

H&Q LIFE SCIENCES INVESTORS



Annual Report

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To our Shareholders:

On September 30, 2009, the net asset value (NAV) per share of the Fund was \$11.32. During the twelve month period ended September 30, 2009, total return at NAV of the Fund was -6.67%, with distributions reinvested. During the most recent six month period ended September 30, 2009, total return at NAV of the Fund was 14.62%, with distributions reinvested. The total investment return at market with



distributions reinvested was -5.56% during the twelve month period ended September 30, 2009 and 21.14% during the six month period ended September 30, 2009. This reflects a substantial recovery in the market and a modest reduction of the discount. Comparisons to relevant indices are listed below.

Investment Returns	Six Months Ended 9/30/09	Fiscal Year Ended 9/30/09
Investment Return at Market	+21.14%	-5.56%
Net Asset Value	+14.62%	-6.67%
NASDAQ Biotech Index (NBI)	+22.96%	+0.42%
S&P 500 Index	+34.02%	-6.88%

Portfolio Highlights

This has been a difficult period for the Fund and for the markets. The fiscal year began as dramatic downward moves in both the S&P 500 and NBI indices were underway. As you are doubtless aware, there was tremendous upheaval in the markets in the fall of 2008. During this period the Fund acted defensively, increasing cash (and in so doing realizing losses) during a period in which the markets were falling. At midyear, we reported that on a NAV basis the Fund had performed comparably to the NBI and both the Fund and the NBI had significantly outperformed the broader S&P 500 Index. As we also reported in the semiannual report to shareholders, the Fund continued reducing exposure to the smallest healthcare related companies. In our experience, such companies tend to be early stage unprofitable companies highly reliant on the markets to raise operating capital. While a few such companies have done well over time and the small cap group occasionally outperformed as a whole, in general these companies have underperformed their larger counterparts over a relatively long period of time. The Fund ended March 2009 underweight small cap stocks. Unfortunately, for most of the six month period ended September 30, 2009 small cap stocks, in both the

biotech space as well as in the broader market, have outperformed larger cap stocks. Specifically, NBI companies with market capitalization of \$500M or less experienced weighted average stock price increases of ~76% in this period compared with an increase of just ~15% for larger companies. A similar outperformance of smaller companies occurred in the broader market as well. In healthcare, small cap outperformance has been attributed to a number of factors, including a positive generalized impression of the potential for mergers and acquisitions. In any event, being underweight this group of stocks hurt the performance of the Fund in the last six months of the fiscal year.

While performance of the Fund has suffered in this period, we are not abandoning our basic premise. We believe that the companies that will do best are those with quality marketed products that make a difference in the lives of patients and with solid management that has the ability to bring products with novel differentiated profiles to market. We also favor companies that can fund operations through partnerships or cash flow rather than through highly dilutive capital raises. The Fund does selectively own stocks of some companies that are farther away from commercialization which we believe can contribute to upside performance, particularly in the venture portfolio. However, we prefer companies with products in development. Typically, there is sufficient data associated with such products that we can use the medical, scientific and business experience of our excellent analytical staff to make assessments that we anticipate will produce solid returns for our shareholders.

A number of events in the healthcare and biotech sector have occurred involving both the general market and specific companies. The most important factor during the report period has been the unfolding of the national debate on healthcare reform, the goal of which is universal health insurance coverage for all Americans, a laudable and extremely ambitious goal. The debate has appeared to distill down to how to balance a wish to provide coverage and the uncertainty about how such an entitlement will be paid for. There are likely to be many winners and losers when, and if, a comprehensive law is enacted, but it is simply too soon to tell what groups will benefit most, or least. Generally speaking, healthcare stocks have underperformed the market since the Administration unveiled its reform ideas in late February after having outperformed the broad market in the latter part of 2008 and early part of 2009. We expect that such underperformance could continue until there is clarity about the outcome.

If there is one thing we have learned to count on, it is that stock prices are often weak whenever there is uncertainty, and there has been considerable uncertainty about what healthcare reform will look like and whether we will ultimately get comprehensive healthcare reform. Because of uncertainties, it is our impression that

generalist investors have avoided healthcare stocks during the last six months or so, preferring to wait to see what is or is not passed into law. Once the outcome is more certain, which we expect at or around the end of 2009, we expect that many investors will increase allocations into the healthcare sector. We would anticipate this to ultimately be good for the healthcare sector. Within healthcare subsectors, we believe that individual stocks are subject to dynamic assessments by investors about what their probability of success will be under any new healthcare legislation. As an example, consider the managed care sector, as exemplified by United Healthcare, Aetna and Wellpoint. This group sold off significantly after the initial February 2009 announcement by the Administration under the assumption that the sector's business would be harmed by governmental control or by a "public" healthcare insurance option. However, in the intervening months, this group rallied strongly. In part this upward move has been market related. However, there is also mounting speculation that healthcare reform may be good for the group as business (or at least pricing) lost to government control can be balanced by increasing volume provided by more people under coverage. This group continues to be affected by the fate of the public option. We believe that the best way to invest in the current dynamic environment is to identify and own companies with strong fundamentals that provide differentiated products addressing unmet medical needs.

In addition to these macro factors, a number of company-specific events have also shaped the healthcare and biotech market in the fiscal year. In addition to those noted in the semiannual report, we note positive reports or product approvals from such companies as Human Genome Sciences (BLISS-52), United Therapeutics (Adcirca and Tyvaso), Amgen (Denosumab), Dendreon (Provenge), Celgene (Revlimid), Abbott (Xience), Onyx (Nexavar) and Cephalon (Treanda). Similarly, there have been negative events at such companies as Sequenom (SecureDX), Osiris (Prochymal) and Genzyme (general manufacturing issues). We also note that mergers and acquisitions appeared to play a role in the current period. Acquisitions involving such companies as Medarex, Cougar, CV Therapeutics, P&G Pharma and Stiefel Labs appeared to catalyze a general interest in relatively small biotech companies. Overall we see the last six months in particular as providing a net positive set of news for the sector.

As noted in our semiannual report, the Fund realized some losses during the six month period ended March 31, 2009. This caused the Fund's distributions in early 2009 to be projected to be a return of capital. Given the uncertainty of the markets and the possibility of a negative tax consequence for shareholders in 2010, in August 2009 the Trustees of the Fund elected to suspend the Fund's distribution plan until further notice. We can report that, by the end of the 2009

fiscal year, sufficient gains had been realized by the Fund that, as reported herein, the Fund ended the fiscal year with net realized gains. We expect that the fact that the Fund ended the fiscal year without net realized losses will be a positive factor in the Trustees' evaluation of whether to reinstate the distribution plan. Many other factors will of course be considered and there is no certainty that the distribution plan will be reinstated.

