

H&Q HEALTHCARE INVESTORS



Annual Report

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o our Shareholders:

On September 30, 2006, the net asset value (“NAV”) per share of the Fund was \$17.31. During the twelve-month period ended September 30, 2006, total return at net asset value of your Fund was -3.46%. During the most recent six-month period ended September 30, 2006, total return at net asset value of your Fund was -7.93%. The total investment return at market was -1.58% during the twelve-month period ended September 30, 2006 and was -6.73% during the six-month period ended September 30, 2006. Comparisons to relevant indices are listed below:

Investment Returns	Six months Ended 9/30/06	Fiscal Year Ended 9/30/06
Investment Return at Market	-6.73%	-1.58%
Net Asset Value	-7.93%	-3.46%
NASDAQ Biotech Index (NBI)	-10.33%	-3.90%
S&P 500 Index	+4.14%	+10.79%

The fiscal year ended September 30, 2006 has been a volatile one in the biotech and healthcare sectors as evidenced by the behavior of the NASDAQ Biotechnology Index (NBI). During the first five months of the fiscal year this index advanced notably. However, the index declined significantly in the following five months. This decrease was followed by a general upward trend in the index through year end. For the twelve-month period ended September 30, 2006, the index declined 3.9%. The market return of your Fund declined 1.58% during this period while the NAV declined 3.46%. In general, your Fund performed approximately comparable to the NBI index. However, the Fund and the NBI Index trailed the broader S&P Index.

We believe that the volatility of the NBI index (and your Fund’s Stock and NAV performance) resulted from a combination of favorable and unfavorable events in the biotechnology and healthcare sectors. On a macro level, positive factors affecting the biotechnology/healthcare sectors included the appointment of a permanent FDA head and a warm reception to the Medicare Part D (prescription drug) benefit and Medicare Advantage (MA) programs by eligible beneficiaries. The healthcare information technology sub-sector has benefited from the appointment of a healthcare IT “czar.”

Product related developments were among the most encouraging events in the biotechnology sector during the Fund’s fiscal year. Sales growth of key products at Gilead Sciences, Inc. (“Gilead”), Celgene Corp. and Genentech, Inc., three of the sector’s leading companies, were very impressive and were, in our opinion, drivers for the sector. The Fund maintains positions in these companies. Merger and acquisition activity was also an important factor for the Fund. Specifically, Gilead proposed to acquire two companies in which the Fund maintained significant positions. Gilead first acquired Corus Pharma, Inc., one of the Fund’s

venture holdings, in the fourth fiscal quarter and then announced its intention to acquire Myogen, Inc., a holding in HQH's public portfolio, just a few days after the completion of the fiscal year. In November 2006, Gilead completed its acquisition of Myogen, Inc. Merger and acquisition activity has continued as the 2007 fiscal year has commenced.

During the fiscal year, significant positive contributors to return included long term holdings Gilead and IDEXX Laboratories, Inc. as well as several more recent acquisitions including Align Technology, Inc., Medarex, Inc., Noven Pharmaceuticals, Inc. and Nuvelo, Inc. Two negative contributors to return stand out, Nitromed, Inc. and Impax Laboratories, Inc. Nitromed, Inc. developed the first drug ever approved by the FDA for intended use principally in African Americans. Unfortunately, sales of this drug have not met our expectations or those of the investment community. Impax Laboratories, Inc., a manufacturer of differentiated generic products, has what we believe is an interesting pipeline of products, but has been beset with accounting/audit issues and was down sharply for the year.

During the twelve-month period ended September 30, 2006, within the public portfolio, the Fund established positions in several companies including American Medical Systems Holdings, Inc., DJ Orthopedics, Inc., Genentech, Inc., Pfizer, Inc., and United Therapeutics Corp. During the same twelve-month period, the Fund exited its positions in several companies including Affymetrix, Inc., Alkermes, Inc., Millennium Pharmaceuticals, Inc., Nuvelo, Inc., and OSI Pharmaceuticals, Inc.

During the same twelve-month period, within the venture portfolio, the Fund established a position in Cougar Biotechnology, Inc. and made a follow-on investment in Xanthus Life Sciences, Inc. The Fund increased its investment in Ceres, Inc. by participating in a cashless exercise of warrants. The Fund also exited its venture position in Corus Pharma, Inc. when it was acquired by Gilead Sciences, Inc.

We continue to believe that the healthcare sector provides significant opportunity for investment. As the population continues to age, healthcare expenditures increase as patients get older. In addition, increased incidence of diabetes, obesity and other disease continues to demand more therapies in which the Fund should be able to continue to invest.

As always, if you have questions, please feel free to call us at 617-772-8500. Thank you.



Daniel R. Omstead
President

H&Q HEALTHCARE INVESTORS

LARGEST HOLDINGS BY ISSUER

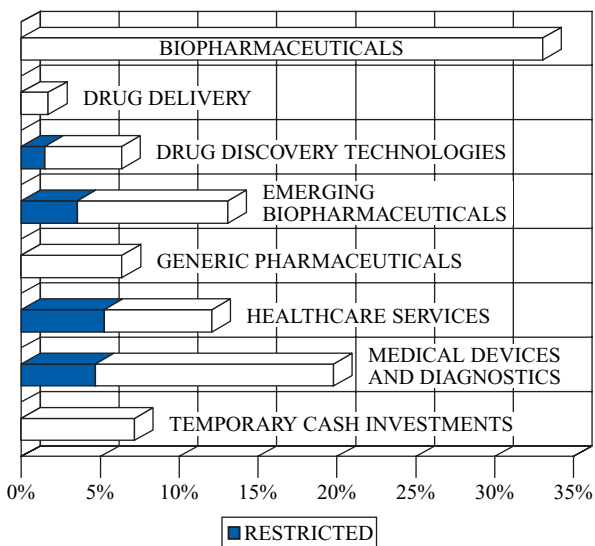
As of September 30, 2006

	<u>% of Net Assets</u>
Gilead Sciences, Inc.	3.37%
Genzyme Corp.	3.05%
Concentric Medical, Inc.	2.65%
Conor Medsystems, Inc.	2.46%
Cubist Pharmaceuticals, Inc.	2.45%
Teva Pharmaceutical Industries, Ltd.	2.41%
Align Technology, Inc.	2.21%
MGI Pharma, Inc.	2.09%
Forest Laboratories, Inc.	2.07%
DJ Orthopedics, Inc.	1.84%

