholder;
- (ii) the issuance of any securities of the Trust to any Principal Shareholder for cash (except pursuant to any cash dividend reinvestment program available to all Shareholders and approved by the Trustees);
- (iii) the sale, lease or exchange of all or a substantial part of the assets of the Trust to or with any Principal Shareholder (except assets having an aggregate fair market value of less than \$1,000,000, aggregating for the purpose of such computation all assets sold, leased or exchanged in any series of similar transactions within a 12-month period); or
- (iv) the sale or lease to the Trust, in exchange for securities of the Trust, of any assets of any Principal Shareholder (except assets having an aggregate fair market value of less than \$1,000,000, aggregating for the purpose of such computation all assets sold, leased or exchanged in any series of similar transactions within a 12-month period).

However, such 75% vote or consent will not be required with respect to the foregoing transactions where the Board approves by resolution a memorandum of understanding with the Principal Shareholder with respect to and substantially consistent with such transaction. For this purpose, a “Principal Shareholder” is any corporation, person or other entity which is the beneficial owner, directly or indirectly, of more than five percent (5%) of the outstanding Shares or any “affiliate” or “associate” (as those terms are defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934 as in effect on April 21, 1987) of a Principal Shareholder. In addition to the Shares which a corporation, person or other entity beneficially owns directly, (a) any corporation, person or other entity shall be deemed to be the beneficial owner of any Shares (i) which it has the right to acquire pursuant to any agreement or upon exercise of the conversion rights or warrants, or otherwise (but excluding share options granted by the Trust) or (ii) which are beneficially owned, directly or indirectly (including Shares deemed owned through application of clause (i) above), by any other corporation, person or entity with which it or its affiliate or associate has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of Shares, or which is its affiliate or associate, and (b) the outstanding Shares shall include Shares deemed owned through application of clauses (i) and (ii) above but shall not include any other Shares which may be issuable pursuant to any agreement, or upon exercise of conversion rights or warrant, or otherwise.

These provisions could have the effect of depriving Shareholders of an opportunity to sell their Shares at a premium over prevailing market price by discouraging a third party from seeking to obtain control of the Trust in a tender offer or similar transaction. The Board has determined that the 75% voting requirements described above, which are greater than the minimum requirements under state law or the Investment Company Act, are in the best interests of the Shareholders.

### **Repurchase of Shares**

You may dispose of your Shares on the NYSE or other markets on which the Shares may trade, but because the Trust is a closed-end investment company, you do not have the right to redeem your Shares. The Trustees, however, intend to consider, from time to time, but not less frequently than annually, the desirability of open market purchases or tender offers. Any Share repurchases will be made in accordance with the applicable provisions of the Investment Company Act and Massachusetts law in open market transactions. Shares repurchased by the Trust will be held in its treasury. Although the Trust has no present intention of doing so, it reserves the right to incur debt to finance such repurchases or tender offers, provided that it will not repurchase securities during the periods when it has outstanding borrowings in excess of 5% of its net assets. Interest on any borrowings to finance Share repurchase transactions will increase the Trust’s expenses and will reduce the Trust’s net income. There can be no assurance that Share repurchases, if any, will cause the Shares to trade at a price equal to or in excess of their net asset value. Nevertheless, the possibility that a portion of the Trust’s outstanding Shares may be the subject of repurchases may reduce the spread between market price and net asset value that might otherwise exist. The Trust may not repurchase Shares except (i) on a securities exchange and after notification to Shareholders of its intent to purchase Shares within the six months preceding the purchase, (ii) pursuant to a tender offer to all Shareholders, or (iii) as otherwise permitted by the Commission. Any related interest charges will be paid by the Trust and borne pro rata by the Shareholders indirectly through their interest in the Trust.

If the Trust repurchases its Shares for a price below their NAV, the NAV of those Shares that remain outstanding would be enhanced, but this does not necessarily mean that the market price of those outstanding Shares would be affected, either positively or negatively. There is no assurance that any action undertaken to repurchase Shares will result in the Shares trading at a price which approximates net asset value. Repurchases of Shares by the Trust would also decrease its total assets and accordingly may increase its expenses as a percentage of average net assets. Further, interest on

any borrowings to finance any such share repurchase transactions would reduce the Trust's net income. The Trust has no current plans to repurchase its Shares.

### **Related Party Transactions**

The majority of the Board is unaffiliated with the Investment Adviser; nevertheless, the Trust may be subject to certain potential conflicts of interest. Although the Trust has no obligation to do so, it may place brokerage orders with brokers who provide supplemental investment research and market and statistical information about the healthcare industries. In addition, other investment companies advised by the Investment Adviser may concurrently invest with the Trust in Restricted Securities under certain conditions. The Investment Adviser may also provide managerial assistance to issuers of securities in which the Trust invests.

The Trust also may invest, subject to applicable law, in companies in which the principals of the Investment Adviser or Trustees of the Trust have invested, or for which they serve as directors or executive officers. The Investment Company Act prohibits the Trust from engaging in certain transactions involving its "affiliates," including, among others, the Trust's Trustees, officers and employees, the Investment Adviser and any "affiliates" of such affiliates except pursuant to an exemptive order or the provisions of certain rules under the Investment Company Act. In the view of the staff of the Commission, other investment companies advised by the Investment Adviser may, in some instances, be viewed to be affiliates of the Trust. Such legal restrictions and delays and costs involved in obtaining necessary regulatory approvals may preclude or discourage the Trust from making certain investments and no assurance can be given that any exemptive order sought by the Trust will be granted.

### **INVESTMENT TECHNIQUES**

In addition to the investment practices described above, the Trust may utilize the following investment practices:

#### **Money Market Instruments**

When, in the opinion of the Investment Adviser, adverse market conditions or industry expectations support such action, the Trust may, for temporary defensive purposes, invest up to 75% of its net assets in money market instruments. The Trust may also invest in money market instruments in advance of a pending investment. To the extent that the Trust assumes a temporary defensive position or otherwise invests in short-term obligations, it may not achieve its investment objective and will not participate in the capital appreciation, if any, of securities in which the Trust would normally invest.

Money market instruments in which the Trust may invest include certificates of deposit and bankers' acceptances issued by domestic branches of federally-insured U.S. banks and savings and loan associations and commercial paper and high and upper medium grade corporate debt securities rated, as of the date of purchase, among the following rating categories of the indicated rating service: bonds—Moody's Aaa, Aa or A; S&P AAA, AA or A; notes—Moody's MIG-1, MIG-2 or MIG-3; S&P SP-1+ or SP-2; commercial paper—Moody's P-1; S&P A-1. The Trust also may invest in shares of money market mutual funds that invest in money market instruments and U.S. Government securities. Money market mutual funds are investment companies and the Trust's investments in those companies are subject to certain limitations. As a shareholder in money market mutual funds, the Trust will bear its ratable share of such companies' expenses, including investment advisory or management fees, and will remain subject to the payment of fees to the Investment Adviser. U.S. Government securities are obligations of the U.S. Government and its agencies and instrumentalities. U.S. Government securities may or may not be guaranteed by the full faith and credit of the U.S. Treasury, and there can be no

assurance that the U.S. Government would assure payment on securities not directly guaranteed by the full faith and credit of the U.S. Treasury.

### **When-Issued and Delayed Delivery Transactions**

The Trust may purchase securities on a “when issued” basis or a “delayed delivery” basis. A “when issued” basis refers to a transaction involving securities that have been authorized but have not yet been issued. A delayed delivery transaction is one in which a contract to purchase or sell a security is agreed upon at a fixed price in the future at a date beyond the customary settlement period.

When-issued and delayed delivery transactions involve the risk that the value of the securities involved may change before they are delivered to the Trust. In addition, the counterparty could fail to perform its part of the contract by failing to buy from or sell to the Trust as previously agreed.

### **Repurchase Agreements**

A repurchase agreement allows the Trust to buy a security on an agreement with the seller in which the seller agrees to buy back the security, with interest, at a later date. It is the Trust’s present intention to enter into repurchase agreements for a relatively short period (usually not more than one week) only with commercial banks and registered broker-dealers and only with respect to U.S. Government securities and money market instruments. A repurchase agreement involves the risk that the seller could be unable or unwilling to honor its commitment to repurchase the securities, in which case the Trust would suffer a loss.

### **Loans of Portfolio Securities**

In an attempt to make productive use of its assets, the Trust may lend its portfolio securities on a short-term basis, subject to the limitation that the Trust will not lend a security if, as a result of such loan, all securities then subject to loans would exceed 20% of the Trust’s net assets. In the event that the Trust invests the cash collateral from such loans of portfolio securities, the Trust may realize additional gains or losses. Lending portfolio securities involves the risk that the borrower could fail to return the securities borrowed, in which case the Trust could suffer a loss.

### **Hedging**

In order to hedge against changes in the value of its portfolio securities, the Trust may from time to time engage in certain hedging strategies. The Trust will engage in hedging activities from time to time in the Investment Adviser’s discretion, and may not necessarily be engaging in such activities when movements in the securities markets, foreign exchange rates, or interest rates that could affect the value of the assets of the Trust occur. The risks of hedging include the possibility that interest rates, securities prices and currency exchange rates may not move in the direction that the portfolio managers anticipated. In addition, the skills involved in employing hedging strategies differ from the skills involved in selecting portfolio securities, and the derivative instruments used in hedging strategies may imperfectly correlate with the underlying security, interest rate or currency being hedged. Hedging strategies can also expose the Trust to the risk of its inability to close-out a hedged position and adverse price movements may result in a loss substantially greater than the Trust’s initial investment in the hedging instrument (potential loss in some hedging strategies is unlimited).

### **Futures Contracts**

The Trust may enter into contracts for the purchase or sale for future delivery (a “futures contract”) of baskets of securities, financial indices, financial instruments or foreign currencies. The Trust would purchase or sell futures contracts to attempt to protect the value of its securities from market-wide price movements and fluctuations in interest or foreign exchange rates without actually

buying or selling securities or foreign currency. Similar to the risks of hedging, the risks of futures contracts include the possibility that interest rates, securities prices and currency exchange rates may not move in the direction anticipated. The skills involved in selecting futures contracts differ from the skills involved in selecting portfolio securities. In addition, the futures contract may imperfectly correlate with the underlying security, interest rate or currency underlying the contract, and there can be no assurance that a liquid market will exist at a time when the Trust seeks to close out a futures position.