After the suspension of the distribution plan there was a noticeable widening of the Fund's discount to its NAV. The discount has narrowed somewhat in the interim but remains on average higher than it has been over the last several years. In part, in an attempt to narrow the discount further, the Trustees have approved and the Fund has announced a share repurchase program. We are hopeful that this will have a beneficial effect on the Fund's discount.

Investment Changes

During the twelve month period ended September 30, 2009, within the public portfolio, the Fund established positions in several companies including Cephalon, Inc., Illumina, Inc., Cubist Pharmaceuticals, Inc., Perrigo Company and Warner Chilcott plc. During the same twelve month period, the Fund exited its position in several companies including Baxter International Inc., Genentech, Inc., through an acquisition, ICON plc, Masimo Corporation and Thermo Fisher Scientific Inc.

During the same twelve month period, within the venture portfolio, the Fund established positions in Interlace Medical, Inc. and Palyon Medical Corporation. The Fund made follow on investments in Concentric Medical, Inc., Magellan Biosciences, Inc., TargeGen, Inc. and Xoft, Inc. The Fund exited its position in Cytologix, Inc. and wrote off its investments in EPR, Inc. and Syntiro Healthcare Services.

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



Daniel R. Omstead
President

H&Q LIFE SCIENCES INVESTORS

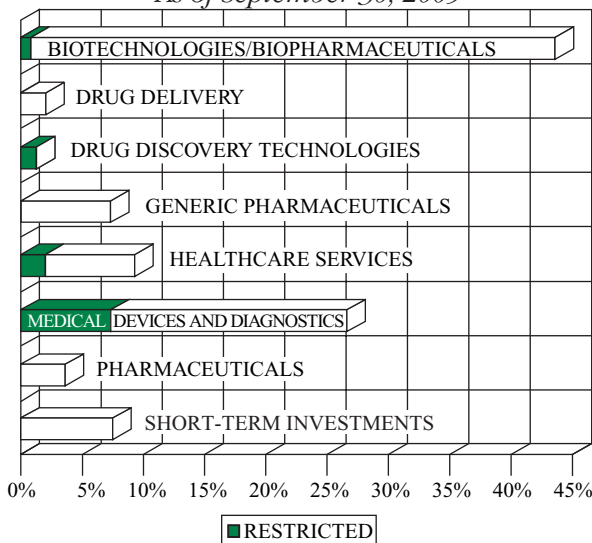
LARGEST HOLDINGS BY ISSUER

As of September 30, 2009

<u>Issuer - Sector</u>	<u>% of Net Assets</u>
Celgene Corporation <i>Biotechnologies/Biopharmaceuticals</i>	5.04%
Amgen Inc. <i>Biotechnologies/Biopharmaceuticals</i>	3.96%
Biogen Idec Inc. <i>Biotechnologies/Biopharmaceuticals</i>	3.61%
Genzyme Corporation <i>Biotechnologies/Biopharmaceuticals</i>	3.35%
Vertex Pharmaceuticals Inc. <i>Biotechnologies/Biopharmaceuticals</i>	3.35%
Teva Pharmaceutical Industries, Ltd. <i>Generic Pharmaceuticals</i>	3.25%
illumina, Inc. <i>Medical Devices and Diagnostics</i>	3.11%
United Therapeutics Corporation <i>Biotechnologies/Biopharmaceuticals</i>	2.57%
Cephalon, Inc. <i>Biotechnologies/Biopharmaceuticals</i>	2.46%
Concentric Medical, Inc. <i>Medical Devices and Diagnostics</i>	2.13%

PORTFOLIO

As of September 30, 2009



H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2009

CONVERTIBLE SECURITIES AND WARRANTS - 11.0% of Net Assets

SHARES	Convertible Preferred (Restricted) ^{(a)(b)} - 10.7%	VALUE
	<i>Biotechnologies/Biopharmaceuticals - 0.7%</i>	
204,275	MacroGenics, Inc. Series D	\$133,208
50,145	MacroGenics, Inc. Series D 18 Month Lock-up	21,798
1,415,385	TargeGen, Inc. Series C	1,226,672
407,825	TargeGen, Inc. Series D	353,450
		<hr/> 1,735,128
	<i>Drug Discovery Technologies - 1.3%</i>	
1,587,302	Agilix Corporation Series B ^(c)	94,540
250,000	Ceres, Inc. Series C	1,625,000
21,462	Ceres, Inc. Series C-1	139,503
175,540	Ceres, Inc. Series D	1,141,010
28,385	Ceres, Inc. Series F	184,502
5,677	Ceres, Inc. warrants (expiration 9/05/15)	0
		<hr/> 3,184,555
	<i>Healthcare Services - 1.4%</i>	
3,589,744	PHT Corporation Series D ^(c)	2,800,000
802,996	PHT Corporation Series E ^(c)	626,337
99,455	PHT Corporation Series F ^(c)	77,575
		<hr/> 3,503,912
	<i>Medical Devices and Diagnostics - 7.3%</i>	
2,379,916	CardioKinetix, Inc. Series C	1,640,000
3,235,293	Concentric Medical, Inc. Series B ^(c)	3,235,293
1,162,790	Concentric Medical, Inc. Series C ^(c)	1,162,790
455,333	Concentric Medical, Inc. Series D ^(c)	455,333
453,094	Concentric Medical, Inc. Series E ^(c)	453,094
1,198,193	Elemé Medical, Inc. Series C	632,646
1,592,852	FlowCardia, Inc. Series C	1,708,334
1,304,545	Interlace Medical, Inc. Series C	1,435,000
2,446,016	Labcyte Inc. Series C	1,280,000
2,050,000	Magellan Biosciences, Inc. Series A	2,050,000
98,824	Magellan Biosciences, Inc. warrants (expiration 4/01/19)	0
7,877	Magellan Biosciences, Inc. warrants (expiration 5/06/19)	0
1,031,992	OmniSonic Medical Technologies, Inc. Series A-1	1,031
877,747	OmniSonic Medical Technologies, Inc. Series B-1	877
9,606,373	Palyon Medical Corporation Series A ^(c)	2,050,000
43,478	TherOx, Inc. Series H	72,122
99,646	TherOx, Inc. Series I	165,293

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

H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2009

(continued)