H&Q HEALTHCARE INVESTORS

PORTFOLIO

As of September 30, 2006



H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2006

CONVERTIBLE SECURITIES

AND WARRANTS - 14.2% of Net Assets

SHARES	Convertible Preferred (Restricted) ^(e) - 14.1%	VALUE
<i>Drug Discovery Technologies - 1.5%</i>		
2,380,953	Agilix Corporation Series B ^{(a) (b)}	\$141,809
375,000	Ceres, Inc. Series C ^(a)	2,250,000
32,193	Ceres, Inc. Series C-1 ^(a)	193,158
280,105	Ceres, Inc. Series D ^(a)	1,680,630
324,717	Cougar Biotechnology Inc. Series A ^(a)	1,462,493
1,398,732	Galileo Pharmaceuticals, Inc. Series F-1 ^(a)	140
300,000	Zyomyx, Inc. Series A New ^(a)	30,000
300	Zyomyx, Inc. Series B New ^(a)	30
<i>Emerging Biopharmaceuticals - 3.6%</i>		
1,117,381	Agensys, Inc. Series C ^(a)	3,300,300
1,818,182	Raven biotechnologies, Inc. Series B ^(a)	1,509,091
2,809,157	Raven biotechnologies, Inc. Series C ^(a)	2,331,600
4,083,022	Raven biotechnologies, Inc. Series D ^(a)	1,200,000
2,123,077	TargeGen, Inc. Series C ^(a)	2,760,000
47,407	Therion Biologics Corporation Series A ^(a)	474
240,000	Therion Biologics Corporation Series B ^(a)	2,400
407,712	Therion Biologics Corporation Series C ^(a)	4,077
33,332	Therion Biologics Corporation Series C-2 ^(a)	334
24,999	Therion Biologics Corp. warrants (expiration 8/18/08) ^(a)	0
36,092	Therion Biologics Corporation Sinking Fund ^(a)	361
2,555,000	Xanthus Life Sciences, Inc. Series B ^(a)	2,555,000
<i>Healthcare Services - 4.3%</i>		
1,577,144	CardioNet, Inc. Series C ^{(a) (b)}	5,520,004
52,882	CardioNet, Inc. warrants (expiration 05/01/11) ^(a)	0
2,085	CardioNet, Inc. warrants (expiration 8/29/11) ^(a)	0
484,829	CytoLogix Corporation Series A ^{(a) (b)}	399,984
227,130	CytoLogix Corporation Series B ^{(a) (b)}	187,382
160,000	I-trax, Inc. Series A ^(a)	5,307,836
5,384,615	PHT Corporation Series D ^{(a) (b)}	4,200,000
1,204,495	PHT Corporation Series E ^{(a) (b)}	939,506
<i>Medical Devices and Diagnostics - 4.7%</i>		
4,852,940	Concentric Medical, Inc. Series B ^{(a) (b) (c)}	6,794,116
1,744,186	Concentric Medical, Inc. Series C ^{(a) (b)}	2,441,860
683,000	Concentric Medical, Inc. Series D ^{(a) (b)}	956,200
222,222	EPR, Inc. Series A ^(a)	2,222
3,669,024	Labcyte, Inc. Series C ^(a)	1,920,000
160,000	Masimo Corporation Series D	1,760,000
1,632,653	OmniSonics Medical Technologies, Inc. Series B ^(a)	1,962,776
1,547,988	OmniSonics Medical Technologies, Inc. Series C ^(a)	1,616,100

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

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2006

(continued)

SHARES	Convertible Preferred (Restricted)^(e) - continued	VALUE
65,217	TherOx, Inc. Series H ^(a)	\$251,803
149,469	TherOx, Inc. Series I ^(a)	577,100
4,220	TherOx warrants (expiration 1/26/10) ^(a)	0
8,141	TherOx warrants (expiration 6/09/09) ^(a)	0
		<u>\$54,258,786</u>
PRINCIPAL AMOUNT	Convertible Notes (Restricted)^(e) - 0.1%	
	<i>Healthcare Services - 0.1%</i>	
\$324,328	CardioNet, Inc. Cvt. Note, 8.00% due 2007 ^(b)	324,328
168,337	CytoLogix Corporation Cvt. Note, 6.75% ^{(b) (d)}	168,337
		<u>\$492,665</u>
TOTAL CONVERTIBLE SECURITIES AND WARRANTS		
(Cost \$64,562,888)		<u>\$54,751,451</u>
SHARES	COMMON STOCKS AND WARRANTS - 78.4%	
	Biopharmaceuticals - 33.1%	
675,778	Akorn, Inc. ^(a)	2,439,559
202,223	Akorn Inc. warrants (expiration 3/07/11) ^{(a) (e)}	0
373,750	Alexza Pharmaceuticals, Inc. ^(a)	3,038,588
74,000	Amgen, Inc. ^(a)	5,293,220
101,100	Amylin Pharmaceuticals, Inc. ^(a)	4,455,477
50,000	Biogen Idec Inc. ^(a)	2,234,000
433,486	Cubist Pharmaceuticals, Inc. ^(a)	9,423,986
118,800	Endo Pharmaceuticals Holdings ^(a)	3,866,940
157,500	Forest Laboratories, Inc. ^(a)	7,971,075
64,630	Genentech, Inc. ^(a)	5,344,901
173,868	Genzyme Corporation ^(a)	11,730,874
189,025	Gilead Sciences, Inc. ^(a)	12,986,017
489,175	Idenix Pharmaceuticals Inc. ^(a)	4,744,997
45,000	Imclone Systems, Inc. ^(a)	1,274,400
1,048,756	Inspire Pharmaceuticals, Inc. ^(a)	5,338,168
386,400	Solexa, Inc. warrants (expiration 4/29/07) ^{(a) (e)}	0
490,450	Medarex, Inc. ^(a)	5,267,433
209,440	MedImmune, Inc. ^(a)	6,117,742
468,000	MGI Pharma, Inc. ^(a)	8,054,280
147,760	Myriad Genetics Inc. ^(a)	3,642,284
351,700	Nektar Therapeutics ^(a)	5,067,997
184,080	PDL BioPharma Inc. ^(a)	3,534,336
205,000	Pfizer, Inc.	5,813,800
278,300	Schering-Plough Corporation	6,147,647
688,606	Tercica, Inc. ^(a)	3,670,270
		<u>127,457,991</u>

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

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2006

(continued)