### **Foreign Currency Transactions**

The Trust may enter into forward foreign currency exchange contracts and may purchase and sell foreign currency futures contracts to protect against a decline in the U.S. dollar equivalent value of its foreign currency portfolio securities or the payments thereon that may result from an adverse change in foreign currency exchange rates. Foreign currency exchange rates may fluctuate significantly over short periods of time and may also be affected by political developments, including intervention by U.S. or foreign governments.

Under normal market conditions, the Trust currently does not intend to engage in the foregoing practices or investments with the exception of investments in money market instruments.

## **MANAGEMENT OF THE TRUST**

### **Board of Trustees**

Under the Trust's Declaration of Trust and the laws of the Commonwealth of Massachusetts, the Trust's business and affairs are managed under the direction of its Board of Trustees. Investment decisions for the Trust are made by the Investment Adviser, subject to any direction it may receive from the Trust's Board of Trustees, which periodically reviews the Trust's investment performance. The Statement of Additional Information includes additional information about the members of the Board of Trustees and is available, without charge, upon request, by calling the Information Agent at (800) 870-0126.

### **Investment Adviser**

Hambrecht & Quist Capital Management, LLC, a limited liability company under the laws of the State of Delaware, serves as the investment adviser to the Trust. The Investment Adviser is an investment adviser registered under the Investment Advisers Act of 1940, as amended. The Investment Adviser is located at 30 Rowes Wharf, Fourth Floor, Boston, MA 02110-3328.

At inception, Hambrecht & Quist Capital Management Incorporated ("HQCM, Inc.") was the Trust's investment adviser. HQCM, Inc. was formed as a wholly-owned subsidiary of Hambrecht & Quist Group. HQCM, Inc. remained the Investment Adviser as The Chase Manhattan Corporation ("Chase") first acquired Hambrecht & Quist Group and then merged with J.P. Morgan Incorporated to form J.P. Morgan Chase & Co. In 2002, the management of HQCM, Inc. formed an independent entity, Hambrecht & Quist Capital Management, LLC ("HQCM, LLC"), to effect a buyout of HQCM, Inc. In this transaction, HQCM, LLC acquired certain of the assets of HQCM, Inc., and substantially all of the management and staff of HQCM, Inc. became employees of HQCM, LLC. HQCM, LLC, the Trust's current investment adviser, is owned by Daniel R. Omstead, Mary Omstead and the Alan G. Carr Irrevocable Trust. Mr. Carr, a former portfolio manager, president and trustee of the Trust, passed away in October 2003. Dr. Omstead is currently the President and Chief Executive Officer of the Investment Adviser. Mary Omstead is Dr. Omstead's wife. Under the terms of HQCM, LLC's current Amended and Restated Limited Liability Company Agreement, HQCM, LLC will purchase the Alan G. Carr Irrevocable Family Trust's interest in HQCM, LLC over the course of a number of years.

The Investment Adviser also provides investment advisory services to another closed-end investment company, H&Q Life Sciences Investors (“HQL”), which invests in companies in the healthcare industries. As of December 31, 2003, the Investment Adviser managed approximately \$487 million in assets for the Trust and HQL.

The Investment Advisory Agreement between the Investment Adviser and the Trust (the “Advisory Agreement”) provides that, subject to the supervision and direction of the Board, the Investment Adviser is responsible for the actual management of the Trust’s portfolio. The Investment Adviser is also obligated to supervise or perform certain administrative and management services for the Trust and is obligated to provide the office space, facilities, equipment and personnel necessary to perform its duties under the Advisory Agreement. The responsibility for making decisions to buy, sell or hold a particular security rests with the Investment Adviser. However, the Investment Adviser may consider investment analysis from various sources, including broker-dealers with which the Trust does business.

Subject to the supervision and direction of the Board of Trustees of the Trust, the Investment Adviser manages the Trust’s portfolio in accordance with the Trust’s investment objective and policies as stated in the Trust’s Prospectus; makes investment decisions for the Trust; places purchase and sale orders for portfolio transactions for the Trust; supplies the Trust with office facilities (which may be in the Investment Adviser’s own offices), statistical and research data, data processing services, clerical, internal executive and administrative services, and stationery and office supplies; supplies or directs and supervises a third party administrator or custodian in the provision to the Trust of accounting and bookkeeping services, the calculation of the net asset value of shares of the Trust, internal auditing services, and other clerical services in connection therewith, and prepares or supervises and directs a third party administrator or custodian in the preparation of reports to shareholders of the Trust, tax returns and reports to and filings with the Commission and state Blue Sky authorities. In providing these services, the Investment Adviser provides investment research and supervision of the Trust’s investments and conducts a continual program of investment, evaluation and, if appropriate, sale and reinvestment of the Trust’s assets. In addition, the Investment Adviser furnishes the Trust with whatever statistical information the Trust may reasonably request with respect to the securities that the Trust may hold or contemplate purchasing.

For the services provided by the Investment Adviser under the Advisory Agreement, the Trust will pay a fee, computed and payable monthly, equal when annualized to (i) 2.5% of the average net assets for the month of its venture capital and other Restricted Securities (as defined) 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 monthly fee may not exceed a rate when annualized of 1.375% (approximately 0.115% per month). Because the advisory fee is based on the average net assets of the Trust and since the Offer is expected to result in an increase in net assets, the Investment Adviser should benefit from the Offer by an increase in the dollar amount of the fee. The investment advisory fee paid by the Trust exceeds that paid by most registered investment companies to their investment advisers. The Trust believes that the fee is commensurate with the nature and quality of the services required for identifying, evaluating and monitoring the Trust’s Restricted Securities investments.

Under the Advisory Agreement, the Investment Adviser has agreed to bear all expenses in connection with the performance of its services under the Advisory Agreement, including compensation of and office space for officers and employees of the Trust connected with investment and economic research, trading and investment management of the Trust, as well as the fees of all Trustees of the Trust who are “affiliated persons” of the Investment Adviser, as that term is defined in the Investment Company Act, or any of its “affiliated persons.” Under the Advisory Agreement, the Trust must pay (or, if Trust expenses are paid by the Investment Adviser, shall reimburse the Investment Adviser for) all other expenses incurred in the organization and operation of the Trust including, among other

things, expenses for legal and auditing services, costs of printing proxy statements, prospectuses, share certificates and shareholder reports, charges of the custodian, any sub-custodian and transfer agent, expenses in connection with the Dividend Reinvestment Plan, the Commission, and National Association of Securities Dealers, Inc. fees, fees and expenses of the Trustees who are not “affiliated persons” of the Investment Adviser or any of its “affiliated persons,” accounting and valuation costs, administrator’s fees, membership fees in trade associations, fidelity bond coverage for the Trust’s officers and employees, errors and omissions insurance coverage for Trustees and officers, interest, brokerage costs, taxes, stock exchange listing fees and expenses, expenses of qualifying the Trust’s Shares for sale in various states, expenses associated with personnel performing exclusively shareholder servicing functions, certain other organization expenses, litigation and other extraordinary or non-recurring expenses, and other expenses properly payable by the Trust. The Trust may enter into arrangements to have third parties assume any expenses for which it is responsible.

### **Portfolio Management**

At the current time a team of analysts, including Daniel R. Omstead Eng.ScD., Christopher F. Brinzey, M.B.A., Frank T. Gentile, Ph.D., Jason C. Akus, M.D./M.B.A. and Michael S. Tung, M.D./M.B.A. are members of the team that makes investments on behalf of the Trust. These members also perform other duties including, making investments on behalf of HQL. Each of the members of the team listed below have been on the Trust’s portfolio management team, which is responsible for the day-to-day management of the Trust’s portfolio, since joining the Investment Adviser. Each team member’s business experience for at least the last five years is included below.

Daniel R. Omstead, Eng.ScD., is President and Chief Executive Officer of the Investment Adviser. He is also President of the Trust and HQL. Before joining the Investment Adviser, Dr. Omstead was President and CEO of Reprogenesis, Inc., a private development stage biotech company developing therapies in the field of regenerative medicine. In 2000, Reprogenesis was merged with two other biotech companies to form Curis, Inc. Before joining Reprogenesis, Dr. Omstead was Senior Vice President, Research and Development at Cytotherapeutics, Inc., a public biotech company that developed CNS therapies. Before entering the biotech industry, Dr. Omstead was employed for 14 years in the pharmaceutical industry at Ortho Pharmaceutical Corporation and at the R.W. Johnson Pharmaceutical Research Institute, both divisions of Johnson & Johnson and at Merck Sharpe & Dohme Research Laboratories, a division of Merck & Company, Inc. While at Johnson & Johnson, Dr. Omstead participated in the development of Orthoclone OKT3™, Eprex™/Procrit™ and other biological products. While at Merck, he worked on the development of Recombivax™, Mefoxin™, Heartguard™ and other traditional drug products. Dr. Omstead holds Doctoral and Master’s Degrees in Chemical Engineering and Applied Chemistry from Columbia University and a B.S. degree in Civil Engineering from Lehigh University.

Christopher F. Brinzey is Vice President, Research of the Investment Adviser. Mr. Brinzey joined the Investment Adviser in February of 2001 and is responsible for investment research and venture investment due diligence in the following areas: specialty pharmaceuticals and healthcare information technology and services. Before joining the Investment Adviser, Mr. Brinzey was a senior analyst for Advest Incorporated’s healthcare research team where he covered and helped to finance a number of companies in the healthcare information technology and eHealth sector. Other prior work experience includes project management and consulting for SunGard Financial Systems, a subsidiary of SunGard Data Systems, a global IT solutions and eProcessing company. Mr. Brinzey received a B.A. in psychology from Hobart College and an MBA from Northeastern University.

Frank T. Gentile, Ph.D., is Vice President, Research of the Investment Adviser. Dr. Gentile joined the Investment Adviser in September 2002. His emphasis is on the analysis of private and public companies in the fields of Functional Genomics and Proteomics, as well as Cell and Gene Therapy. Previously Dr. Gentile was Vice President, Technology Program Management at Millennium

Pharmaceuticals. At Millennium, Dr. Gentile was responsible for management of all technology platform development programs. Before joining Millennium, Dr. Gentile was Vice President of Product Development at Curis, Inc., a biotechnology company in Cambridge developing products in the area of Regenerative Medicine. From 1997 to 2000, he was Director and then Vice President, Program Management at Reprogenesis, Inc. From 1990-1997 he was employed at CytoTherapeutics, Inc., where he held several scientific and management positions. Dr. Gentile received a B.E. degree in Chemical Engineering from The Cooper Union and a Ph.D. in Chemical Engineering from MIT. Before working in industry, he was a post-doctoral fellow at the Swiss Federal Institute of Technology (ETH) in Zurich, Switzerland. He is also an Adjunct Associate Professor of Biotechnology at Brown University. He has written over 120 peer reviewed publications and holds 30 U.S. patents in the area of biotechnology.