<u>SHARES</u>	Convertible Preferred (Restricted) ^{(a)(b)} - continued	<u>VALUE</u>
2,813	TherOx, Inc. warrants (expiration 1/26/11)	\$0
5,427	TherOx, Inc. warrants (expiration 6/09/10)	0
640,625	Xoft, Inc. Series D	1,601,562
122,754	Xoft, Inc. Series E	306,885
N/A	Xoft, Inc. warrants (expiration 6/12/14) ^(d)	0
		<u>18,250,260</u>
		<u>\$26,673,855</u>
<u>PRINCIPAL AMOUNT</u>	Convertible Notes - 0.3%	
	<i>Biotechnologies/Biopharmaceuticals - 0.0%</i>	
\$76,202	TargeGen, Inc., Promissory Note, 8.00% due 2010 (Restricted) ^(a)	<u>76,202</u>
	<i>Drug Discovery Technologies - 0.1%</i>	
700,000	deCODE Genetics, Inc., 3.50% due 2011	<u>103,250</u>
	<i>Medical Devices and Diagnostics - 0.2%</i>	
106,701	Magellan Biosciences, Inc., Senior Subordinated Notes, 8.00% due 2010 (Restricted) ^(a)	106,701
410,000	Xoft, Inc., Promissory Note, 10.00% due 2010 (Restricted) ^(a)	<u>410,000</u>
		<u>516,701</u>
		<u>\$696,153</u>
	TOTAL CONVERTIBLE SECURITIES AND WARRANTS	
	(Cost \$35,346,510)	<u>\$27,370,008</u>

COMMON STOCKS AND WARRANTS - 84.3%

<u>SHARES</u>	Biotechnologies/Biopharmaceuticals - 44.0%	
130,764	Acorda Therapeutics Inc. ^(b)	3,044,186
135,182	Affymax, Inc. ^(b)	3,229,498
8,200	Alexion Pharmaceuticals, Inc. ^(b)	365,228
165,506	Alnylam Pharmaceuticals, Inc. ^(b)	3,753,676
56,000	AMAG Pharmaceuticals, Inc. ^(b)	2,446,080
163,562	Amgen Inc. ^(b)	9,851,339
202,959	Amylin Pharmaceuticals, Inc. ^(b)	2,778,509
3,588,710	Antisoma plc ^{(b)(e)}	2,023,210
340,305	Antisoma plc 18 Month Lock-up (Restricted) ^{(a)(b)(e)}	182,261
328,000	Athersys, Inc. ^(b)	400,160
82,000	Athersys, Inc. warrants (Restricted, expiration 6/08/12) ^{(a)(b)}	1,640

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

H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2009

(continued)

SHARES	Biotechnologies/ Biopharmaceuticals - continued	VALUE
177,728	Biogen Idec Inc. ^(b)	\$8,978,819
131,000	BioMarin Pharmaceutical Inc. ^(b)	2,368,480
224,236	Celgene Corporation ^(b)	12,534,792
105,114	Cephalon, Inc. ^(b)	6,121,839
174,224	Cornerstone Therapeutics Inc. ^(b)	1,141,167
15,967	Cornerstone Therapeutics Inc. warrants (Restricted, expiration 6/06/10) ^{(a)(b)}	319
203,897	Cubist Pharmaceuticals, Inc. ^(b)	4,118,719
51,257	Dendreon Corporation ^(b)	1,434,683
90,552	DOV Pharmaceutical, Inc. warrants (Restricted, expiration 12/31/09) ^{(a)(b)}	0
147,001	Genzyme Corporation ^(b)	8,339,367
100,625	Gilead Sciences, Inc. ^(b)	4,687,113
153,000	Isis Pharmaceuticals, Inc. ^(b)	2,229,210
157,476	Martek Biosciences Corporation ^(b)	3,557,383
132,850	Medicines Company ^(b)	1,462,679
175,880	MiddleBrook Pharmaceuticals, Inc. warrants (Restricted, expiration 4/29/10) ^{(a)(b)}	3,518
75,811	Onyx Pharmaceuticals, Inc. ^(b)	2,272,056
48,190	OSI Pharmaceuticals, Inc. ^(b)	1,701,107
148,886	Regeneron Pharmaceuticals, Inc. ^(b)	2,873,500
130,651	United Therapeutics Corporation ^(b)	6,400,593
220,017	Vertex Pharmaceuticals Inc. ^(b)	8,338,644
131,293	XenoPort, Inc. ^(b)	2,787,350
		<u>109,427,125</u>
	Drug Delivery - 2.1%	
163,552	Alkermes, Inc. ^(b)	1,503,043
997,671	DURECT Corporation ^(b)	2,663,782
394,928	Penwest Pharmaceuticals Co. ^(b)	825,399
199,514	Penwest Pharmaceuticals Co. warrants (Restricted, expiration 3/11/13) ^{(a)(b)}	185,548
		<u>5,177,772</u>
	Drug Discovery Technologies - 0.1%	
7,627	Clinical Data, Inc. ^(b)	127,142
162,288	Clinical Data, Inc. CVR (Restricted) ^{(a)(b)(f)}	25,430
1,601,039	MZT Holdings, Inc. ^{(b)(c)}	48,031
1,846,154	MZT Holdings, Inc. warrants (Restricted, expiration 1/17/11) ^{(a)(b)(c)}	0
952,381	MZT Holdings, Inc. warrants (Restricted, expiration 1/22/12) ^{(a)(b)(c)}	0
46	Zyomyx, Inc. (Restricted) ^{(a)(b)}	12
		<u>200,615</u>

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

H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2009

(continued)

SHARES	Generic Pharmaceuticals - 7.5%	VALUE
823,996	Akorn, Inc. ^(b)	\$1,128,875
108,889	Akorn, Inc. warrants (Restricted, expiration 3/08/11) ^{(a) (b)}	16,333
313,425	Impax Laboratories, Inc. ^(b)	2,739,334
134,250	Mylan Inc. ^(b)	2,149,343
131,969	Perrigo Company	4,485,626
159,968	Teva Pharmaceutical Industries, Ltd. ^(g)	8,087,982
		<u>18,607,493</u>
	Healthcare Services - 7.1%	
55,910	Aetna Inc.	1,555,975
148,148	Aveta, Inc. (Restricted) ^{(a) (b) (h)}	1,481,480
140,194	CardioNet, Inc. ^(b)	942,104
37,750	Laboratory Corporation of America Holdings ^(b)	2,480,175
118,520	Pharmaceutical Product Development, Inc.	2,600,329
146,300	VCA Antech Inc. ^(b)	3,934,007
44,450	WellPoint, Inc. ^(b)	2,105,152
1,157,112	Zix Corporation ^(b)	2,545,646
		<u>17,644,868</u>
	Medical Devices and Diagnostics - 19.8%	
249,202	Align Technology, Inc. ^(b)	3,543,652
49,384	Becton, Dickinson and Company	3,444,534
92,881	Gen-Probe Inc. ^(b)	3,848,989
237,544	Hologic, Inc. ^(b)	3,881,469
75,665	IDEXX Laboratories, Inc. ^(b)	3,783,250
181,752	Illumina, Inc. ^(b)	7,724,460
8,815	Intuitive Surgical, Inc. ^(b)	2,311,734
130,343	Inverness Medical Innovations, Inc. ^(b)	5,048,184
109,402	Life Technologies Corporation ^(b)	5,092,663
130,000	Masimo Laboratories, Inc. (Restricted) ^{(a) (b)}	56,264
447,080	Medwave, Inc. ^(b)	8,942
111,770	Medwave, Inc. warrants (Restricted, expiration 8/21/11) ^{(a) (b)}	0
160,733	Myriad Genetics, Inc. ^(b)	4,404,084
62,005	OmniSonic Medical Technologies, Inc. (Restricted) ^{(a) (b)}	62
1,023,639	Sequenom, Inc. ^(b)	3,306,354
139	Songbird Hearing, Inc. (Restricted) ^{(a) (b)}	93
59,896	Stryker Corporation	2,721,075
		<u>49,175,809</u>