SHARES		VALUE
Drug Delivery - 1.7%		
822,533	DepoMed, Inc. ^(a)	\$3,355,935
56,320	Noven Pharmaceuticals, Inc. ^(a)	1,358,438
101,200	Penwest Pharmaceuticals Co. ^(a)	1,684,980
		<u>6,399,353</u>
Drug Discovery Technologies - 4.9%		
277,273	Avalon Pharmaceuticals, Inc. ^{(a)(e)}	636,341
109,500	Celgene Corp. ^(a)	4,741,350
36,080	Cougar Biotechnology Inc. (Restricted) ^{(a)(e)}	162,501
213,513	Senomyx, Inc. ^(a)	3,281,695
101,600	United Therapeutics Corp. ^(a)	5,338,064
290,600	ZymoGenetics, Inc. ^(a)	4,902,422
300,000	Zyomyx, Inc. (Restricted) ^{(a)(e)}	3,000
		<u>19,065,373</u>
Emerging Biopharmaceuticals - 9.5%		
570,448	ACADIA Pharmaceuticals, Inc. ^(a)	4,928,671
824,941	Ariad Pharmaceuticals, Inc. ^(a)	3,596,743
427,875	Barrier Therapeutics, Inc. ^(a)	2,764,072
155,180	DOV Pharmaceutical, Inc. ^(a)	139,662
465,050	Exelixis, Inc. ^(a)	4,050,585
233,777	Kosan Biosciences, Inc. ^(a)	1,129,143
60,450	Momenta Pharmaceuticals, Inc. ^(a)	817,284
62,073	Myogen, Inc. ^(a)	2,177,521
102,176	Myogen, Inc. warrants (expiration 9/29/09) ^{(a)(e)}	2,787,361
414,550	Neurogen Corporation ^(a)	2,794,067
454,078	Nitromed, Inc. ^(a)	1,439,427
626,580	Seattle Genetics, Inc. ^(a)	3,045,179
123,654	Telik, Inc. ^(a)	2,199,805
183,368	Theravance, Inc. ^(a)	4,958,271
226,760	Therion Biologics Corporation (Restricted) ^{(a)(e)}	2,268
		<u>36,830,059</u>
Generic Pharmaceuticals - 6.4%		
109,700	Barr Pharmaceuticals, Inc. ^(a)	5,697,818
627,044	Impax Laboratories, Inc. ^(a)	4,119,679
129,700	K-V Pharmaceutical Co. ^(a)	3,073,890
180,800	Taro Pharmaceuticals Industries Ltd. ^(a)	2,404,640
272,269	Teva Pharmaceutical Industries, Ltd. ^(f)	9,281,650
		<u>24,577,677</u>
Healthcare Services - 7.7%		
75,000	Allscripts Healthcare Solutions, Inc. ^(a)	1,683,750
222,222	Aveta, Inc. (Restricted) ^{(a)(e)}	2,999,997
26,125	Dako A/S (Restricted) ^{(e)(g)}	271,961
260,000	Eclipsys Corporation ^(a)	4,656,600

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

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2006

(continued)

SHARES	Healthcare Services - continued	VALUE
404,234	Emageon, Inc. ^(a)	\$6,302,008
416,500	Emdeon Corporation ^(a)	4,877,215
61,000	Medco Health Solutions, Inc. ^(a)	3,666,710
198,905	National Medical Health Card Systems, Inc. ^(a)	3,092,973
306,208	Syntiro Healthcare Services (Restricted) ^{(a) (e)}	306
40,000	UnitedHealth Group Inc.	1,968,000
		<u>29,519,520</u>
	Medical Devices and Diagnostics - 15.1%	
189,330	Adeza Biomedical Corporation ^(a)	3,106,905
748,150	Align Technology, Inc. ^(a)	8,513,947
347,000	American Medical Systems Holdings Inc. ^(a)	6,395,210
402,122	Conor Medsystems, Inc. ^(a)	9,478,015
149,900	Cytoc Corp. ^(a)	3,669,552
170,300	DJ Orthopedics Inc. ^(a)	7,072,559
48,200	Gen-Probe, Inc. ^(a)	2,260,098
231,295	Genomic Health Inc. ^(a)	3,344,526
53,535	IDEXX Laboratories, Inc. ^(a)	4,879,180
160,000	Masimo Corporation (Restricted) ^(e)	1,600
35,000	Medtronic, Inc.	1,625,400
830,292	Medwave, Inc. ^{(a) (b) (e)}	1,136,255
207,573	Medwave Inc. warrants (expiration 8/21/11) ^{(a) (b) (e)}	0
861,145	Orthovita, Inc. ^(a)	3,005,396
208,529	Songbird Hearing, Inc. (Restricted) ^{(a) (e)}	2,085
546,875	VNUS Medical Technologies, Inc. ^(a)	3,636,719
		<u>58,127,447</u>
	TOTAL COMMON STOCKS AND WARRANTS	
	(Cost \$266,055,417)	<u>\$301,977,420</u>

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

H&Q HEALTHCARE INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2006

(continued)

PRINCIPAL AMOUNT	SHORT-TERM INVESTMENTS - 7.2%	VALUE
\$5,000,000	American Express Corp.; 5.00% - 5.12% due 10/10/06 - 10/12/06	\$4,992,609
3,500,000	General Electric Capital Corp.; 5.18% due 10/02/06	3,499,496
16,100,000	UBS Financial Development LLC; 5.22% - 5.25% due 10/02/06 - 10/06/06	16,091,861
2,939,000	Repurchase Agreement, State Street Bank and Trust Co. (collateralized by U.S. Treasury Bond 8.75%, 5/15/17, market value \$3,002,512); 2.55% due 10/02/06 (Cost \$2,939,000)	<u>2,939,000</u>
	TOTAL SHORT-TERM INVESTMENTS (Cost \$27,522,966)	<u>\$27,522,966</u>
	TOTAL INVESTMENTS - 99.8% (Cost \$358,141,271)	<u>\$384,251,837</u>
	OTHER ASSETS IN EXCESS OF LIABILITIES - 0.2%	<u>\$848,826</u>
	NET ASSETS - 100%	<u><u>\$385,100,663</u></u>

(a) Non-income producing security.

(b) Affiliated issuers in which the Fund holds 5% or more of the voting securities
(Total Market Value of \$23,209,781).

(c) Includes 321,000 non-voting shares.

(d) Variable maturity.

(e) Security fair valued by the Valuation Committee of the Board of Trustees.

(f) American Depository Receipt.

(g) Foreign Security.

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

H&Q HEALTHCARE INVESTORS

STATEMENT OF ASSETS AND LIABILITIES

SEPTEMBER 30, 2006

ASSETS:

Investments in non affiliated issuers, at value (identified cost \$334,001,496; see Schedule of Investments)	\$361,042,056
Investments in affiliated issuers, at value (identified cost \$24,139,775; see Schedule of Investments)	23,209,781
Cash	781
Interest receivable	62,326
Receivable for investments sold	2,535,713
Prepaid expenses	<u>80,373</u>
Total assets	<u>\$386,931,030</u>

LIABILITIES:

Payable for investments purchased	\$1,186,678
Accrued advisory fee	425,837
Accrued audit fee	58,958
Accrued shareholder reporting fees	44,690
Accrued legal fees	25,909
Accrued other	<u>88,295</u>
Total liabilities	<u>\$1,830,367</u>

NET ASSETS \$385,100,663

SOURCES OF NET ASSETS:

Shares of beneficial interest, par value \$.01 per share, unlimited number of shares authorized, amount paid in on 22,249,983 shares issued and outstanding	\$358,700,570
Accumulated net realized gain on investments	289,516
Net unrealized gain on investments	<u>26,110,577</u>
Total net assets (equivalent to \$17.31 per share based on 22,249,983 shares issued and outstanding)	<u>\$385,100,663</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, 2006

INVESTMENT INCOME:

Dividend income (net of foreign tax of \$12,647)	\$261,736	
Special dividend	1,615,318	
Interest income from non affiliated issuers	1,273,543	
Interest income from affiliated issuers	<u>35,941</u>	
Total investment income		\$3,186,538

EXPENSES:

Advisory fees	\$4,885,576	
Legal fees	225,665	
Trustees' fees and expenses	174,795	
Accounting, administration and auditing fees	150,722	
Custodian fees	127,749	
Shareholder reporting	116,095	
Transfer agent fees	71,757	
Stock exchange listing fee	24,999	
Other (see note(2))	<u>280,620</u>	
Total expenses		<u>6,057,978</u>
Net investment loss		<u>(\$2,871,440)</u>

NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS:

Net realized gain on investments	\$21,188,422	
Decrease in net unrealized gain on investments	<u>(33,329,758)</u>	
Net realized and unrealized loss on investments		<u>(\$12,141,336)</u>
Net decrease in net assets resulting from operations		<u>(\$15,012,776)</u>

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

H&Q HEALTHCARE INVESTORS

STATEMENTS OF CHANGES IN NET ASSETS

	For the year ended September 30, 2006	For the year ended September 30, 2005
NET (DECREASE)/INCREASE IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment loss	(\$2,871,440)	(\$4,423,721)
Net realized gain on investments	21,188,422	34,435,090
(Decrease)/increase in net unrealized gain on investments	<u>(33,329,758)</u>	<u>32,609,585</u>
Net decrease/increase in net assets resulting from operations	<u>(\$15,012,776)</u>	<u>\$62,620,954</u>
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net realized capital gains	<u>(\$34,763,087)</u>	<u>(\$29,808,260)</u>
CAPITAL SHARE TRANSACTIONS:		
Value of shares issued in reinvestment of distributions (1,022,942 and 846,596 shares, respectively)	<u>\$17,758,954</u>	<u>\$15,001,802</u>
Net increase/decrease in net assets	<u>(\$32,016,909)</u>	<u>\$47,814,496</u>
NET ASSETS:		
Beginning of year	<u>417,117,572</u>	<u>369,303,076</u>
End of year	<u>\$385,100,663</u>	<u>\$417,117,572</u>
Accumulated net investment loss included in net assets at end of year	<u>\$0</u>	<u>(\$22)</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, 2006

CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES:

Purchases of portfolio securities	(\$239,417,105)
Net purchases of short-term investments	(7,685,872)
Sales of portfolio securities	267,960,197
Interest income received	48,100
Dividends received	1,877,054
Operating expenses paid	<u>(6,030,489)</u>
Net cash provided from operating activities	<u>16,751,885</u>

CASH FLOWS USED FOR FINANCING ACTIVITIES:

Cash distributions paid, net	<u>(\$17,004,133)</u>
Net cash used for financing activities	<u>(\$17,004,133)</u>

NET DECREASE IN CASH (252,248)

CASH AT BEGINNING OF PERIOD 253,029

CASH AT END OF PERIOD \$781

RECONCILIATION OF NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH PROVIDED FROM OPERATING ACTIVITIES:

Net decrease in net assets resulting from operations	(\$15,012,776)
Purchases of portfolio securities	(239,417,105)
Net purchases of short-term investments	(7,685,872)
Sales of portfolio securities	267,960,197
Accretion of discount	(1,258,199)
Net realized gain on investments	(21,188,422)
Decrease in net unrealized gain on investments	33,329,758
Increase in interest receivable	(3,185)
Increase in accrued expenses	22,114
Decrease in prepaid expenses	<u>5,375</u>
Net cash provided from operating activities	<u><u>\$16,751,885</u></u>

Noncash financing activities not included herein consist of reinvested distributions of \$17,758,954

Noncash investing activities not included herein consist of one conversion of restricted preferred stock and convertible note with a total cost of \$3,217,655 to restricted common stock of the same issuer.

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,				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002 (1)</u>
Net asset value per share:					
Beginning of year	<u>\$19.65</u>	<u>\$18.12</u>	<u>\$19.63</u>	<u>\$18.16</u>	<u>\$27.35</u>
Net investment loss (2)	(\$0.13)(3)	(\$0.21)	(\$0.28)	(\$0.23)	(\$0.28)
Net realized and unrealized gain (loss) on investments	<u>(0.60)</u>	<u>3.18</u>	<u>0.57</u>	<u>3.87</u>	<u>(5.73)</u>
Total increase (decrease) from investment operations	<u>(\$0.73)</u>	<u>\$2.97</u>	<u>\$0.29</u>	<u>\$3.64</u>	<u>(\$6.01)</u>
Capital gain distributions to shareholders	<u>(\$1.61)</u>	<u>(\$1.44)</u>	<u>(\$1.80)</u>	<u>(\$2.17)</u>	<u>(\$3.18)</u>
Net asset value per share:					
End of year	<u>\$17.31</u>	<u>\$19.65</u>	<u>\$18.12</u>	<u>\$19.63</u>	<u>\$18.16</u>
Per share market value:					
End of year	\$16.74	\$18.64	\$18.11	\$17.66	\$14.10
Total investment return at market value	(1.58%)	11.56%	12.99%	43.49%	(25.24%)

RATIOS AND SUPPLEMENTAL DATA:

Net assets at end of year	\$385,100,663	\$417,117,572	\$369,303,076	\$286,754,854	\$242,005,778
Ratio of operating expenses to average net assets	1.54%	1.56%	1.63%	1.65%	1.64%
Ratio of net investment loss to average net assets	(0.73%)(3)	(1.17%)	(1.42%)	(1.27%)	(1.16%)
Portfolio turnover rate	63.78%	92.68%	33.65%	32.80%	17.40%
Number of shares outstanding at end of year	22,249,983	21,227,041	20,380,445	14,608,952	13,323,483

(1) In 2002, 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%).

(2) Net investment loss per share has been computed using average shares outstanding.

(3) Includes a special dividend from an issuer in the amount of \$0.08 per share. Excluding the special dividend, the ratio of net investment loss to average net assets would have been (1.14%).

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

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

(Audited)

(1) Significant Accounting Policies

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 companies in the healthcare industry. This is a broad mandate and includes all companies that the Investment Adviser determines to be healthcare related. 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 accounting principles generally accepted in the United States of America.

In July 2006, Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement 109 (FIN 48), was issued and is effective for fiscal years beginning after December 15, 2006. FIN 48 sets forth a threshold for financial statement recognition, measurement and disclosure of a tax position taken or expected to be taken on a tax return. Management is currently evaluating the impact, if any, the adoption of FIN 48 will have on the Fund's net assets, results of operations and financial statement disclosures.

In addition, in September 2006, Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), was issued and is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Management is currently evaluating the impact the adoption of SFAS 157 will have on the Fund's financial statements.