Jason C. Akus, M.D./M.B.A., has the title Associate, Research and is responsible for investment research and due diligence in the biotechnology, medical device, and diagnostic areas. Dr. Akus joined the Investment Adviser in July of 2001 after graduating from Tufts with an M.D. and M.B.A. Dr. Akus also graduated from Tufts with a B.S. in Mathematics. During medical school, Dr. Akus consulted for a variety of healthcare information technology companies.

Michael S. Tung, M.D./M.B.A., also has the title Associate, Research and is responsible for investment research and due diligence in the biotechnology, pharmaceuticals and medical technology sectors. Dr. Tung joined the Investment Adviser in November 2003. Before that time, Dr. Tung was an analyst at Durus Capital Management covering companies in the biotechnology, pharmaceuticals, and medical technology sectors. Dr. Tung completed a combined M.D./M.B.A. program at Tufts University School of Medicine, did residency training at the Beth Israel Deaconess Medical Center in Boston, and is a licensed physician in Massachusetts. Dr. Tung has a B.S. in Biology and a B.A. in Economics from the George Washington University.

#### **Code of Ethics**

The Trust's Board of Trustees approved a Code of Ethics under Rule 17j-1 of the Investment Company Act that covers the Trust and the Investment Adviser. The Code of Ethics establishes procedures for personal investing and restricts certain transactions. Employees subject to the Code of Ethics may invest in securities for their personal investment accounts, including, in certain cases, securities that may be purchased or held by the Trust. See "Code of Ethics" in the Statement of Additional Information.

#### **DESCRIPTION OF TRUST**

The Trust is a diversified, closed-end management investment company. The Trust was organized as a Massachusetts business trust on October 31, 1986 pursuant to a Declaration of Trust governed by Massachusetts law and commenced operations on April 22, 1987. The Trust's Declaration of Trust was amended and restated as of April 21, 1987 ("Amended and Restated Declaration of Trust"). The Amended and Restated Declaration of Trust is referred to in this Prospectus as the "Declaration of Trust" unless the context requires otherwise. The Trust's principal offices are located at 30 Rowes Wharf, Fourth Floor, Boston, MA 02110-3328.

The Trust's capitalization consists of an unlimited number of shares of beneficial interest, \$.01 par value. Each Share represents an equal proportionate beneficial interest in the Trust and, when issued and outstanding, will be fully paid and non-assessable by the Trust. Upon any liquidation of the Trust, Shareholders will be entitled to share pro rata in the net assets of the Trust available for distribution after paying or adequately providing for the payment of all liabilities. The Trust will send annual and semi-annual financial statements to Shareholders and may also issue more abbreviated interim reports to update Shareholders on a quarterly basis. The Trust will hold annual meetings of its Shareholders in accordance with the provisions of the Trust's By-laws and the rules of the NYSE.

Shareholders are entitled to one vote for each whole Share held and a proportionate fractional vote for each fractional Share held. The Trust's Shares do not have cumulative voting rights, which means that the holders of more than 50% of the Shares of the Trust voting for the election of Trustees can elect all of the Trustees, and, in such event, the holders of the remaining Shares will not be able to elect any Trustees. The Trust has a staggered Board, whereby one class of Trustees is elected each year.

There were 15,108,430 Shares outstanding as of the Record Date. Assuming that all Rights are exercised pursuant to the Primary Subscription, an additional 5,036,144 Shares will be issued. The Trust may, at its discretion, issue up to an additional 25% of the Shares in the Offer to honor over-subscription requests if sufficient Shares are not available from the Primary Subscription to honor all over-subscriptions.

For information regarding risk factors pertaining to the Trust, see "Risks."

As of May 21, 2004, to the best of the Trust's knowledge, and based solely on Schedule 13D/G filings made with the Commission, there was no person who controlled the Trust.

### **PORTFOLIO TRANSACTIONS AND BROKERAGE**

Subject to policies established by the Board, the Investment Adviser is primarily responsible for the execution of the Trust's portfolio transactions and the allocation of brokerage. In executing such transactions, the Investment Adviser will seek to obtain the best price and execution for the Trust, taking into account such factors as price, size of order, difficulty of execution, operational facilities of the firm involved, the firm's risk in positioning a block of securities, and research, market and statistical information provided by such firm. While the Investment Adviser generally seeks reasonably competitive commission rates, the Trust will not necessarily pay the lowest commission available.

The Trust intends to purchase and hold securities for capital appreciation and it is not anticipated that frequent portfolio changes will be made for short-term trading purposes or to take advantage of short-term swings in the market. However, changes may be made in the portfolio consistent with the investment objective and policies of the Trust whenever changes are believed by the Investment Adviser to be in the best interest of the Trust and its Shareholders. Risk factors, particularly those relating to a specific security investment or to the market and economic conditions, may also affect the rate at which the Trust buys and sells its portfolio holdings. The Trust has no fixed policy with respect to portfolio turnover rate. The Trust may engage in short-term trading or portfolio securities, including initial public offerings, which may result in increasing the Trust's portfolio turnover rate. The portfolio turnover rate is calculated by dividing the lesser of purchases or sales of long-term portfolio securities by the average monthly value of the Trust's long-term portfolio securities. A high rate of portfolio turnover (100% or more) could produce higher trading costs and taxable distributions, which would detract from the Trust's performance. The Trust's portfolio turnover rate for the fiscal years ended September 30, 2003 and September 30, 2002 was 32.80% and 17.40%, respectively.

### **NET ASSET VALUE**

The NAV of the Trust's Shares is calculated at the close of regular trading on the NYSE (generally 4:00 p.m., Eastern time) every day that the NYSE is open. The Trust makes this information available daily by telephone (800) 451-2597, via its web site ([www.hqcm.com](http://www.hqcm.com)) and through electronic distribution for media publication, including major internet-based financial services web sites and portals ([bloomberg.com](http://bloomberg.com), [yahoo.com](http://yahoo.com), [cbsmarketwatch.com](http://cbsmarketwatch.com), etc.). Currently, The Wall Street Journal, The New York Times and Barron's publish NAVs for closed-end investment companies at least weekly.

NAV is calculated by dividing the value of the securities held by the Trust plus any cash or other assets minus all liabilities, including accrued expenses, by the total number of Shares outstanding at such time. Securities for which market quotations are readily available are valued at market price.

Portfolio securities that are traded on one or more U.S. 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 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. Redeemable securities issued by a registered open-end investment company are valued at net asset value per share. Other securities are valued at the mean between the closing bid and asked prices. Short-term investments that mature in 60 days or less are valued at amortized cost, unless the Board determines that such valuation does not constitute fair value.

Bonds, other than convertible bonds, are valued using a third-party pricing system. Convertible bonds are valued using this pricing system only on days when there is no sale reported. Temporary cash investments with maturity of 60 days or less are valued at amortized cost. Puts and calls generally are valued at the close of regular trading on the securities or commodities exchange on which they are primarily traded. Options on securities generally are valued at their last bid price in the case of exchange-traded options or, in the case of OTC-traded options, the average of the last bid price as obtained from two or more dealers unless there is only one dealer, in which case that dealer's price is used. Forward foreign currency contracts are valued on the basis of the value of the underlying currencies at the prevailing currency exchange rate. The prevailing currency exchange rate shall be determined within one hour of when the most recently available exchange rate information has been received based on information obtained from a bank or banks.

Securities that are primarily traded on foreign securities exchanges generally are valued at the last sale price on the exchange on which they are primarily traded. Foreign securities that are primarily traded on the foreign over-the-counter market are generally valued at the last sale quotation, if market quotations are available, or the last reported bid price if there is no active trading in a particular security on a given day. However, if intervening events result in market volatility that significantly affects the value of any such foreign securities after the close of trading on the relevant foreign market, but before the Trust values its Shares on any particular day on which the Trust is required to value its Shares, the Trust may, but is not required to, determine the value of such securities at "fair value," as determined in good faith by or under the direction of the Board of Trustees.

Quotations of foreign securities in foreign currencies are converted, at current exchange rates, to their U.S. dollar equivalents to determine their current value. In addition, to the extent that the Trust values its foreign securities (other than ADR's and ADS's) as of the close of trading on various exchanges and over-the-counter markets throughout the world, the calculation of the Trust's net asset value may not take place contemporaneously with the valuation of foreign securities held by the Trust.

The value of any security or other asset for which market quotations are not readily available shall be determined in a manner that most fairly reflects the security's (or asset's) "fair value," which is the amount that the Trust might reasonably expect to receive for the security (or asset) upon its current sale. Each such determination is based on a consideration of all relevant factors, which are likely to vary from one pricing context to another. Examples of such factors may include, but are not limited to: (1) the type of the security; (2) the size of the holding (including percent of outstanding securities of issuer held by the Trust); (3) the initial cost of the security; (4) the existence of any contractual restrictions on the security's disposition and the time to freedom from such restrictions; (5) the price and extent of public trading in similar securities of the issuer or of comparable companies; (6) quotations or prices from broker-dealers and/or pricing services; (7) information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); (8) an analysis of the company's financial statements; (9) an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold (e.g., the existence of pending merger activity, public offerings or tender offers that might affect the value of the security); and (10) the price of securities in a subsequent round of financing of an issuer in an arm's-length transaction, if the round includes a new third party investor.

Sometimes a “significant valuation event” may cause the market value of a security to differ from the fair market value of that security. A “significant valuation event” is an event that causes or is likely to cause a market quotation to be unavailable or unreliable, and may include: situations relating to a single issue in a market sector; significant fluctuations in U.S. or foreign markets; market disruptions or closings caused by human error, equipment failures, natural disasters, armed conflicts, acts of God, governmental actions or other developments, as well as the same or similar events which may affect specific issues or the securities markets even though not tied directly to the securities markets. A significant valuation event occurring after the close of trading but before the time of valuation may mean that the closing price for the security does not constitute a readily available market quotation. If a significant valuation event has occurred, the security will be valued at fair value as determined in good faith by the Board in accordance with the procedures hereinafter described. Such valuations and procedures will be reviewed periodically by the Board.