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H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2009

(continued)

<u>SHARES</u>	Pharmaceuticals - 3.7%	<u>VALUE</u>
88,431	Forest Laboratories, Inc. ^(b)	\$2,603,409
35,523	Shire plc ^(g)	1,857,498
224,347	Warner Chilcott plc ^(b)	4,850,382
		<u>9,311,289</u>
	TOTAL COMMON STOCKS AND WARRANTS	
	(Cost \$223,323,668)	<u>\$209,544,971</u>
PRINCIPAL	SHORT-TERM INVESTMENTS - 7.6%	
<u>AMOUNT</u>	Repurchase Agreement, State Street Bank and Trust Co., repurchase value \$19,000,005 (collateralized by U.S. Treasury Bill 0.15% discount, 03/25/10, market value \$19,382,540); 0.01% due 10/01/09	<u>\$19,000,000</u>
\$19,000,000	TOTAL SHORT-TERM INVESTMENTS	
	(Cost \$19,000,000)	<u>\$19,000,000</u>
	TOTAL INVESTMENTS - 102.9%	
	(Cost \$277,670,178)	<u>\$255,914,979</u>
	OTHER LIABILITIES IN EXCESS OF ASSETS - (2.9)%	<u>(\$7,331,520)</u>
	NET ASSETS - 100%	<u><u>\$248,583,459</u></u>

(a) Security fair valued.

(b) Non-income producing security.

(c) Affiliated issuers in which the Fund holds 5% or more of the voting securities (total market value of \$11,002,993).

(d) Number of warrants to be determined at a future date.

(e) Foreign security.

(f) Contingent Value Rights

(g) American Depositary Receipt

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

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

H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2009

(continued)

Other Information

The Fund adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 820, *Fair Value Measurements and Disclosures* (ASC 820), effective October 1, 2008. ASC 820 established a three-tier hierarchy to prioritize the assumptions, referred to as inputs, used in valuation techniques to measure fair value. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1 — quoted prices in active markets for identical investments
- Level 2 — prices determined using other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 — prices determined using significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

These inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of September 30, 2009 to value the Fund's net assets:

Assets at Value	Level 1	Level 2	Level 3	Total
Convertible Securities and Warrants				
Biotechnologies/Biopharmaceuticals	—	—	\$1,811,330	\$1,811,330
Drug Discovery Technologies	—	\$103,250	3,184,555	3,287,805
Healthcare Services	—	—	3,503,912	3,503,912
Medical Devices and Diagnostics	—	—	18,766,961	18,766,961
Total Convertible Securities and Warrants	—	103,250	27,266,758	27,370,008
Common Stocks and Warrants				
Biotechnologies/Biopharmaceuticals	\$109,239,387	—	187,738	109,427,125
Drug Delivery	4,992,224	—	185,548	5,177,772
Drug Discovery Technologies	175,173	—	25,442	200,615
Generic Pharmaceuticals	18,591,160	—	16,333	18,607,493
Healthcare Services	16,163,388	—	1,481,480	17,644,868
Medical Devices and Diagnostics	49,119,390	—	56,419	49,175,809
Pharmaceuticals	9,311,289	—	—	9,311,289
Total Common Stocks and Warrants	207,592,011	—	1,952,960	209,544,971
Short Term Investments	—	19,000,000	—	19,000,000
Other Assets	—	—	618,509	618,509
Total	\$207,592,011	\$19,103,250	\$29,838,227	\$256,533,488

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

H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2009

(continued)

Other Information, continued

The following is a reconciliation of level 3 assets for which significant unobservable inputs were used to determine fair value:

Level 3 Assets	Balance as of September 30, 2008 (i)	Accrued discounts/ premiums	Realized gain/loss and change in unrealized appreciation (depreciation)	Net purchases/ sales	Net transfers in (out of) Level 3	Balance as of September 30, 2009
Convertible Securities and Warrants						
Biotechnologies/ Biopharmaceuticals	\$1,735,128	—	(\$2,258)	\$78,460	—	\$1,811,330
Drug Discovery Technologies	3,204,575	—	179,892	(199,912)	—	3,184,555
Healthcare Services	4,038,618	—	(59,346)	(475,360)	—	3,503,912
Medical Devices and Diagnostics	20,277,441	—	(5,994,926)	4,484,446	—	18,766,961
Common Stocks and Warrants						
Biotechnologies/ Biopharmaceuticals	999,982	—	443,686	—	(\$1,255,930)	187,738
Drug Delivery	195,524	—	(9,976)	—	—	185,548
Drug Discovery Technologies	2,000	—	(176,470)	199,912	—	25,442
Generic Pharmaceuticals	118,689	—	(102,356)	—	—	16,333
Healthcare Services	9,290,799	—	(738,480)	(86)	(7,070,753)	1,481,480
Medical Devices and Diagnostics	58,198	—	(1,821)	42	—	56,419
Other Assets	<u>1,245,993</u>	<u>—</u>	<u>289,350</u>	<u>(916,834)</u>	<u>—</u>	<u>618,509</u>
Total	<u>\$41,166,947</u>	<u>—</u>	<u>(\$6,172,705)</u>	<u>\$3,170,668</u>	<u>(\$8,326,683)</u>	<u>\$29,838,227</u>
Net change in unrealized appreciation (depreciation) from investments still held as of September 30, 2009						(8,634,824)

(i) Industry classifications of certain investments in the prior year have been reclassified to conform to current year presentation.