Investment Securities & Investment Income

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. Exchange traded 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. The fair value of venture capital and other restricted securities is determined in good faith by the Trustees. However, because of the uncertainty of fair 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. Each such fair value determination is based on a consideration of relevant factors. Factors the Trustees consider may include (i) the existence of any contractual restrictions on the disposition of securities; (ii) information obtained from the issuer which may include an analysis of the company's financial statements, the company's products or intended markets or the company's technologies; and (iii) the price of a security negotiated at arm's length in an issuer's completed subsequent round of financing. See note 3. Short-term 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

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

(continued)

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

The aggregate cost of purchases and proceeds from sales of investment securities (other than short-term investments) for the year ended September 30, 2006 totaled \$239,816,571 and \$264,441,179 respectively.

Repurchase Agreements

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

Distribution Policy

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. The Fund's distribution policy has been established by the Board of Trustees. The distribution policy may be changed by the Board of Trustees without Shareholder approval.

The current distribution policy is to declare distributions in 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. The Fund's transfer agent delivers an election card and instructions to each registered Shareholder in connection with each distribution. For shareholders other than registered shareholders with book entry accounts at the Trust's transfer agent, fractional shares will generally be settled in cash. The number of Shares issued will be determined by dividing the dollar amount of the distribution by the lower of net asset value or market value on the pricing date. 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. The shares will be valued at the lower of the net asset value or market price on the pricing date. Distributions in stock will not relieve shareholders of any federal, state or local income taxes that may be payable on such distributions.

Federal 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

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

(continued)

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

At September 30, 2006, the cost and related gross unrealized appreciation and depreciation are as follows:

Cost of investments for tax purposes	\$359,257,676
Gross tax unrealized appreciation	\$77,429,910
Gross tax unrealized depreciation	\$52,435,749
Net tax unrealized appreciation on investments	\$24,994,161

As of September 30, 2006, the components of distributable earnings on a tax basis were as follows:

Long-term capital gain	\$1,405,904
Net unrealized appreciation	\$24,994,189

The tax character of distributions paid during the years ended September 30, 2006 and September 30, 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Distributions paid from Ordinary income	—	—
Long-term capital gain	\$34,763,087	\$29,808,260

Net realized gains and losses may differ for financial and tax reporting purposes primarily as a result of the deferral of losses relating to wash sale transactions.

Pursuant to Section 852 of the Internal Revenue Code, the Fund has designated \$34,763,087 as long-term capital gain distributions for its taxable year ended September 30, 2006.

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 short-term investments at September 30, 2006.

Indemnifications

Under the Fund's organizational documents, its officers and Trustees may be indemnified against certain liabilities and expenses arising out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into agreements with service providers that may contain indemnification clauses. The Fund's maximum exposure under these agreements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

(2) 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). Starting July 1, 2006, 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, 0.98% of the average net assets up to \$250 million, 0.88% 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

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

(continued)

net assets thereafter. The aggregate fee may not exceed a rate when annualized of 1.375%. Prior to July 1, 2006, the Fund paid 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 could not exceed a rate when annualized of 1.375%.

The Fund has entered into a Services Agreement (the "Agreement") with the Adviser. Pursuant to the terms of the Agreement, the Fund reimburses the Adviser for certain services related to a portion of the payment of salary and provision of benefits to the Fund's Chief Compliance Officer. During the year ended September 30, 2006 these payments amounted to \$111,726 and are included in the "other" category in the Statement of Operations together with insurance expenses of \$85,656 incurred to unaffiliated entities. Such expenses are the major components of "other" in the Statement of Operations. Expenses incurred pursuant to the Agreement as well as certain expenses paid for by the Adviser are allocated in an equitable fashion to the Fund.

Certain officers and Trustees of the Fund are also officers of the Adviser. Trustees who are not affiliates of the Adviser receive an annual fee of \$20,000 plus \$500 for each Committee on which they serve and \$500 for each meeting attended.

An affiliate company is a company in which the Fund holds 5% or more of the voting securities. Transactions with such companies during the year ended September 30, 2006 were as follows:

Issuer	Value on October 1, 2005	Purchases	Sales	Income	Value on September 30, 2006
Agilix Corporation	\$ 571,429	\$ —	\$—	\$ —	\$ 141,809
CardioNet, Inc.	5,820,004	—	—	24,578	5,844,332
Concentric Medical, Inc	10,192,176	—	—	—	10,192,176
CytoLogix Corporation	755,703	—	—	11,363	755,703
Medwave, Inc.	—	2,275,000	—	—	1,136,255
OmniSonics Medical Technologies, Inc. (a)	3,981,225	—	—	—	3,578,876
PHT Corporation	5,139,506	—	—	—	5,139,506
	<u>\$26,460,043</u>	<u>\$2,275,000</u>	<u>\$—</u>	<u>\$35,941</u>	<u>\$26,788,657</u>

(a) As of September 30, 2006 Omnisonics Medical Technologies, Inc. is no longer an affiliate.

(3) *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 15% of the Fund's net assets at September 30, 2006.

During the year ended September 30, 2006, restricted securities from one issuer were exchanged for cash in connection with a corporate action, a portion of which has been retained by the issuer in an escrow account pending resolution of certain contingencies and whose estimated value of \$418,314 at September 30, 2006 has also been determined by the Trustees. The value of the escrow account is included in the Receivable for Investments Sold in the Statement of Assets and Liabilities.

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

(continued)

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, 2006, as determined by the Trustees of the Fund. The Fund may invest up to 40% of its net assets in venture capital and other restricted securities. The values of these securities represent 15% of the Fund's net assets at September 30, 2006. The Fund does not have the right to demand that such securities be registered.