The fair value of investments for which no market exists can not be precisely determined. With respect to securities of a company in its early stage of development, valuation will typically be based upon the original cost to the Trust. This methodology will typically be used until significant developments affecting the portfolio company provide a basis for a change in valuation. The status of portfolio companies is monitored for progress against plan, advancement of the stage of product development, and other factors. When revenues and earnings are present they are monitored. Valuation changes are event driven. When an appropriate event occurs (e.g., the completion of a third party transaction or a significant change in business model) valuation is changed accordingly. In addition the Trust will typically base changes in valuation on actual transactions or on actual firm offers by sophisticated independent investors unaffiliated with the Adviser. Legal or contractual restrictions on the sale of portfolio securities by the Trust will be considered in the valuation of such securities.

Other assets, which include cash, prepaid and accrued items, accounts receivable and income on investments and from the sale of portfolio securities, are carried in accordance with generally accepted accounting principles, as are all liabilities. Liabilities primarily include accrued expenses, sums owed for securities purchased and dividends payable.

## **DIVIDENDS AND DISTRIBUTIONS**

The Trust expects to distribute to Shareholders annually dividends of all or a portion of its investment company taxable income, if any. For federal income tax purposes, the Trust is required to distribute substantially all of its investment company taxable income for each year. Net capital gain (i.e., the excess of net long-term capital gain over net short-term capital loss), if any, may be distributed or may be retained at the discretion of the Board. “Investment company taxable income,” as used herein, includes all interest and other ordinary income earned by the Trust on its portfolio holdings and net short-term capital gains in excess of net long-term capital losses, less the Trust’s expenses. See “Taxation—Distributions.”

Various factors will affect the level of the Trust’s income, including the asset mix, the performance of the companies represented in the Trust’s portfolio, and the Trust’s use of hedging and fluctuations in the rate of exchange between foreign currencies and the U.S. dollar to the extent the Trust has invested in Foreign Securities. Each Shareholder will have all dividends and distributions reinvested in Shares of the Trust issued pursuant to the Trust’s Plan, unless the Shareholder elects not to participate in the Plan. Shareholders who elect not to participate in the Plan will receive their dividends and distributions in cash. See “Dividend Reinvestment Plan.” Notices will be provided in accordance with Section 19(a) of the Investment Company Act.

The current distribution policy is to declare distributions in stock. Stock distributions will automatically be paid in newly-issued full Shares of the Trust plus cash in lieu of any fraction of a

Share, unless otherwise instructed by the Shareholder. If a Shareholder elects to receive a distribution in cash, rather than in Shares, the Shareholder's relative ownership in the Trust will be reduced.

### **Quarterly Distribution Policy**

On May 10, 1999, the Trust's Board of Trustees adopted a managed distribution policy with respect to the Trust's Shares. Under the managed distribution policy, the Trust intends to make quarterly distributions to its Shareholders equal to 2.0% of the Trust's net asset value. If, for any taxable year, the total distributions required for the Trust's distribution policy exceed the Trust's annual investment company taxable income and net long-term capital gains, the excess will generally be treated as a return of capital (up to the amount of the Shareholder's adjusted tax basis in his or her Shares). The amount treated as a tax-free return of capital will reduce a Shareholder's adjusted basis in his or her own Shares, thereby increasing his or her potential gain or reducing his or her potential loss on the sale of his or her Shares.

If the Trust's investment company taxable income and net long-term capital gains for any taxable year or calendar year exceed the amount required to be distributed under the distribution policy, the Trust will at a minimum make distributions necessary to permit it to qualify for treatment as a regulated investment company under the Code. The Trust has the discretion to retain for reinvestment net long-term capital gains in excess of net short-term capital losses, to the extent that it does not need to distribute these gains to meet its managed distribution obligation or tax requirements. Any retained gains may be subject to taxation, although Shareholders may receive credit for taxes paid by the Trust. It is anticipated that net realized capital gains in excess of the total distributed under this policy would be included in the December distribution.

This distribution policy may, under certain circumstances, have certain adverse consequences to the Trust and its Shareholders. To make such distributions, the Trust may have to sell a portion of its investment portfolio at a time when independent investment judgment might not dictate such action. The Trust's quarterly distribution policy may be changed by the Board of Trustees without Shareholder approval.

The Trust's most recent distribution of \$0.39 per Share was payable to Shareholders of record on February 20, 2004. That distribution was paid in Shares on March 30, 2004. For the 2003 calendar year, the Trust distributed a total of \$1.68 per Share. The first regular quarterly distribution to be paid on Shares acquired upon exercise of Rights will be the first quarterly distribution the record date for which occurs after the issuance of the Shares. The Shares issued in the Offer will not be entitled to the distribution to be declared to Shareholders of record on May 25, 2004 which is payable in June 2004.

### **DIVIDEND REINVESTMENT PLAN**

Each Shareholder holding Shares of the Trust will automatically be a participant in the Trust's Plan, unless the Shareholder elects not to participate in the Plan. Under the Plan, whenever the Trust declares a distribution of dividends and capital gains payable in Shares or cash, the distribution of dividends and capital gains will be automatically reinvested by EquiServe Trust Company (the "Plan Agent"), in whole or fractional Shares of the Trust, as the case may be, for the accounts of the participating shareholders. Shareholders who specifically elect not to participate in the Plan will receive all distributions of dividends and capital gains in cash paid by check in U.S. dollars mailed directly to the shareholders (or if the Shares are held in street or other nominee name, then to the nominee) by the Dividend Disbursing Agent. Shareholders may receive more detailed information regarding the Plan from the Plan Agent.

The Plan Agent serves as agent for the Shareholders in administering the Plan. Participants in the Plan will receive Shares valued on the valuation date, generally at the lower of market price or NAV, except as specified below. The valuation date will be the dividend or distribution payment date or a

date determined by the Board of Trustees. Whenever the market price per Share is equal to or exceeds NAV on the valuation date, participants will be issued Shares at the greater of (i) NAV or (ii) 95% of the then-current market price of the Shares. If the NAV of the Shares on the valuation date exceeds the market price of the Shares at that time, participants will receive Shares from the Trust valued at the market price. The market price of the Shares on a particular date shall be the last sales price on the NYSE on that date or, if no sale occurred on the NYSE on that date, then the mean between the closing bid and asked quotations for the Shares on the NYSE on such date; and NAV per Share on a particular date shall be as determined by or on behalf of the Trust.

Experience under the Plan may indicate that changes are desirable. Accordingly, the terms and conditions of the Plan may be amended or supplemented by the Plan Agent or the Trust at any time or times but, except when necessary or appropriate to comply with applicable law or the rules or policies of the Commission or any other regulatory authority, only by mailing to the Shareholders appropriate written notice at least 90 days before the effective date of the change. All correspondence concerning the Plan should be directed to the Plan Agent, EquiServe Trust Company at P.O. Box 43010, Providence, RI 02940-3010. Shareholders may also contact the Plan Agent toll-free by telephone at (800) 426-5523.

## **TAXATION**

The following discussion is based upon the advice of Dechert LLP, counsel for the Trust, and is a general summary of the principal U.S. federal income tax considerations regarding an investment in the Trust. The discussion is based on laws, regulations, rulings and decisions currently in effect, all of which are subject to change (possibly with retroactive effect) or different interpretations. The discussion below does not purport to deal with all of the federal income tax consequences applicable to the Trust, or to all categories of investors, some of which may be subject to special rules. Each prospective shareholder is urged to consult with his or her own tax adviser with respect to the specific federal, state, local, foreign and other tax consequences of investing in Shares of the Trust.

### **Taxation of the Trust**

The Trust intends to qualify and elect to be treated each taxable year as a regulated investment company (“RIC”) under the Code. The principal federal income tax benefits of qualifying as a RIC, as compared to an ordinary taxable corporation, are that a RIC generally is not itself subject to federal income tax on ordinary investment income and net capital gains that are currently distributed to its shareholders, and that the character of long-term capital gains which are recognized and properly designated by a RIC flows through to its shareholders, who receive (or are deemed to receive) distributions of such income. However, the Trust would be subject to corporate income tax (currently at a maximum marginal rate of 35%) on any undistributed income.

### **Distributions**

Dividends paid from investment company taxable income generally will be taxable to shareholders as ordinary income whether paid in cash or reinvested in the Trust’s Shares. The Trust intends to distribute to its shareholders substantially all of its investment company taxable income, if any, for each year. It is anticipated that the Trust’s income distributions will be paid annually in additional Shares unless the shareholder elects payment in cash.

A portion of the dividends paid by the Trust may be treated as “qualified dividend income” which is taxable to individuals at the same rates that are applicable to long-term capital gains. A Trust distribution is treated as qualified dividend income to the extent that the Trust receives dividend income from taxable domestic corporations and certain qualified foreign corporations, provided that certain holding period and other requirements are met. Trust distributions generally will not qualify as

qualified dividend income to the extent attributable to interest, capital gains, REIT distributions and, in many cases, distributions from non-U.S. corporations.

If a portion of the Trust's income consists of dividends paid by U.S. corporations, a portion of the dividends paid by the Trust may be eligible for the corporate dividends-received deduction.

Distributions of the excess, if any, of net long-term capital gains over net short-term capital losses designated by the Trust as capital gain dividends will be taxable to shareholders as long-term capital gains, whether paid in cash or reinvested in the Trust's Shares, regardless of how long the shareholders have held the Trust's Shares, and will not be eligible for the dividends received deduction for corporations.

Each year, Shareholders will be notified as to the amount and federal tax status of all dividends and capital gains paid during the prior year. Such dividends and capital gains may also be subject to state or local taxes. Dividends declared in October, November, or December with a record date in such month and paid during the following January will be treated as having been paid by the Trust and received by Shareholders on December 31 of the calendar year in which declared, rather than the calendar year in which the dividends are actually received.

Gain or loss realized upon the sale or exchange of Shares will be a capital gain or loss if the Shares are capital assets in the Shareholder's hands and generally will be long-term or short-term, depending upon the Shareholder's holding period for the Shares. You should be aware that any loss realized upon the sale or exchange of Shares held for six months or less will be treated as a long-term capital loss to the extent of any distributions or deemed distributions of long-term capital gain to the Shareholder with respect to such Shares. In addition, any loss realized on a sale or exchange of Shares will be disallowed to the extent the Shares disposed of are replaced within a period of 61 days beginning 30 days before and ending 30 days after the Shares are disposed of, such as pursuant to the Plan. In such case, the basis of Shares acquired will be adjusted to reflect the disallowed loss.