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

H&Q LIFE SCIENCES INVESTORS

STATEMENT OF ASSETS AND LIABILITIES

SEPTEMBER 30, 2009

ASSETS:

Investments in unaffiliated issuers, at value (cost \$265,544,991)	\$244,911,986
Investments in affiliated issuers, at value (cost \$12,125,187)	11,002,993
Cash	5,475,780
Dividends and interest receivable	29,838
Receivable for investments sold	2,984,831
Prepaid expenses	54,929
Other assets (see Note 4)	<u>618,509</u>
Total assets	<u>\$265,078,866</u>

LIABILITIES:

Payable for investments purchased	\$16,028,011
Accrued advisory fee	229,945
Accrued trustee fees	51,308
Accrued shareholder reporting fees	27,181
Accrued other	<u>158,962</u>
Total liabilities	<u>\$16,495,407</u>

NET ASSETS \$248,583,459

SOURCES OF NET ASSETS:

Shares of beneficial interest, par value \$.01 per share, unlimited number of shares authorized, amount paid in on 21,950,220 shares issued and outstanding	\$273,643,993
Accumulated net realized loss on investments, options and foreign currency	(3,305,335)
Net unrealized loss on investments and foreign currency	<u>(21,755,199)</u>
Net assets (equivalent to \$11.32 per share based on 21,950,220 shares outstanding)	<u>\$248,583,459</u>

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

H&Q LIFE SCIENCES INVESTORS

STATEMENT OF OPERATIONS

YEAR ENDED SEPTEMBER 30, 2009

INVESTMENT INCOME:

Dividend income (net of foreign tax of \$22,369)	\$401,765
Interest income	<u>59,797</u>
Total investment income	\$461,562

EXPENSES:

Advisory fees	\$2,710,883
Trustees' fees and expenses	189,486
Legal fees	171,699
Administration and auditing fees	145,701
Custodian fees	92,191
Shareholder reporting	87,500
Transfer agent fees	48,570
Other (see Note 2)	<u>168,315</u>
Total expenses	<u>3,614,345</u>

Net investment loss (\$3,152,783)

REALIZED AND UNREALIZED GAIN (LOSS):

Net realized gain/(loss) on:	
Investments in unaffiliated issuers	\$1,240,391
Investments in affiliated issuers	(1,112,354)
Closed or expired options contracts written	157,175
Foreign currency	<u>(15)</u>
Net realized gain	<u>\$285,197</u>

Change in unrealized appreciation (depreciation) on:

Investments in unaffiliated issuers	(\$17,917,023)
Investments in affiliated issuers	(889,444)
Foreign currency	<u>10</u>

Change in unrealized appreciation (depreciation) (\$18,806,457)

Net realized and unrealized gain (loss) (\$18,521,260)

Net decrease in net assets resulting
from operations (\$21,674,043)

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

H&Q LIFE SCIENCES INVESTORS

STATEMENTS OF CHANGES IN NET ASSETS

	Year ended September 30, 2009	Year ended September 30, 2008
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment loss	(\$3,152,783)	(\$2,917,323)
Net realized gain	285,197	23,837,115
Change in net unrealized appreciation (depreciation)	<u>(18,806,457)</u>	<u>(39,325,272)</u>
Net decrease in net assets resulting from operations	<u>(21,674,043)</u>	<u>(18,405,480)</u>
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net realized capital gains	(2,046,323)	(23,504,432)
Return of capital (tax basis)	<u>(12,491,241)</u>	<u>—</u>
Total distributions	<u>(14,537,564)</u>	<u>(23,504,432)</u>
CAPITAL SHARE TRANSACTIONS:		
Reinvestment of distributions (865,405 and 1,001,680 shares, respectively)	<u>6,974,830</u>	<u>11,732,523</u>
Net decrease in net assets	<u>(29,236,777)</u>	<u>(30,177,389)</u>
NET ASSETS:		
Beginning of year	<u>277,820,236</u>	<u>307,997,625</u>
End of year	<u>\$248,583,459</u>	<u>\$277,820,236</u>

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

H&Q LIFE SCIENCES INVESTORS

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Purchases of portfolio securities	(\$170,707,877)
Purchases to close options written	(873,760)
Net maturities of short-term investments	8,215,226
Sales of portfolio securities	177,655,709
Proceeds from options written	1,298,864
Interest income received	36,141
Dividend income received	440,867
Other operating receipts (expenses paid)	<u>(3,026,874)</u>
Net cash provided from operating activities	<u>\$13,038,296</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Cash distributions paid	<u>(\$7,562,734)</u>
Net cash used for financing activities	<u>(\$7,562,734)</u>
NET INCREASE IN CASH	\$5,475,562
CASH AT BEGINNING OF YEAR	<u>218</u>
CASH AT END OF YEAR	<u><u>\$5,475,780</u></u>

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	(\$21,674,043)
Purchases of portfolio securities	(170,707,877)
Purchases to close options written	(873,760)
Net maturities of short-term investments	8,215,226
Sales of portfolio securities	177,655,709
Proceeds from options written	1,298,864
Accretion of discount	(8,193)
Net realized gain on investments, options and foreign currency	(285,197)
Decrease in net unrealized appreciation (depreciation) on investments and foreign currency	18,806,457
Decrease in dividends and interest receivable	23,639
Decrease in accrued expenses	(45,073)
Decrease in prepaid expenses and other assets	<u>632,544</u>
Net cash provided from operating activities	<u><u>\$13,038,296</u></u>

Noncash financing activities not included herein consist of reinvested distributions to shareholders of \$6,974,830.

Noncash operating activity not included herein consists of corporate actions of \$2,019,316.