Security ^(a)	Acquisition Date	Cost	Carrying Value per Unit	Value
Agensys, Inc. Series C Cvt. Pfd.	2/14/02, 9/27/05	\$3,307,024	\$2.95	\$3,300,300
Agilix Corporation Series B Cvt. Pfd.	11/8/01	2,495,500	0.06	141,809
Aveta, Inc. Restricted Common	12/21/05	2,999,997	13.50	2,999,997
CardioNet, Inc. Series C Cvt. Pfd.	5/3/01 - 3/25/03	5,552,574	3.50	5,520,004
Warrants (expiration 5/01/11)	5/1/06	0	0.00	0
Warrants (expiration 8/29/11)	8/29/06	0	0.00	0
Convertible Note	8/15/05	316,964	1.00	324,328
Ceres, Inc. Series C Cvt. Pfd.	12/23/98	1,502,620	6.00	2,250,000
Series C-1 Cvt. Pfd.	3/31/01	111,508	6.00	193,158
Series D Cvt. Pfd.	3/14/01	1,668,294	6.00	1,680,630
Concentric Medical, Inc. Series B Cvt. Pfd.	5/7/02, 1/24/03	3,329,210	1.40	6,794,116
Series C Cvt. Pfd.	12/19/03	1,500,000	1.40	2,441,860
Series D Cvt. Pfd.	9/30/05	957,768	1.40	956,200
Cougar Biotechnology Inc. Series A Cvt. Pfd.	3/30/06	1,463,482	4.50	1,462,493
Restricted Common	3/30/06	162,610	4.50	162,501
CytoLogix Corporation Series A Cvt. Pfd.	1/13/98 - 7/21/99	1,622,895	0.83	399,984
Series B Cvt. Pfd.	1/11/01	760,284	0.83	187,382
Convertible Note	5/29/02	168,337	1.00	168,337
Dako A/S Restricted Common	6/14/04	1,102,920	10.41	271,961
EPR, Inc. Series A Cvt. Pfd.	3/9/94	1,000,409	0.01	2,222
Galileo Pharmaceuticals, Inc. Series F-1 Cvt. Pfd.	8/18/00	3,003,840	0.00	140
I-trax, Inc. Series A Cvt. Pfd.	3/18/04	4,003,650	33.17	5,307,836
Labcyte, Inc. Series C Cvt. Pfd.	7/18/05	1,923,506	0.52	1,920,000
Masimo Corporation Series D Cvt. Pfd.	8/14/96	1,120,657	11.00	1,760,000
Restricted Common	3/31/98	0	0.01	1,600
OmniSonic Medical Technologies, Inc. Series B Cvt. Pfd.	5/24/01	2,409,023	1.20	1,962,776
Series C Cvt. Pfd.	10/1/03	1,800,336	1.04	1,616,100
PHT Corporation Series D Cvt. Pfd.	7/23/01	4,205,754	0.78	4,200,000
Series E Cvt. Pfd.	9/12/03 - 10/14/04	941,669	0.78	939,506

H&Q HEALTHCARE INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

(continued)

Security ^(g)	Acquisition Date	Cost	Carrying Value per Unit	Value
Raven biotechnologies, Inc.				
Series B Cvt. Pfd.	12/12/00	\$3,001,725	\$0.83	\$1,509,091
Series C Cvt. Pfd.	11/26/02	2,331,600	0.83	2,331,600
Series D Cvt. Pfd.	6/23/05	1,205,415	0.29	1,200,000
Songbird Hearing, Inc.				
Restricted Common	12/14/00	3,004,861	0.01	2,085
Syntiro Healthcare Services				
Restricted Common	2/5/97	1,200,325	0.001	306
TargeGen, Inc.				
Series C Cvt. Pfd.	8/30/05	2,763,495	1.30	2,760,000
Therion Biologics Corporation				
Series A Cvt. Pfd.	8/20/96 - 10/16/96	444,850	0.01	474
Series B Cvt. Pfd.	6/22/99	901,393	0.01	2,400
Series C Cvt. Pfd.	9/26/01 - 10/15/01	1,529,348	0.01	4,077
Series C-2 Units	8/13/03	59,998	0.01	334
Warrants (expiration 8/18/08)	8/18/03	0	0.00	0
Sinking Fund Cvt. Pfd.	10/18/94 - 8/20/96	721,291	0.01	361
Restricted Common	7/12/90 - 1/25/96	511,365	0.01	2,268
TherOx, Inc.				
Series H Cvt. Pfd.	9/11/00	3,002,506	3.86	251,803
Series I Cvt. Pfd.	7/8/05	579,407	3.86	577,100
Warrants (expiration 1/26/10)	1/26/05	0	0.00	0
Warrants (expiration 6/09/09)	6/9/04	0	0.00	0
Xanthus Life Sciences, Inc.				
Series B Cvt. Pfd.	12/5/03 - 3/23/06	2,556,388	1.00	2,555,000
Zyomyx, Inc.				
Series A New Cvt. Pfd.	1/12/04	299,700	0.01	30,000
Series B New Cvt. Pfd.	2/19/99 - 1/12/04	468	0.10	30
New Restricted Common	2/19/99 - 7/22/04	3,602,065	0.10	3,000
		<u>\$77,147,031</u>		<u>\$58,195,169^(h)</u>

(g) See Schedule of Investments and corresponding footnotes for more information on each issuer.

(h) Represents 15% of the Fund's net assets as of September 30, 2006.

(4) Sources of Net Assets

The changes in the sources of net assets for the period from October 1, 2005 through September 30, 2006 are as follows:

	Capital Paid in on Shares of Beneficial Interest	Accumulated Net Investment Loss	Accumulated Net Realized Gain on Investments	Net Unrealized Gain on Investments	Total Net Assets
As of October 1, 2005:	\$343,813,078	\$ (22)	\$ 13,864,181	\$ 59,440,335	\$417,117,572
For the period from October 1, 2005 through September 30, 2006:					
Net investment loss		(2,871,440)			(2,871,440)
Net realized gains			21,188,422		21,188,422
Distributions			(34,763,087)		(34,763,087)
Value of shares issued in reinvestment of dividends	17,758,954				17,758,954
Decrease in net unrealized gain on investments				(33,329,758)	(33,329,758)
Reclassification for Federal income tax purposes	(2,871,462)	2,871,462			
As of September 30, 2006:	<u>\$358,700,570</u>	<u>\$ 0</u>	<u>\$ 289,516</u>	<u>\$ 26,110,577</u>	<u>\$385,100,663</u>

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying statement of assets and liabilities of H&Q Healthcare Investors (the "Fund"), including the schedule of investments, as of September 30, 2006, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and financial highlights for each of the three years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The financial highlights for the years ended September 30, 2003 and 2002 were audited by other auditors whose report, dated November 23, 2003, expressed an unqualified opinion on the financial highlights.

We conducted our audits 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 and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of September 30, 2006, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of H&Q Healthcare Investors as of September 30, 2006, 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.

DELOITTE & TOUCHE LLP
Boston, Massachusetts
November 17, 2006

H&Q HEALTHCARE INVESTORS

TRUSTEES

H & Q Healthcare Investors
30 Rowes Wharf, Suite 430
Boston, Massachusetts 02110
(617) 772-8500

Name, Address¹ and Date of Birth	Position(s) Held with Fund, Term of Office² and Length of Time Served	Principal Occupation(s) During Past 5 Years and Other Directorships Held	Number of Portfolios in Fund Complex Overseen by Trustee
Independent Trustees:			
Lawrence S. Lewin 4/1938	Trustee (since 1987) and Chairman (since 2000)	Self-employed Executive Consultant (since 1999); Director (since 2003) of Medco Health Solutions, Inc.; Director (since 2001) of CardioNet, Inc.; Director (since 2005) of Care Fusion (provides solutions for patient care providers); and Director (since 1984) of Intermountain Healthcare (non- profit organization).	2
Robert P. Mack 8/1935	Trustee (since 1991)	Orthopedic Surgeon at Orthopedic Associates of Aspen (since 2000).	2
Eric Oddleifson 4/1935	Trustee (since 1992)	Self-employed Consultant (since 2005); Investment Committee Chair (from 2003-2005) and Partner (from 1997-2003) of GMO Renewable Resources LLC (timber investment management).	2
Oleg M. Pohotsky 3/1947	Trustee (since 2000)	Self-employed Financial Consultant (since 2002); Senior Vice President (from 1991-2001) of FAC/Equities, a division of First Albany Corporation (investment bank).	2
Uwe E. Reinhardt, Ph.D. 9/1937	Trustee (since 1988)	Professor of Economics (since 1968) at Princeton University; Director (since 2000) of Triad Hospitals, Inc.; Director of Boston Scientific (since 2002); Director of Amerigroup, Inc. (since 2002); Director of Duke University (since 2001); Director of The Duke University Health System (since 2001); and Director of the National Bureau of Economic Research (since 2002).	2