If a Shareholder has not furnished a certified correct taxpayer identification number (generally a Social Security number) and has not certified that withholding does not apply, or if the Internal Revenue Service has notified the Trust that the taxpayer identification number listed on the account is incorrect according to their records or that the Shareholder is subject to backup withholding, federal law generally requires the Trust to withhold 28% from any dividends and/or redemptions (including exchange redemptions). Amounts withheld are applied to federal tax liability; a refund may be obtained from the Service if withholding results in overpayment of taxes. Federal law also requires the Trust to withhold up to 30% or the applicable tax treaty rate from ordinary dividends paid to certain nonresident alien and other non-U.S. shareholder accounts.

This is a brief summary of some of the tax laws that affect an investment in the Trust. Moreover, the foregoing does not address the many factors that may determine whether an investor will be liable for the federal alternative minimum tax. Please see the SAI and a tax adviser for further information.

#### **CUSTODIAN AND TRANSFER AGENT, DIVIDEND DISBURSING AGENT, REGISTRAR, AND SUBSCRIPTION AGENT**

The Trust's securities and cash are held under a custodian contract by State Street Bank and Trust Company (the "Custodian"), whose principal business address is 225 Franklin Street, Boston, MA 02110. The Custodian also performs certain accounting related functions for the Trust, including calculation of NAV and net income.

EquiServe, Inc. serves as Dividend Disbursing Agent. EquiServe Trust Company, a fully owned subsidiary of EquiServe, Inc., serves as (1) the Plan Agent for the Trust's Dividend Reinvestment Plan, (2) the Transfer Agent and Registrar for Shares of the Trust and (3) the Subscription Agent in

connection with the Offer. EquiServe, Inc. and EquiServe Trust Company have their principal business at 150 Royall Street, Canton, MA 02021.

### **LEGAL MATTERS**

The validity of the Shares offered hereby will be passed on for the Trust by Dechert LLP, 200 Clarendon Street, 27<sup>th</sup> Floor, Boston, Massachusetts 02116-5021.

### **EXPERTS**

PricewaterhouseCoopers LLP (“PwC”) had been selected as the independent accountants of the Trust for its fiscal year ending September 30, 2004. On May 7, 2004, PwC resigned as the Trust’s independent accountants for its fiscal year ending September 30, 2004 effective upon the completion of services related to the Trust’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 the date of this registration statement, there have been no disagreements between PwC and the Trust 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 Trust is currently seeking to retain new independent auditors for its fiscal year ending September 30, 2004. The audited financial statements of the Trust and certain of the information appearing under the caption “Financial Highlights” included in this Prospectus for fiscal years ended September 30, 2003, September 30, 2002 and September 30, 2001 have been audited by PwC and are included in reliance upon such reports and upon the authority of such firms as experts in accounting and auditing.

The audited financial statements of the Trust and certain of the information appearing under the caption “Financial Highlights” included in this Prospectus for fiscal years through September 30, 2000 have been audited by Arthur Andersen LLP, the Trust’s previous independent accountants. Arthur Andersen LLP’s reports expressed an unqualified opinion on those financial statements and financial highlights. Arthur Andersen LLP ceased operations in 2002.

### **REPORTS TO SHAREHOLDERS**

The Trust will send unaudited semiannual reports and audited annual reports, including a list of investments held, to shareholders. The Trust has in the past also issued more abbreviated interim reports to Shareholders on a quarterly basis.

### **ADDITIONAL INFORMATION**

The Trust is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and the Investment Company Act and in accordance therewith is required to file reports, proxy statements and other information with the Commission. Any such reports, proxy statements and other information filed by the Trust can be inspected and copied (at prescribed rates) at the public reference facilities of the Commission, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. The Trust’s Shares are listed on the NYSE. Reports, proxy statements and other information concerning the Trust can also be inspected and copied at the Library of the NYSE, 20 Broad Street, New York, NY 10005.

This Prospectus constitutes a part of a registration statement on Form N-2 (together with the SAI and all the exhibits and appendices thereto, the “Registration Statement”) filed by the Trust with the Commission under the Securities Act and the Investment Company Act. This Prospectus and the SAI

do not contain all of the information set forth in the Registration Statement. Reference is hereby made to the Registration Statement and related exhibits for further information with respect to the Trust and the Shares offered hereby. Statements contained herein concerning the provisions of documents are necessarily summaries of such documents, and each statement is qualified in its entirety by reference to the copy of the applicable document filed with the Commission.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this Prospectus constitute forward-looking statements, which involve known and unknown risks, uncertainties and other factors that may cause the actual results, levels of activity, performance or achievements of the Trust to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, those listed under “Risks” and elsewhere in this Prospectus. As a result of the foregoing and other factors, no assurance can be given as to the future results, levels of activity or achievements, and neither the Trust nor any other person assumes responsibility for the accuracy and completeness of such statements. To the extent required by law, the Trust undertakes to supplement this Prospectus to reflect any material changes to the Trust after the date of this Prospectus.

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## **Report of Independent Registered Public Accounting Firm**

*To the Trustees and Shareholders of H&Q Healthcare Investors:*

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, of changes in net assets and of cash flows and the financial highlights present fairly, in all material respects, the financial position of H&Q Healthcare Investors (the “Fund”) at September 30, 2003, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the three years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at September 30, 2003 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

The financial statements of the Fund as of September 30, 2000 and for the two years then ended were audited by other independent accountants whose report dated November 3, 2000 expressed an unqualified opinion on those statements.

PricewaterhouseCoopers LLP  
Boston, Massachusetts  
November 25, 2003

### **FINANCIAL STATEMENTS**

The following are the financial statements and related notes from the Trust’s September 30, 2003 Annual Report to Shareholders, including the Schedule of Investments, the Statement of Assets and Liabilities, the Statement of Operations, the Statement of Changes in Net Assets, the Statement of Cash Flows and the five year Financial Highlights. It is expected that the unaudited financial statements included in the Trust’s Semi-Annual Report to Shareholders for the six months ended March 31, 2004 will be mailed to Shareholders and available on the Trust’s website ([www.hqcm.com](http://www.hqcm.com)) on or around June 1, 2004.

**H&Q HEALTHCARE INVESTORS**  
**SCHEDULE OF INVESTMENTS**  
**SEPTEMBER 30, 2003**

| <u>Shares</u> |   | <u>Value</u> |
|---------------|---|--------------|
|               | <b>Convertible Securities—21.8% of Net Assets</b> |              |
|               | <b>Convertible Preferred (Restricted)—21.7%</b>   |              |
|               | <b>Drug Discovery Technologies—7.2%</b>           |              |
| 2,380,953     | Agilix Series B* . . . . .                        | \$ 1,500,001 |
| 850,436       | Avalon Pharmaceuticals Series B* . . . . .        | 2,999,964    |
| 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* ^ . . . . .          | 1,750,000    |
| 525,000       | Triad Therapeutics Series B* ^ . . . . .          | 525,000      |
| 1,200,000     | Triad Therapeutics Series C* ^ . . . . .          | 1,200,000    |
| 923,077       | Zyomyx Series B* . . . . .                        | 923,077      |
| 600,000       | Zyomyx Series C* . . . . .                        | 600,000      |
| 600,000       | Zyomyx Series E* . . . . .                        | 600,000      |
|               | <b>Emerging Biopharmaceuticals—4.8%</b>           |              |
| 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          |
|               | <b>Healthcare Services—3.8%</b>                   |              |
| 1,577,144     | CardioNet Series C* ^ . . . . .                   | 5,520,004    |
| 484,829       | CytoLogix Series A* ^ . . . . .                   | 399,984      |
| 227,130       | CytoLogix Series B*# ^ . . . . .                  | 187,382      |
| 5,384,615     | PHT Series D* ^ . . . . .                         | 4,200,000    |
| 743,282       | PHT Series E* ^ . . . . .                         | 579,760      |
|               | <b>Medical Devices and Diagnostics—5.9%</b>       |              |
| 636,364       | AbTox Series F*+ . . . . .                        | 6,364        |
| 4,852,940     | Concentric Medical Series B* ^ . . . . .          | 3,299,999    |
| 222,222       | EPR Series A* . . . . .                           | 2,222        |
| 343,750       | LocalMed Series D* . . . . .                      | 3,437        |
| 160,000       | Masimo Series D* . . . . .                        | 1,760,000    |

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

**H&Q HEALTHCARE INVESTORS  
SCHEDULE OF INVESTMENTS  
SEPTEMBER 30, 2003**

| <u>Shares</u> |   | <u>Value</u>         |
|---------------|---|----------------------|
| 631,580       | Novacept Series G*#                       | \$ 2,178,951         |
| 347,826       | Novacept Series H*                        | 1,200,000            |
| 1,632,653     | OmniSonic Medical Technologies Series B*^ | 2,180,898            |
| 639,659       | Songbird Hearing Series D*                | 6,397                |
| 652,173       | TherOx Series H*                          | 1,976,084            |
| 820,313       | VNUS Medical Technologies Series E*       | 4,200,003            |
|               |   | <u>\$ 62,145,033</u> |

**Principal  
Amount**

|            |  |                      |
|------------|--|----------------------|
|            | <b>Convertible Bonds and Notes (Restricted)—0.1%</b> |                      |
|            | <b>Healthcare Services—0.1%</b>                      |                      |
| \$ 168,337 | CytoLogix 6.75% Cvt. Note, due 2003^                 | \$ 168,337           |
| 1,577,366  | FitForAll.com 10% Prom. Note*+                       | 158                  |
| 96,605     | PHT Bridge Loan, due 2004*^                          | 96,605               |
|            | <b>Medical Devices and Diagnostics—0.0%</b>          |                      |
| 180,000    | AbTox 12% Prom. Note*+                               | 84,000               |
|            |  | <u>\$ 349,100</u>    |
|            | <b>Total Convertible Securities</b>                  |                      |
|            | <b>(Cost \$86,203,104)</b>                           | <u>\$ 62,494,133</u> |