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

H&Q LIFE SCIENCES INVESTORS

FINANCIAL HIGHLIGHTS

YEARS ENDED SEPTEMBER 30,	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
PER SHARE OPERATING PERFORMANCE					
Net asset value per share, Beginning of year	<u>\$13.18</u>	<u>\$15.34</u>	<u>\$13.94</u>	<u>\$18.19</u>	<u>\$15.90</u>
Net investment loss (1)	(\$0.15)	(\$0.14)	(\$0.09)	(\$0.10)(2)	(\$0.21)
Net realized and unrealized gain (loss)	<u>(1.03)</u>	<u>(0.87)</u>	<u>2.63</u>	<u>(2.10)</u>	<u>3.79</u>
Total increase (decrease) from investment operations	<u>(\$1.18)</u>	<u>(\$1.01)</u>	<u>\$2.54</u>	<u>(\$2.20)</u>	<u>\$3.58</u>
Distributions to shareholders from:					
Net realized capital gain	(0.10)	(1.15)	(1.14)	(2.05)	(1.29)
Return of capital (tax basis)	<u>(0.58)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total distributions	<u>(0.68)</u>	<u>(1.15)</u>	<u>(1.14)</u>	<u>(2.05)</u>	<u>(1.29)</u>
Net asset value per share, End of year	<u>\$11.32</u>	<u>\$13.18</u>	<u>\$15.34</u>	<u>\$13.94</u>	<u>\$18.19</u>
Per share market value, End of year	\$9.23	\$10.62	\$13.53	\$13.29	\$16.85
Total investment return at market value	(5.56%)	(13.52%)	10.56%	(9.95%)	12.77%
RATIOS AND SUPPLEMENTAL DATA					
Net assets, end of year (in millions)	\$249	\$278	\$308	\$268	\$229
Ratio of operating expenses to average net assets	1.58%	1.56%	1.60%	1.74%	1.74%
Ratio of net investment loss to average net assets	(1.38%)	(0.99%)	(0.60%)	(0.64%)(2)	(1.29%)
Portfolio turnover rate	82.88%	73.89%	112.69%	49.90%	73.79%

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

(2) Includes a special dividend from an issuer in the amount of \$0.10 per share. Excluding the special dividend, the ratio of net investment loss to average net assets would have been (1.27%).

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

H&Q LIFE SCIENCES INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

(1) Organization and Significant Accounting Policies

H&Q Life Science 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 life science industry (including biotechnology, pharmaceutical, diagnostics, managed healthcare and medical equipment, hospitals, healthcare information technology and services, devices and supplies), agriculture and environmental management. The Fund invests primarily in securities of public and private companies that are believed to have significant potential for above-average growth.

The preparation of these financial statements requires the use of certain estimates by management in determining the Fund'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. Events or transactions occurring after year end through the date that the financial statements were issued, November 23, 2009, have been evaluated in the preparation of the financial statements.

Investment Valuation

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. Publicly traded investments for which market quotations are not readily available or whose quoted price may otherwise not reflect fair value and the fair value of venture capital and other restricted securities are valued in good faith by Hambrecht & Quist Capital Management LLC (the Adviser) pursuant to valuation policies and procedures approved by the Trustees. Such values are subject to regular oversight and ratification by the Trustees. 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 these securities existed, and the differences could be material. Each such fair value determination is based on a consideration of relevant factors. Factors the Adviser considers 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; (iii) the price of a security negotiated at arm's length in an issuer's completed subsequent round of financing; and (iv) the price and extent of public trading in similar securities of the issuer or of comparable companies. See Note (4) below. Short-term investments with maturity of 60 days or less are valued at amortized cost, which approximates fair value.

Options on Securities

An option contract is a contract in which the writer (seller) of the option grants the buyer of the option, upon payment of a premium, the right to purchase from (call option) or sell to (put option) the writer a designated instrument at a specified price within a specified period of time. Certain options, including options on indices, will require cash settlement by the Fund if the option is exercised. The Fund may enter into option contracts in order to hedge against potential adverse price movements in the value of portfolio assets; as a temporary substitute for

H&Q LIFE SCIENCES INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

(continued)

selling selected investments; to lock in the purchase price of a security or currency which it expects to purchase in the near future; as a temporary substitute for purchasing selected investments; and to enhance potential gain.

The liability representing the Fund's obligation under an exchange traded written option or investment in an exchange traded purchased option is valued at the last sale price or in the absence of a sale, the mean between the closing bid and asked prices. Gain or loss is recognized when the option contract expires, is exercised or is closed.

If the Fund writes a covered call option, the Fund foregoes, in exchange for the premium, the opportunity to profit during the option period from an increase in the market value of the underlying security above the exercise price. If the Fund writes a put option it accepts the risk of a decline in the market value of the underlying security below the exercise price. Over-the-counter options have the risk of the potential inability of counterparties to meet the terms of their contracts. The Fund's maximum exposure to purchased options is limited to the premium initially paid. In addition, certain risks may arise upon entering into option contracts including the risk that an illiquid secondary market will limit the Fund's ability to close out an option contract prior to the expiration date and that a change in the value of the option contract may not correlate exactly with changes in the value of the securities hedged.

All options on securities and securities indices written by the Fund are required to be covered. When the Fund writes a call option, this means that during the life of the option the Fund may own or have the contractual right to acquire the securities subject to the option or may maintain with the Fund's custodian in a segregated account appropriate liquid securities in an amount at least equal to the market value of the securities underlying the option. When the Fund writes a put option, this means that the Fund will maintain with the Fund's custodian in a segregated account appropriate liquid securities in an amount at least equal to the exercise price of the option. The Fund may use option contracts to gain or hedge exposure to financial market risk.

Transactions in options written for the year ended September 30, 2009 were as follows:

	<u>Contracts</u>	<u>Premiums</u>
Options outstanding, September 30, 2008	—	—
Options written	9,588	\$1,298,864
Options terminated in closing purchase transactions	(4,541)	(754,094)
Options exercised	(1,526)	(267,929)
Options expired	<u>(3,521)</u>	<u>(276,841)</u>
Options outstanding, September 30, 2009	<u>—</u>	<u>—</u>

Investment Transactions and Income

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.

H&Q LIFE SCIENCES INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

(continued)

The aggregate cost of purchases and proceeds from sales of investment securities (other than short-term investments) for the year ended September 30, 2009 totaled \$183,316,498 and \$178,179,388, 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 agreement 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

Pursuant to a Securities and Exchange Commission exemptive order, the Fund has implemented a fixed distribution policy (the Policy) that permits the Fund to make quarterly distributions at a rate set by the Board of Trustees. Under the Policy the Fund makes 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, if available, but the Policy would 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. Under the Policy realized capital gains in excess of the total distributed would be included in the December distribution. The Fund's total distributions during the year ended September 30, 2009 have exceeded the Fund's investment income and net realized capital gains. Based on these estimates and other considerations, the Board of Trustees suspended the Policy on August 4, 2009. The Policy has been established by the Board of Trustees and may be changed by them without shareholder approval. The Board regularly reviews the Policy and the distribution rate considering the purpose and effect of the Policy, the financial market environment, and the Fund's income, capital gains and capital available to pay distributions.

The Policy is to declare distributions in stock. The Policy automatically pays newly-issued full shares of the Fund 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 Fund'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 price 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 Fund will be reduced. The shares reinvested 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.

Share Repurchase Program

In September 2009, the Trustees authorized a share repurchase program to allow the Fund to repurchase up to 10% of its outstanding shares for a one year period beginning October 9, 2009. The share repurchase program is intended to enhance shareholder value and potentially reduce the discount between the market price of the Fund's shares and the Fund's net asset value.