H&Q HEALTHCARE INVESTORS

TRUSTEES

(continued)

Name, Address¹ and Date of Birth	Position(s) Held with Fund, Term of Office² and Length of Time Served	Principal Occupation(s) During Past 5 Years and Other Directorships Held	Number of Portfolios in Fund Complex Overseen by Trustee
Independent Trustees:			
Lucinda H. Stebbins, CPA 11/1945	Trustee (since 2006)	Self-employed Financial Consultant (since 2004); Director of Deutsche Asset Management (from 2002-2004); Senior Vice President of Scudder Investments (from 2000-2002).	2
Henri A. Termeer 2/1946	Trustee (since 1989)	Chairman (since 1988), Chief Executive Officer (since 1985) and Director (since 1983) of Genzyme Corporation; Director (from 1987-2006) of ABIOMED, Inc.; Director (from 1992-2003) of AutoImmune, Inc.; Director (from 1993-2002) of Genzyme Transgenics; and Director (from 1996-2002) of Diacrin, Inc.	
Interested Trustees:			
Daniel R. Omstead, ³ Ph.D. 7/1953	President (since 2001); Trustee (since 2003)	President of HQT and of HQL (since 2001); Trustee of HQT and HQL (since 2003); President, Chief Executive Officer and Managing Member of Hambrecht & Quist Capital Management LLC (since 2002); President and Chief Executive Officer (from 2001 to 2002) and Managing Director (from 2000 to 2002) of Hambrecht & Quist Capital Management Inc.; Director (since 2003) of Concentric Medical, Inc.; Director (since 2001) of Agilix Corporation.	2

¹ The address for each Trustee is c/o the Fund at the Fund's address as set forth above.

² Each Trustee currently is serving a three year term.

³ Trustee considered to be an "interested person" within the meaning of the Investment Company Act of 1940, as amended (the "1940 Act") through position or affiliation with Hambrecht & Quist Capital Management LLC, the Fund's investment adviser.

H&Q HEALTHCARE INVESTORS

OFFICERS

Name, Address¹ and Date of Birth	Position(s) Held with Fund, Term of Office² and Length of Time Served	Principal Occupation(s) During Past 5 Years
Officers:		
Daniel R. Omstead, Ph.D. 7/1953	President (since 2001); Trustee (since 2003)	President of HQH and of HQL (since 2001); Trustee of HQH and HQL (since 2003); President, Chief Executive Officer and Managing Member of Hambrecht & Quist Capital Management LLC (since 2002); President and Chief Executive Officer (from 2001 to 2002) and Managing Director (from 2000 to 2002) of Hambrecht & Quist Capital Management Inc.; Director (since 2003) of Concentric Medical, Inc.; Director (since 2001) of Agilix Corporation.
Kathleen Eckert 12/1966	Chief Compliance Officer (since 2004); Treasurer and Secretary (since 2005)	Chief Compliance Officer of Hambrecht & Quist Capital Management LLC (since October 2004); Chief Compliance Officer of HQH and HQL (since October 2004); Senior Vice President of Ivy Mackenzie Services Corp., from June 2002 to January 2004. Chief Compliance Officer of Mackenzie Investment Management, Inc. from June 2002 to June 2003. Director of Fund Administration of Mackenzie Investment Management, Inc. from 1999 to June 2003.

¹ The address for each officer is c/o the Fund at the Fund's address as set forth above.

² Each officer serves in such capacity for an indefinite period of time at the pleasure of the Trustees.

The Fund's Statement of Additional Information includes additional information about the fund Directors and is available without charge, upon request by calling (617) 772-8500 or writing to Hambrecht & Quist Capital Management LLC at 30 Rowes Wharf, Boston, MA 02110-3328.

H&Q HEALTHCARE INVESTORS

INVESTMENT ADVISORY AGREEMENT APPROVAL

The Investment Advisory Agreement (Advisory Agreement) between the Fund and the Adviser provides that the Advisory Agreement will continue in effect so long as its continuance is approved at least annually by (i) by the Trustees of the Fund or the shareholders by affirmative vote of a majority of the outstanding shares and (ii) a majority of the Trustees of the Fund who are not interested persons, by vote cast in person at a meeting called for the purpose of voting on such approval.

On April 20, 2006, the Board, and the independent Trustees voting separately, determined that the terms of the Advisory Agreement are fair and reasonable and approved the continuance of the Advisory Agreement as being in the best interests of the Fund and its shareholders. In making its determination, the Board considered materials that were specifically prepared by the Adviser at the request of the Board and Fund counsel for purposes of the contract review process, including comparisons of (i) the Fund's performance to its benchmark and to other investment companies, (ii) the Fund's expenses and expense ratios to those of a peer group of other investment companies, and (iii) the Adviser's profitability with respect to its services for the Fund to the profitability of other investment managers, as described below. The Trustees took into account that the Adviser presently provides investment management services only to the Fund and to H&Q Life Sciences Investors and does not derive any benefit from its relationship with the Fund other than receipt of advisory fees pursuant to the Advisory Agreement. The Board also received and reviewed information throughout the year about portfolio performance, investment strategy, the portfolio management team and fees and expenses of the Fund.

In approving the Advisory Agreement, the Board considered, among other things, the nature, extent, and quality of the services to be provided by the Adviser, the investment performance of the Fund and the Adviser, the costs of services provided and profits realized by the investment Adviser and its affiliates, and whether fee levels reflected economies of scale for the benefit of Fund investors and the extent to which economies of scale would be realized as the Fund grows. The Board reviewed information about the foregoing factors and considered changes, if any, in such information since its previous approval. The Board also discussed the financial strength of the Adviser and the capability of the personnel of the Adviser, and specifically the strength and background of its investment analysts. The Board, together with its counsel, reviewed the statutory and regulatory requirements for approval and disclosure of investment advisory agreements. The Board, including the independent Trustees, evaluated all of the foregoing and, considering all factors together, determined in the exercise of its business judgment that the continuance of the Advisory Agreement is in the best interests of the Fund and its shareholders. The following provides more detail on certain factors considered by the Trustees and the Board's conclusions with respect to each such factor:

The nature, extent and quality of the services to be provided by the investment adviser. On a regular basis the Board considers the roles and responsibilities of the Adviser as a whole and for those specific portfolio management, support and trading functions servicing the Fund. The Trustees considered the nature, extent and quality of the services provided by the Adviser to the Fund and concluded that they continue to be satisfied with the quality and value of the investment advisory services provided to the Fund by the Adviser. In particular, the Trustees noted the management style and discipline followed by the Adviser and the quality of the Adviser's research, trading, portfolio management and administrative personnel.