**Shares**

|         |                                   | <u>Value</u>      |
|---------|-----------------------------------|-------------------|
|         | <b>Common Stocks—64.9%</b>        |                   |
|         | <b>Biopharmaceuticals—28.4%</b>   |                   |
| 81,000  | Amgen*                            | \$ 5,230,170      |
| 101,848 | Biopure Class A*                  | 658,956           |
| 204,900 | Celgene*                          | 8,878,317         |
| 441,471 | Corixa*                           | 3,514,109         |
| 33,164  | Corixa Warrants (expire 8/14/07)* | 60,690            |
| 803,657 | Cubist Pharmaceuticals*           | 8,671,459         |
| 312,823 | CV Therapeutics*                  | 6,882,106         |
| 308,400 | Enzon Pharmaceuticals*            | 3,589,776         |
| 120,000 | Genzyme*                          | 5,550,000         |
| 213,000 | Gilead Sciences*                  | 11,913,090        |
| 279,000 | MedImmune*                        | 9,209,790         |
| 93,100  | Neurocrine Biosciences*           | 4,610,312         |
| 267,000 | Pfizer                            | 8,111,460         |
| 180,000 | Pozen*                            | 3,200,400         |
| 113,700 | Vertex Pharmaceuticals*           | 1,398,510         |
|         |                                   | <u>81,479,145</u> |

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

**H&Q HEALTHCARE INVESTORS**  
**SCHEDULE OF INVESTMENTS**  
**SEPTEMBER 30, 2003**

| <u>Shares</u>                            |  | <u>Value</u>     |
|--|--|------------------|
| <b>Drug Delivery—3.4%</b>                |  |                  |
| 225,000                                  | Aradigm*   | \$ 402,750       |
| 833,333                                  | DepoMed*   | 5,291,664        |
| 291,667                                  | DepoMed Warrants (expire 4/21/08)*                     | 1,222,085        |
| 532,580                                  | Durect*  | 1,789,469        |
| 338,892                                  | Sontra Medical* ^                                      | 518,505          |
| 346,729                                  | Sontra Medical (Restricted)* ^                         | 424,396          |
|  |  | <hr/> 9,648,869  |
| <b>Drug Discovery Technologies—2.7%</b>  |  |                  |
| 933,000                                  | deCODE Genetics*                                       | 4,394,430        |
| 507,200                                  | Lexicon Genetics*                                      | 2,617,152        |
| 170,142                                  | Lynx Therapeutics*                                     | 867,724          |
| 386,400                                  | Lynx Therapeutics Warrants (expire 4/29/07)*           | 0                |
|  |  | <hr/> 7,879,306  |
| <b>Emerging Biopharmaceuticals—13.4%</b> |  |                  |
| 311,300                                  | Adolor*  | 5,712,355        |
| 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)*  | 69               |
| 387,802                                  | Dyax*  | 2,381,104        |
| 243,100                                  | Encysive Pharmaceuticals*                              | 1,533,961        |
| 732,600                                  | Exelixis*  | 5,230,764        |
| 457,600                                  | Kosan Biosciences*                                     | 3,642,496        |
| 99,314                                   | Rigel Pharmaceuticals*                                 | 1,430,122        |
| 410,237                                  | Telik*   | 8,225,252        |
| 33,332                                   | Therion Biologics (Restricted) C-2 Units*#             | 59,998           |
| 226,760                                  | Therion Biologics (Restricted)*                        | 2,268            |
| 270,270                                  | Tularik*   | 2,664,862        |
| 418,165                                  | Vicuron Pharmaceuticals*                               | 7,401,520        |
| 14,947                                   | Vicuron Pharmaceuticals Warrants (expire 8/25/05)*     | 176,492          |
|  |  | <hr/> 38,461,263 |
| <b>Generic Pharmaceuticals—7.5%</b>      |  |                  |
| 135,000                                  | aaiPharma*   | 2,309,850        |
| 705,770                                  | Impax Laboratories*                                    | 8,829,183        |
| 43,934                                   | Impax Laboratories Warrants (expire 6/30/05)*          | 263,035          |
| 326,600                                  | IVAX*  | 6,401,360        |
| 62,100                                   | Teva Pharmaceutical Industries ADR                     | 3,549,015        |
|  |  | <hr/> 21,352,443 |

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

**H&Q HEALTHCARE INVESTORS**  
**SCHEDULE OF INVESTMENTS**  
**SEPTEMBER 30, 2003**

| Shares   | Value                |
|--|----------------------|
| <b>Healthcare Services—2.3%</b>  |                      |
| 85,200 Charles River Labs* . . . . .   | \$ 2,614,788         |
| 454,500 WebMD* . . . . .   | 4,054,140            |
| 306,208 Syntiro Healthcare Services (Restricted)* . . . . .                            | 3,062                |
| 188,096 Syntiro Healthcare Services (Restricted) Warrants (expire 10/15/04)* . . . . . | 0                    |
|  | 6,671,990            |
| <b>Medical Devices and Diagnostics—7.2%</b>  |                      |
| 522,617 Biofield* . . . . .  | 99,297               |
| 600,000 Biofield (Restricted)* . . . . .   | 96,000               |
| 1,000,000 Endocardial Solutions* ^ . . . . .   | 5,000,000            |
| 645,000 EP MedSystems* . . . . .   | 2,560,650            |
| 209,000 IDEXX Laboratories* . . . . .  | 8,880,410            |
| 160,000 Masimo Labs (Restricted)* . . . . .  | 1,600                |
| 1,020,000 Orthovita* ^ . . . . .   | 3,978,000            |
|  | 20,615,957           |
| <b>Total Common Stocks</b>   |                      |
| <b>(Cost \$120,121,144)</b> . . . . .  | <b>\$186,108,973</b> |
| <br>   |                      |
| <b>Principal Amount</b>  |                      |
| <b>Temporary Cash Investments—14.2%</b>  |                      |
| \$14,500,000 American Express Credit Corp.; 1.03%, due 10/10/03 . . . . .              | \$ 14,496,266        |
| 7,800,000 Exxon Proj. Yrs. 3 & 4; 0.97%, due 10/17/03 . . . . .                        | 7,796,637            |
| 1,300,000 General Electric Capital Corp.; 1.03% due 10/1/03 . . . . .                  | 1,300,000            |
| 3,100,000 General Electric Capital Corp.; 1.03% due 10/15/03 . . . . .                 | 3,098,758            |
| 14,000,000 U.S. Treasury Bill; 0.75%, due 10/23/03 . . . . .                           | 13,993,583           |
|  | \$ 40,685,244        |
| <b>Total Temporary Cash Investments</b>  |                      |
| <b>(Cost \$40,685,244)</b> . . . . .   | <b>\$ 40,685,244</b> |
| <b>Total Investments</b>   |                      |
| <b>(Cost \$247,009,492)</b> . . . . .  | <b>\$289,288,350</b> |

\* 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 \$41,069,564).

+ Issuer filed for bankruptcy.

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

**H&Q HEALTHCARE INVESTORS**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**SEPTEMBER 30, 2003**

|  |                             |
|--|-----------------------------|
| <b>ASSETS:</b>   |                             |
| Investments, at value (identified cost \$247,009,492; see Schedule of Investments) . . . .   | \$289,288,350               |
| Cash . . . . .   | 1,998,971                   |
| Receivable for investments sold . . . . .  | 60,000                      |
| Interest receivable . . . . .  | 54,750                      |
| Prepaid expenses . . . . .   | 51,219                      |
| Total assets . . . . .   | <u>\$291,453,290</u>        |
| <b>LIABILITIES:</b>  |                             |
| Payable for investments purchased . . . . .  | \$ 4,217,837                |
| Accrued advisory fee . . . . .   | 325,731                     |
| Accrued audit fee . . . . .  | 68,525                      |
| Accrued other . . . . .  | 86,343                      |
| Total liabilities . . . . .  | <u>\$ 4,698,436</u>         |
| <b>NET ASSETS</b> . . . . .  | <u><u>\$286,754,854</u></u> |
| <b>SOURCES OF NET ASSETS:</b>  |                             |
| Shares of beneficial interest, par value \$.01 per share, unlimited number of shares<br>authorized, amount paid in on 14,608,952 shares issued and outstanding . . . . . | \$235,148,591               |
| Accumulated net realized gain on investments . . . . .   | 9,327,405                   |
| Net unrealized gain on investments . . . . .   | <u>42,278,858</u>           |
| Total net assets (equivalent to \$19.63 per share based on 14,608,952 shares<br>outstanding) . . . . .   | <u><u>\$286,754,854</u></u> |

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

**H&Q HEALTHCARE INVESTORS**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2003**

|  |                      |
|--|----------------------|
| <b>INVESTMENT INCOME:</b>                                      |                      |
| Dividend income (net of foreign tax of \$1,366) . . . . .      | \$ 45,869            |
| Interest income . . . . .                                      | 937,637              |
| Total investment income . . . . .                              | <u>\$ 983,506</u>    |
| <b>EXPENSES:</b>   |                      |
| Advisory fees . . . . .  | \$ 3,503,127         |
| Trustees' fees and expenses . . . . .                          | 136,980              |
| Legal fees . . . . .   | 121,806              |
| Shareholder reporting . . . . .                                | 116,680              |
| Accounting and auditing fees . . . . .                         | 92,435               |
| Custodian fees . . . . .                                       | 73,725               |
| Transfer agent fees . . . . .                                  | 59,289               |
| Stock exchange listing fee . . . . .                           | 40,312               |
| Other . . . . .  | 83,239               |
| Total expenses . . . . .                                       | <u>4,227,593</u>     |
| Net investment loss . . . . .                                  | <u>\$(3,244,087)</u> |
| <b>NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b> |                      |
| Net realized gain on investments . . . . .                     | \$26,376,623         |
| Increase in net unrealized gain on investments . . . . .       | 31,417,229           |
| Net gain on investments . . . . .                              | <u>\$57,793,852</u>  |
| Net increase in net assets resulting from operations . . . . . | <u>\$54,549,765</u>  |

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

**H&Q HEALTHCARE INVESTORS**  
**STATEMENTS OF CHANGES IN NET ASSETS**

|  | <b>FOR THE YEAR ENDED</b>           |                                     |
|--|-------------------------------------|-------------------------------------|
|  | <u>SEPTEMBER 30,</u><br><u>2003</u> | <u>SEPTEMBER 30,</u><br><u>2002</u> |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS:   |                                     |                                     |
| Net investment loss . . . . .  | \$ (3,244,087)                      | \$ (3,593,224)                      |
| Net realized gain on investments . . . . .   | 26,376,623                          | 33,875,011                          |
| Increase (decrease) in net unrealized gain on investments . . . . .  | <u>31,417,229</u>                   | <u>(106,220,050)</u>                |
| Net increase (decrease) in net assets resulting from operations . .  | <u>\$ 54,549,765</u>                | <u>\$ (75,938,263)</u>              |
| DISTRIBUTIONS TO SHAREHOLDERS FROM:  |                                     |                                     |
| Net realized capital gains . . . . .   | <u>\$(29,863,899)</u>               | <u>\$ (39,468,231)</u>              |
| CAPITAL SHARE TRANSACTIONS:  |                                     |                                     |
| Value of shares issued in reinvestment of distributions (1,285,469 and 1,281,419 shares, respectively) . . . . . | <u>\$ 20,063,210</u>                | <u>\$ 28,039,066</u>                |
| Net increase (decrease) in net assets . . . . .  | <u>\$ 44,749,076</u>                | <u>\$ (87,367,428)</u>              |
| NET ASSETS:  |                                     |                                     |
| Beginning of year . . . . .  | <u>242,005,778</u>                  | <u>329,373,206</u>                  |
| End of year . . . . .  | <u><u>\$286,754,854</u></u>         | <u><u>\$ 242,005,778</u></u>        |