H&Q LIFE SCIENCES INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

(continued)

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.

As of September 30, 2009, the Fund had no uncertain tax positions that would require financial statement recognition or disclosure. The Fund's federal tax returns are subject to examination by the Internal Revenue Service for a period of three years.

Distributions

The Fund records all distributions to shareholders from net investment income and realized gains, if any, on the ex-dividend date. Such distributions are determined in conformity with income tax regulations, which may differ from accounting principles generally accepted in the United States of America. These differences include temporary and permanent differences from losses on wash sale transactions, return of capital distributions and net operating losses. Reclassifications are made to the Fund's capital accounts to reflect income and gains available for distribution under income tax regulations.

The tax basis components of distributable earnings and the tax cost as of September 30, 2009 were as follows:

Cost of investments for tax purposes	\$280,975,513
Gross tax unrealized appreciation	\$16,628,631
Gross tax unrealized depreciation	\$(41,689,165)
Net tax unrealized depreciation on investments	\$(25,060,534)

The Fund has designated the distributions for its taxable years ended September 30, 2009 and 2008 as follows:

Distributions paid from:	<u>2009</u>	<u>2008</u>
Ordinary income	—	—
Long-term capital gain	\$2,046,323	\$23,504,432
Tax return of capital	\$12,491,241	—

Statement of Cash Flows

The cash amount at year end 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, 2009.

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.

H&Q LIFE SCIENCES INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

(continued)

(2) Investment Advisory and Other Affiliated Fees

The Fund has entered into an Investment Advisory Agreement (the Advisory Agreement) with 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) 2.50% 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 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, 0.80% of the average net assets for the next \$500 million and 0.70% of the average net assets thereafter. The aggregate fee would not exceed a rate when annualized of 1.375% (1.36% effective as of July 1, 2009).

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, 2009 these payments amounted to \$57,321 and are included in the Other category in the Statement of Operations, together with insurance and other expenses incurred to unaffiliated entities. Expenses incurred pursuant to the Agreement as well as certain other expenses paid for by the Adviser are allocated in an equitable fashion as approved by the Board of the Fund.

The Fund pays compensation to Independent Trustees in the form of a retainer, attendance fees, and additional compensation to Board and Committee chairpersons. The Fund does not pay compensation directly to Trustees or officers of the Fund who are also officers of the Adviser.

(3) Other Transactions with Affiliates

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, 2009 were as follows:

Issuer	Value on October 1, 2008	Purchases	Sales	Income	Value on September 30, 2009
Agilix Corporation	\$94,540	—	—	\$—	\$94,540
CardioKinetix, Inc. (a)	1,640,000	—	—	—	—
Concentric Medical, Inc.	6,794,782	\$453,094	—	—	5,306,510
CytoLogix Corporation (a)	534,706	—	\$475,359	—	—
MZT Holdings, Inc.	40,026	—	—	—	48,031
Palvon Medical Corporation	—	2,050,000	—	—	2,050,000
PHT Corporation	3,503,912	—	—	—	3,503,912
	<u>\$12,607,966</u>	<u>\$2,503,094</u>	<u>\$475,359</u>	<u>\$—</u>	<u>\$11,002,993</u>

(a) No longer an affiliate at September 30, 2009.

(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 12% of the Fund's net assets at September 30, 2009.

At September 30, 2009, Other Assets in the Statement of Assets and Liabilities consisted of amounts due in connection with restricted securities from two issuers. At September 30, 2009, the Fund had commitments of approximately \$326,000 relating to additional investments in two venture investments.

H&Q LIFE SCIENCES INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

(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, 2009. The Fund on its own does not have the right to demand that such securities be registered.

Security (a)	Acquisition Date	Cost	Carrying Value per Unit	Value
Agilix Corporation Series B Cvt. Pfd.	11/8/01	\$1,663,667	\$0.06	\$94,540
Akorn, Inc. Warrants (expiration 3/08/11)	3/07/06	0.00	0.15	16,333
Antisoma plc (b) 18 Month Lock-up Common	12/5/03 - 6/11/08	355,242	0.54	182,261
Athersys, Inc. Warrants (expiration 6/08/12)	6/07/07	0.00	0.02	1,640
Aveta, Inc. Common	12/21/05	2,003,155	10.00	1,481,480
CardioKinetix, Inc. Series C Cvt. Pfd.	5/22/08	1,645,087	0.69	1,640,000
Ceres, Inc. Series C Cvt. Pfd.	12/23/98	1,000,950	6.50	1,625,000
Series C-1 Cvt. Pfd.	3/31/01	74,339	6.50	139,503
Series D Cvt. Pfd.	3/14/01	1,046,887	6.50	1,141,010
Series F Cvt. Pfd.	9/05/07	186,335	6.50	184,502
Warrants (expiration 9/05/15)	9/05/07	0	0.00	0
Clinical Data, Inc. Contingent Value Rights	5/28/09	0.00	0.16	25,430
Concentric Medical, Inc. Series B Cvt. Pfd.	5/7/02, 1/24/03	2,220,659	1.00	3,235,293
Series C Cvt. Pfd.	12/19/03	1,000,545	1.00	1,162,790
Series D Cvt. Pfd.	9/30/05	638,671	1.00	455,333
Series E Cvt. Pfd.	12/18/08	455,177	1.00	453,094
Cornerstone Therapeutics Inc. Warrants (expiration 6/06/10)	6/20/05	0.00	0.02	319
DOV Pharmaceutical, Inc. Warrants (expiration 12/31/09)	5/10/07	0.00	0.00	0
Elemé Medical, Inc. Series C Cvt. Pfd.	7/15/08	2,260,330	0.53	632,646
FlowCardia, Inc. Series C Cvt. Pfd.	8/29/07	1,720,327	1.07	1,708,334
Interlace Medical, Inc. Series C Cvt. Pfd.	6/10/09	1,440,459	1.10	1,435,000
Labcyte Inc. Series C Cvt. Pfd.	7/18/05	1,283,262	0.52	1,280,000
MacroGenics, Inc. Series D Cvt. Pfd.	9/04/08	668,364	0.65	133,208
Series D Cvt. Pfd. 18 Month Lock-up	9/04/08	210,499	0.43	21,798
Magellan Biosciences, Inc. Series A Cvt. Pfd.	11/28/06	2,053,484	1.00	2,050,000
Warrants (expiration 4/01/19)	4/03/09	0	0.00	0
Warrants (expiration 5/06/19)	5/12/09	0	0.00	0
Cvt. Senior Subordinated Notes	4/03/09, 5/12/09	108,551	1.00	106,701
Masimo Laboratories, Inc. Common	3/31/98	0	0.43	56,264
Medwave, Inc. Warrants (expiration 8/21/11)	8/21/06	0.00	0.00	0