The investment performance of the Fund and Adviser. On a regular basis the Board reviews performance information on the Fund. The Trustees reviewed performance information for the

H&Q HEALTHCARE INVESTORS

INVESTMENT ADVISORY AGREEMENT APPROVAL

(continued)

Fund over the past three-month period and the one-, three-, five-, and ten-year periods ended March 31 and discussed the Fund's strategy with the Adviser and concluded that they continue to be satisfied with the performance of the Fund and the Adviser. In particular the Trustees noted that although during the periods under review the annualized returns of the Fund's stock price and net asset value fluctuated relative to the performance of its benchmark (the NBI), in the majority of cases the Fund outperformed its benchmark.

The costs of services to be provided and profits to be realized by the investment adviser from the relationship with the Fund. The Trustees considered the various services provided by the Adviser to the Fund and comparative information regarding the expenses and expense ratios of the Fund and a peer group of other investment companies. The Trustees also noted that the Adviser agreed to reduce the investment advisory fee effective July 1, 2006 to the levels described in financial statement footnote (2). The Trustees noted that the Adviser's fees are within the range of fees presented in the comparative information and noted that a portion of the Fund's investment portfolio is invested in venture and restricted securities, a portfolio management service which can command higher management fees than those charged by the Adviser pursuant to the investment advisory agreement. The Trustees also noted the satisfactory nature, extent and quality of the services provided by the Adviser to the Fund. Based on the information provided to and evaluated by the Trustees, the Board determined that the fees charged by the Adviser are within a reasonable range of fees as compared to fees charged by competitors and that the services provided by the Adviser and the amounts paid under the agreement are sufficiently favorable in comparison to the services rendered and fees charged by others for similar services to warrant a finding by the Trustees that the fees to be paid by the Fund are fair. The Trustees also considered financial information provided by the Adviser, including financial statements of the Adviser and a comparison of the Adviser's profitability with respect to its services for the Fund to the profitability of other investment managers. After such review, the Trustees concluded that the fees charged by the Adviser are fair and reasonable in light of the quality and nature of the services provided by the Adviser and that the profitability of the Adviser's relationship with the Fund has not been excessive.

Whether fee levels reflect economies of scale and the extent to which economies of scale would be realized as the Fund grows. The Trustees noted that the investment advisory agreement provides for breakpoints in the advisory fees (adjusted as noted above) so that the Fund will share the benefits of the economies of scale that would inure to the Adviser as the Fund's assets increase. In addition, the Trustees also considered the assets of the Fund over the last five years, the recent investment performance of the Fund, and the management fees and breakpoints of other funds with similar objectives. The Board concluded that economies of scale are still modest at current asset levels and that the breakpoint schedule (adjusted as noted above) for the Fund is satisfactory and fair given the asset size of the Fund and the investment strategies being pursued by the Adviser for the Fund.

H&Q HEALTHCARE INVESTORS

CERTIFICATIONS

The Fund's President has certified to the New York Stock Exchange ("NYSE") that as of July 12, 2006, he was not aware of any violation by the Fund of applicable NYSE corporate governance listing standards. In addition, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and applicable Securities and Exchange Commission ("SEC") rules, the Fund's President and Treasurer made quarterly certifications during the fiscal year that were filed with the SEC as exhibits to Form N-CSR and Form N-Q filings and related to the Fund's disclosure in such reports, disclosure controls and procedures and internal control over financial reporting, as required.

ANNUAL MEETING REPORT

An Annual Meeting of Shareholders was held on June 15, 2006 at 10:00am. The Shareholders voted to elect three Trustees of the Fund to hold office for a term of two to three years or until his respective successor shall have been duly elected and qualified. The following votes were cast with respect to the nominees.

	<u>For</u>	<u>Withheld</u>
Daniel R. Omstead, Ph.D.	19,387,547	282,719
Lawrence S. Lewin	19,221,786	448,481
Uwe Reinhardt, Ph.D.	18,892,449	777,817
Lucinda H. Stebbins, CPA	19,272,782	397,484

The nominees were elected to serve until the 2009 Annual Meeting, except for Lucinda H. Stebbins, CPA who was elected to service until the 2008 Annual Meeting. Henri A. Termeer will also serve until the 2008 Annual Meeting. Trustees serving until the 2007 Annual Meeting are Robert P. Mack, M.D., Eric Oddleifson, and Oleg M. Pohotsky.

The Shareholders ratified the appointment of Deloitte & Touche LLP as the independent registered public accountants of the Fund for the fiscal year ending September 30, 2006 by the following votes.

<u>For</u>	19,451,377
<u>Against</u>	118,088
<u>Abstain</u>	100,803

H&Q HEALTHCARE INVESTORS

FOR MORE INFORMATION

A description of the Fund's proxy voting policies and procedures and information on how the Fund voted proxies and relating to portfolio securities during the most recent 12-month period ended June 30, is available (i) without charge, upon request by calling 1-800-451-2597; (ii) by writing to Hambrecht & Quist Capital management LLC at 30 Rowes Wharf, Boston, MA 02110-3328; (iii) on the Fund's website at www.hqcm.com; and (iv) on the Securities and Exchange Commission's website at www.sec.gov.

The Fund's complete Schedule of Investments for the first and third quarters of its fiscal year will be filed quarterly with the Securities and Exchange Commission ("SEC") on Form N-Q. This Schedule of Investments will also be available on the Fund's website at www.hqcm.com, or the SEC's website at www.sec.gov. The Fund's Form N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC or by calling 1-800-SEC-0330.

DISTRIBUTION POLICY

The Fund has a fixed distribution policy as described in the Notes to Financial Statements. For more information contact your financial adviser.

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H&Q HEALTHCARE INVESTORS

New York Stock Exchange Symbol: HQH

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Officers

Daniel R. Omstead, Ph.D., President
Kathleen Eckert, Secretary, Treasurer and
Chief Compliance Officer

Trustees

Lawrence S. Lewin
Robert P. Mack, M.D.
Eric Oddleifson
Daniel R. Omstead, Ph.D
Oleg M. Pohotsky
Uwe E. Reinhardt, Ph.D.
Lucinda H. Stebbins, CPA
Henri A. Termeer

Investment Adviser

Hambrecht & Quist Capital Management, LLC

Administrator & Custodian

State Street Bank and Trust Company

Transfer Agent

Computershare Shareholder Services, Inc.

Legal Counsel

Dechert LLP

Shareholders with questions regarding share transfers may call

1-800-426-5523

Daily net asset value may be obtained from
our website (www.hqcm.com) or by calling

1-800-451-2597