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

**H&Q HEALTHCARE INVESTORS**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2003**

|  |                              |
|--|------------------------------|
| <b>CASH FLOWS USED FOR OPERATING ACTIVITIES:</b>   |                              |
| Interest and other income received . . . . .   | \$ 872,218                   |
| Dividends received . . . . .   | 45,869                       |
| Operating expenses paid . . . . .  | <u>(4,236,900)</u>           |
| Net cash used for operating activities . . . . .   | <u>\$ (3,318,813)</u>        |
| <b>CASH FLOWS PROVIDED FROM INVESTING ACTIVITIES:</b>  |                              |
| Purchases of portfolio securities . . . . .  | \$(66,416,016)               |
| Net sales of temporary cash investments . . . . .  | 6,989,549                    |
| Sales and maturities of portfolio securities . . . . .   | 74,502,121                   |
| Net cash provided from investing activities . . . . .  | <u>\$ 15,075,654</u>         |
| <b>CASH FLOWS USED FOR FINANCING ACTIVITIES:</b>   |                              |
| Cash distributions paid, net . . . . .   | <u>\$ (9,800,689)</u>        |
| Net cash used for financing activities . . . . .   | <u>\$ (9,800,689)</u>        |
| NET DECREASE IN CASH . . . . .   | \$ 1,956,152                 |
| CASH AT BEGINNING OF YEAR . . . . .  | <u>42,819</u>                |
| CASH AT END OF YEAR . . . . .  | <u><u>\$ 1,998,971</u></u>   |
| <b>RECONCILIATION OF NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH USED FOR OPERATING ACTIVITIES:</b> |                              |
| Net increase in net assets resulting from operations . . . . .   | \$ 54,549,765                |
| Accretion of discount . . . . .  | (77,536)                     |
| Net realized gain on investments . . . . .   | (26,376,623)                 |
| Increase in net unrealized gain on investments . . . . .   | (31,417,229)                 |
| Decrease in dividends and interest receivable . . . . .  | 12,117                       |
| Increase in accrued expenses . . . . .   | 12,497                       |
| Increase in prepaid expenses . . . . .   | <u>(21,804)</u>              |
| Net cash used for operating activities . . . . .   | <u><u>\$ (3,318,813)</u></u> |

Noncash financing activities not included herein consist of stock distributions of \$20,063,210.

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

**H&Q HEALTHCARE INVESTORS**  
**FINANCIAL HIGHLIGHTS**  
**(SELECTED DATA FOR EACH SHARE OF BENEFICIAL INTEREST OUTSTANDING**  
**THROUGHOUT THE PERIOD INDICATED)**

|  | FOR THE YEAR ENDED SEPTEMBER 30, |                  |                  |                  |                  |
|--|----------------------------------|------------------|------------------|------------------|------------------|
|  | 2003                             | 2002(1)          | 2001             | 2000             | 1999             |
| Net asset value per share:   |                                  |                  |                  |                  |                  |
| Beginning of year . . . . .  | \$ 18.160                        | \$ 27.350        | \$ 46.147        | \$ 21.771        | \$ 16.711        |
| Net investment loss . . . . .  | \$ (0.231)(2)                    | \$ (0.283)(2)    | \$ (0.195)(2)    | \$ (0.290)       | \$ (0.176)       |
| Net realized and unrealized<br>gain (loss) on investments            | 3.871                            | (5.727)          | (13.822)         | 28.131           | 5.596            |
| Total increase (decrease)<br>from investment<br>operations . . . . . | \$ 3.640                         | \$ (6.010)       | \$ (14.017)      | \$ 27.841        | \$ 5.420         |
| Capital gains distributions to<br>shareholders . . . . .             | \$ (2.170)                       | \$ (3.180)       | \$ (4.780)       | \$ (3.465)       | \$ (0.360)       |
| Net asset value per share:   |                                  |                  |                  |                  |                  |
| End of year . . . . .  | <u>\$ 19.630</u>                 | <u>\$ 18.160</u> | <u>\$ 27.350</u> | <u>\$ 46.147</u> | <u>\$ 21.771</u> |
| Per share market value:  |                                  |                  |                  |                  |                  |
| End of year . . . . .  | \$ 17.66                         | \$ 14.10         | \$ 21.74         | \$ 36.19         | \$ 16.31         |
| Total investment return at<br>market value . . . . .                 | 43.49%                           | (25.24)%         | (27.23)%         | 151.66%          | 27.39%           |
| <b>RATIOS AND SUPPLEMENTAL DATA:</b>                                 |                                  |                  |                  |                  |                  |
| Net assets at end of year . . .                                      | \$286,754,854                    | \$242,005,778    | \$329,373,206    | \$485,582,570    | \$209,519,627    |
| Ratio of operating expenses<br>to average net assets . . . .         | 1.65%                            | 1.64%            | 1.42%            | 1.45%            | 1.46%            |
| Ratio of net investment loss<br>to average net assets . . . .        | (1.27%)                          | (1.16%)          | (0.62%)          | (0.86%)          | (0.91%)          |
| Portfolio turnover rate . . . .                                      | 32.80%                           | 17.40%           | 16.17%           | 12.90%           | 24.88%           |
| Number of shares<br>outstanding at end of year                       | 14,608,952                       | 13,323,483       | 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 year ended September 30, 2002 was a decrease in net investment loss per share of \$.009, an increase in net realized and unrealized loss on investments per share of \$.009 and a decrease in the ratio of net investment loss to average net assets from (1.20%) to (1.16%). Per share data and ratios for the periods prior to October 1, 2001 have not been restated to reflect this change in presentation.
- (2) Net investment loss per share has been computed using average shares outstanding.

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

**H&Q HEALTHCARE INVESTORS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2003**

**(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, adjusted for amortization of premiums and accretion of discounts. Dividend income is recorded on the ex-dividend date.

**FEDERAL INCOME TAXES**

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

**DISTRIBUTIONS**

The Fund records all distributions to shareholders from net investment income, if any, and realized gains on the ex-dividend date. Such distributions are determined in conformity with income tax regulations. The Fund has adjusted for the effect of certain permanent book/tax differences, which primarily related to net operating losses, short-term capital gains and market discount for the year ended September 30, 2003. This adjustment has no effect on the Fund's net assets, net investment loss or net realized gain. The calculation of net investment loss per share in the financial highlights excluded this adjustment. At September 30, 2003, the Fund's undistributed net realized gain on a tax basis was the same as accumulated net realized gain on investments.

Pursuant to Section 852 of the Internal Revenue Code, the Fund has designated \$29,863,899 as a long-term capital gain distribution for its taxable year ended September 30, 2003.

**H&Q HEALTHCARE INVESTORS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**SEPTEMBER 30, 2003**

**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 September 30, 2003.

**(2) SECURITIES TRANSACTIONS**

The aggregate cost of purchases and proceeds from sales of investment securities (other than temporary cash investments) for the year ended September 30, 2003 totaled \$70,633,853 and \$72,888,497, respectively. At September 30, 2003, the total cost of securities for Federal income tax purposes was \$247,009,492. The net unrealized gain on securities held by the Fund was \$42,278,858, including gross unrealized gain of \$86,279,493 and gross unrealized loss of \$44,000,635.

At September 30, 2003, the Fund was committed to participate in a round of financing to purchase additional shares of restricted preferred stock for approximately \$122,000. The Fund expects to satisfy this commitment in part through the conversion of a loan.

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

The Fund has entered into an Investment Advisory Agreement (the Advisory Agreement) with Hambrecht & Quist Capital Management LLC (the Adviser). Pursuant to the terms of the Advisory Agreement, the Fund pays the Adviser a monthly fee at the rate when annualized of (i) 2.5% of the average net assets for the month of its venture capital and other restricted securities up to 25% of net assets and (ii) for the month, for all other assets, 1.0% of the average net assets up to \$250 million, 0.9% of the average net assets for the next \$250 million, 0.8% of the average net assets for the next \$500 million and 0.7% of the average net assets thereafter. The aggregate fee may not exceed a rate when annualized of 1.375%. Certain officers and Trustees of the Fund are also officers of the Adviser.

Trustees who are not affiliates of the Adviser receive an annual fee of \$15,000 plus \$1,500 for each meeting attended.

**(4) VENTURE CAPITAL AND OTHER RESTRICTED SECURITIES**

The Fund may invest in venture capital and other restricted securities if these securities would currently comprise 40% or less of net assets. The value of these securities represents 22% of the Fund's net assets at September 30, 2003.

**H&Q HEALTHCARE INVESTORS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**SEPTEMBER 30, 2003**

The value of the venture capital and other restricted securities is determined in good faith by the Trustees. However, because of the inherent uncertainty of valuations, these estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

During the year ended September 30, 2003, the Fund sold restricted securities for cash and a proportionate interest in a 5% interest-bearing promissory note due October 31, 2004. The Fund's interest in the note has a par value of \$121,200 whose estimated value of \$60,000 at September 30, 2003 has also been determined by the Trustees and which is included in the Receivable for Investments Sold in the Statement of Assets and Liabilities. The following table details the acquisition date, cost, carrying value per unit, and value of the Fund's venture capital and other restricted securities at September 30, 2003, as determined by the Trustees of the Fund.

| <u>SECURITY</u>                    | <u>ACQUISITION<br/>DATE</u> | <u>COST</u>  | <u>CARRYING VALUE<br/>PER UNIT</u> | <u>VALUE</u> |
|------------------------------------|-----------------------------|--------------|------------------------------------|--------------|
| AbTox                              |                             |              |                                    |              |
| Series F Cvt. Pfd. . . . .         | 3/7/97                      | \$ 1,485,126 | \$0.010                            | \$ 6,364     |
| 12% Promissory Note . . . . .      | 2/26/98-3/26/98             | 180,000      | 0.467                              | 84,000       |
| ACADIA Pharmaceuticals             |                             |              |                                    |              |
| Series E Cvt. Pfd. . . . .         | 5/2/00-3/24/03              | 3,000,594    | 2.700                              | 1,225,336    |
| Series F Cvt. Pfd. . . . .         | 3/19/03                     | 750,363      | 2.700                              | 750,001      |
| Agensys                            |                             |              |                                    |              |
| Series C Cvt. Pfd. . . . .         | 2/14/02                     | 3,005,073    | 3.150                              | 3,000,000    |
| Agilix                             |                             |              |                                    |              |
| Series B Cvt. Pfd. . . . .         | 11/8/01                     | 3,014,260    | 0.630                              | 1,500,001    |
| Avalon Pharmaceuticals             |                             |              |                                    |              |
| Series B Cvt. Pfd. . . . .         | 10/22/01                    | 3,008,325    | 3.528                              | 2,999,964    |
| Biofield                           |                             |              |                                    |              |
| Common . . . . .                   | 12/15/00                    | 302,984      | 0.160                              | 96,000       |
| BioTransplant                      |                             |              |                                    |              |
| Common Warrants (expire 8/12/04) . | 8/12/94                     | 0            | 0.000                              | 0            |
| Common Warrants (expire            |                             |              |                                    |              |
| 10/31/04) . . . . .                | 10/31/94                    | 0            | 0.000                              | 0            |
| Common Warrants (expire 8/15/05) . | 8/18/95                     | 0            | 0.060                              | 69           |
| CardioNet ^                        |                             |              |                                    |              |
| Series C Cvt. Pfd. . . . .         | 5/3/01-3/25/03              | 5,546,931    | 3.500                              | 5,520,004    |
| Ceres                              |                             |              |                                    |              |
| Series C Cvt. Pfd. . . . .         | 12/23/98                    | 1,502,620    | 6.000                              | 2,250,000    |
| Series C-1 Cvt. Pfd.* . . . . .    | 1/4/01                      | 111,488      | 6.000                              | 164,658      |
| Series D Cvt. Pfd.* . . . . .      | 3/14/01                     | 1,668,122    | 6.000                              | 1,667,802    |
| Concentric Medical                 |                             |              |                                    |              |
| Series B Cvt. Pfd. . . . .         | 5/7/02-1/24/03              | 3,328,055    | 0.680                              | 3,299,999    |
| CytoLogix ^                        |                             |              |                                    |              |
| Series A Cvt. Pfd. . . . .         | 1/13/98-7/21/99             | 2,332,441    | 0.825                              | 399,984      |
| Series B Cvt. Pfd.* . . . . .      | 1/11/01                     | 1,153,658    | 0.825                              | 187,382      |
| Cvt. Note . . . . .                | 5/29/02                     | 168,337      | 1.000                              | 168,337      |

**H&Q HEALTHCARE INVESTORS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**SEPTEMBER 30, 2003**

| <u>SECURITY</u>                   | <u>ACQUISITION<br/>DATE</u> | <u>COST</u>  | <u>CARRYING VALUE<br/>PER UNIT</u> | <u>VALUE</u> |
|-----------------------------------|-----------------------------|--------------|------------------------------------|--------------|
| EPR                               |                             |              |                                    |              |
| Series A Cvt. Pfd. ....           | 3/9/94                      | \$ 1,000,409 | \$0.010                            | \$ 2,222     |
| FitForAll.com                     |                             |              |                                    |              |
| 10% Promissory Note* .....        | 2/22/00-9/18/00             | 1,613,493    | 0.000                              | 158          |
| Galileo Laboratories              |                             |              |                                    |              |
| Series F Cvt. Pfd. ....           | 8/18/00                     | 3,002,682    | 3.500                              | 489,555      |
| Idun Pharmaceuticals              |                             |              |                                    |              |
| Series A-1 Cvt. Pfd. ....         | 11/26/02                    | 3,001,966    | 2.474                              | 3,000,000    |
| LocalMed                          |                             |              |                                    |              |
| Series D Cvt. Pfd. ....           | 2/9/96                      | 1,376,970    | 0.010                              | 3,437        |
| Masimo                            |                             |              |                                    |              |
| Series D Cvt. Pfd. ....           | 8/14/96                     | 1,120,040    | 11.000                             | 1,760,000    |
| Masimo Labs                       |                             |              |                                    |              |
| Common .....                      | 8/14/96                     | 0            | 0.010                              | 1,600        |
| Novacept                          |                             |              |                                    |              |
| Series G Cvt. Pfd.* .....         | 3/27/01                     | 3,001,927    | 3.450                              | 2,178,951    |
| Series H Cvt. Pfd. ....           | 4/25/02                     | 1,200,000    | 3.450                              | 1,200,000    |
| OmniSonics Medical Technologies ^ |                             |              |                                    |              |
| Series B Cvt. Pfd. ....           | 5/24/01                     | 2,404,898    | 1.336                              | 2,180,898    |
| PHT ^                             |                             |              |                                    |              |
| Series D Cvt. Pfd. ....           | 7/23/01                     | 4,202,025    | 0.780                              | 4,200,000    |
| Series E Cvt. Pfd. ....           | 9/12/03                     | 579,760      | 0.780                              | 579,760      |
| Bridge Loan .....                 | 7/15/03                     | 96,605       | 1.000                              | 96,605       |
| Raven biotechnologies ^           |                             |              |                                    |              |
| Series B Cvt. Pfd. ....           | 12/12/00                    | 3,001,725    | 0.830                              | 1,509,091    |
| Series C Cvt. Pfd. ....           | 11/26/02                    | 2,331,600    | 0.830                              | 2,331,600    |
| Senomyx                           |                             |              |                                    |              |
| Series E Cvt. Pfd. ....           | 2/19/02                     | 3,003,903    | 2.900                              | 3,000,002    |
| Songbird Hearing                  |                             |              |                                    |              |
| Series D Cvt. Pfd. ....           | 12/14/00                    | 3,004,861    | 0.010                              | 6,397        |
| Sontra Medical ^                  |                             |              |                                    |              |
| Common .....                      | 9/9/98-6/24/02              | 852,367      | 1.224                              | 424,396      |
| Syntiro Healthcare Services       |                             |              |                                    |              |
| Common .....                      | 2/5/97                      | 1,200,325    | 0.010                              | 3,062        |
| Warrants (expire 10/15/04) .....  | 10/15/98                    | 0            | 0.000                              | 0            |
| Theravance                        |                             |              |                                    |              |
| Series C Cvt. Pfd. ....           | 2/5/99                      | 1,800,123    | 9.000                              | 1,905,885    |
| Series D-1 Cvt. Pfd. ....         | 8/28/00                     | 1,800,900    | 9.000                              | 1,800,000    |

**H&Q HEALTHCARE INVESTORS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**SEPTEMBER 30, 2003**

| <u>SECURITY</u>                | <u>ACQUISITION<br/>DATE</u> | <u>COST</u>         | <u>CARRYING VALUE<br/>PER UNIT</u> | <u>VALUE</u>        |
|--------------------------------|-----------------------------|---------------------|------------------------------------|---------------------|
| Therion Biologics              |                             |                     |                                    |                     |
| C-2 Units* . . . . .           | 8/13/03                     | \$ 59,998           | \$1.800                            | \$ 59,998           |
| Common . . . . .               | 7/12/90-10/16/96            | 511,365             | 0.010                              | 2,268               |
| Series A Cvt. Pfd. . . . .     | 8/20/96-10/16/96            | 444,850             | 1.800                              | 85,333              |
| Series B Cvt. Pfd.* . . . . .  | 2/24/99-6/22/99             | 900,914             | 1.800                              | 432,000             |
| Series C Cvt. Pfd.* . . . . .  | 9/26/01                     | 1,529,348           | 1.800                              | 733,882             |
| Sinking Fund Cvt. Pfd. . . . . | 10/17/94-4/3/96             | 721,291             | 0.010                              | 361                 |
| TherOx                         |                             |                     |                                    |                     |
| Series H Cvt. Pfd. . . . .     | 9/11/00                     | 3,001,873           | 3.030                              | 1,976,084           |
| Triad Therapeutics             |                             |                     |                                    |                     |
| Series A Cvt. Pfd. . . . .     | 6/8/99                      | 1,751,170           | 1.000                              | 1,750,000           |
| Series B Cvt. Pfd. . . . .     | 12/20/00                    | 1,053,135           | 1.000                              | 525,000             |
| Series C Cvt. Pfd. . . . .     | 11/25/02                    | 1,200,000           | 1.000                              | 1,200,000           |
| VNUS Medical Technologies ^    |                             |                     |                                    |                     |
| Series E Cvt. Pfd. . . . .     | 8/20/01                     | 4,200,003           | 5.120                              | 4,200,003           |
| Zyomyx                         |                             |                     |                                    |                     |
| Series B Cvt. Pfd. . . . .     | 2/19/99                     | 1,200,550           | 1.000                              | 923,077             |
| Series C Cvt. Pfd. . . . .     | 3/2/00                      | 1,200,690           | 1.000                              | 600,000             |
| Series E Cvt. Pfd. . . . .     | 7/22/02                     | 1,200,000           | 1.000                              | 600,000             |
|                                |                             | <u>\$89,130,143</u> |                                    | <u>\$63,081,526</u> |

\* With warrants attached.

^ Affiliated issuers.

On November 24, 2003, the Fund upon approval of the Valuation Committee, made a change in the value of its Zyomyx holdings to approximately \$21,000 to reflect the then current fair market value.

No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Prospectus in connection with the offer made by this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Trust or the Trust's Investment Adviser. This Prospectus does not constitute an offer to sell or the solicitation of any offer to buy any security other than the shares of beneficial interest offered by this Prospectus, nor does it constitute an offer to sell or a solicitation of any offer to buy the shares of beneficial interest by anyone in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so, or to any such person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that information contained herein is correct as of any time after the date hereof. However, if any material change occurs while this Prospectus is required by law to be delivered, the Prospectus will be amended or supplemented accordingly.

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**5,036,144 Shares**

**H&Q HEALTHCARE INVESTORS**

**Issuable Upon Exercise of Non-Transferable Rights to Subscribe for Such Shares**

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**PROSPECTUS**

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May 26, 2004