H&Q LIFE SCIENCES INVESTORS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

(continued)

Security (a)	Acquisition Date	Cost	Carrying Value per Unit	Value
MiddleBrook Pharmaceuticals, Inc. Warrants (expiration 4/29/10)	4/29/05	\$0.00	\$0.02	\$3,518
MZT Holdings, Inc. Warrants (expiration 1/17/11)	1/17/06	0.00	0.00	0
Warrants (expiration 1/22/12)	1/21/06	0.00	0.00	0
OmniSonic Medical Technologies, Inc. Series A-1 Cvt. Pfd.	10/01/03	1,201,037	0.001	1,031
Series B-1 Cvt. Pfd.	6/04/07, 11/15/07	668,067	0.001	877
Common	5/24/01, 7/02/07	1,606,361	0.001	62
Palyon Medical Corporation Series A Cvt. Pfd.	4/28/09	2,062,094	0.21	2,050,000
Penwest Pharmaceuticals Co. Warrants (expiration 3/11/13)	3/11/08	0.00	0.93	185,548
PHT Corporation Series D Cvt. Pfd.	7/23/01	2,803,841	0.78	2,800,000
Series E Cvt. Pfd.	9/12/03 - 10/14/04	627,472	0.78	626,337
Series F Cvt. Pfd.	7/21/08	81,720	0.78	77,575
Songbird Hearing, Inc. Common	12/14/00	2,003,239	0.67	93
TargeGen, Inc. Series C Cvt. Pfd.	8/30/05	1,842,330	0.87	1,226,672
Series D Cvt. Pfd.	5/08/07	531,198	0.87	353,450
Cvt. Promissory Note	9/08/09	76,202	1.00	76,202
TherOx, Inc. Series H Cvt. Pfd.	9/11/00	2,001,787	1.66	72,122
Series I Cvt. Pfd.	7/08/05	386,640	1.66	165,293
Warrants (expiration 1/26/11)	1/26/05	0	0.00	0
Warrants (expiration 6/09/10)	6/09/04	0	0.00	0
Xoft, Inc. Series D Cvt. Pfd.	3/23/07	2,055,919	2.50	1,601,562
Series E Cvt. Pfd.	6/20/08	411,757	2.50	306,885
Cvt. Promissory Note	6/12/09	415,686	1.00	410,000
Warrants (expiration 6/12/14)	6/12/09	41	0.00	0
Zyomyx, Inc. Common	2/19/99 - 7/22/04	<u>2,601,013</u>	0.25	<u>12</u>
		<u>\$43,412,394</u>		<u>\$29,219,718</u>

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

(b) The carrying value per unit of unrestricted common units of Antisoma plc was \$0.46 on June 11, 2008, the date of the purchase agreement and date an enforceable right to acquire the restricted units was obtained.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders of H&Q Life Sciences Investors:

We have audited the accompanying statement of assets and liabilities of the H&Q Life Sciences Investors (the "Fund"), including the schedule of investments, as of September 30, 2009, 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 the financial highlights for each of the five 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.

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 include confirmation of securities owned as of September 30, 2009, 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 the H&Q Life Sciences Investors as of September 30, 2009, 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 five 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 23, 2009

H&Q LIFE SCIENCES INVESTORS

TRUSTEES

H & Q Life Sciences Investors
2 Liberty Square, 9th Floor
Boston, Massachusetts 02109
(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:			
Rakesh K. Jain, Ph.D. 12/1950	Trustee (since 2007)	Director, Steele Lab of Tumor Biology at Massachusetts General Hospital (since 1991); A.W. Cook Professor of Radiation Oncology at Harvard Medical School (since 1991); Advisory Committee Member of Department of Biotechnology, Government of India (since 2004).	2
Lawrence S. Lewin 4/1938	Trustee (since 1992) and Chairman (since 2000)	Self-employed Executive Consultant (since 1999).	2
Robert P. Mack 8/1935	Trustee (since 1992)	Consultant, Orthopedic Surgery, Orthopedic Associates of Aspen (since 2000); Orthopedic Consultant, Desert Orthopedic Center (since 2008).	2
Eric Oddleifson 4/1935	Trustee (since 1992)	Self-employed Consultant (since 2005); Investment Committee Chair (2003-2005) and Partner (1997-2005), GMO Renewable Resources LLC; Senior Adviser, The Corporate Library (since 2007); Director of the following charitable organizations: the Marjorie Harris Reynolds Foundation (since 1996); The National Arts & Learning Collaborative (since 1998); From the Top (since 2004).	2
Oleg M. Pohotsky 3/1947	Trustee (since 2000)	Consultant and Managing Partner, Right Bank Partners (since 2002).	2
Uwe E. Reinhardt, Ph.D. 9/1937	Trustee (since 1992)	Professor of Economics, Princeton University (since 1968); Director, Boston Scientific Corporation (since 2002); Director, Amerigroup, Inc. (since 2002).	2
Lucinda H. Stebbins, CPA 11/1945	Trustee (since 2006)	Financial Consultant, Pro Unlimited (since 2004); Director, Deutsche Bank Asset Management (2002-2004); Director, Bald Peak Land Company, Inc. (since 2008).	2

H&Q LIFE SCIENCES 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
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Interested Trustees:

Daniel R. Omstead ³ , Ph.D. 7/1953	President (since 2001); Trustee (since 2003)	President of HQH and 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); Director, Magellan Biosciences, Inc. (since 2006); Director, Elemé Medical, Inc. (since 2008); Director, Concentric Medical, Inc. (2003-2007; 2008-present).	2
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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 the Adviser.

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, HQH and HQL (since 2001); Trustee, HQH and HQL (since 2003); President, Chief Executive Officer and Managing Member, Hambrecht & Quist Capital Management LLC (since 2002); Director, Magellan Biosciences, Inc. (since 2006); Director, Elemé Medical, Inc. (since 2008); Director, Concentric Medical, Inc. (2003-2007; 2008-present).
Laura Woodward, CPA 11/1968	Chief Compliance Officer, Secretary and Treasurer (since May 2009)	Chief Compliance Officer, Secretary and Treasurer, HQH and HQL (since May 2009); Chief Compliance Officer and Vice President, Fund Administration, Hambrecht & Quist Capital Management LLC (since May 2009); Senior Manager, PricewaterhouseCoopers LLP (1990-2009).
Betty Chang 12/1972	Assistant Treasurer (since June 2009)	Assistant Treasurer, HQH and HQL (since June 2009); Manager, Fund Administration and Regulatory Affairs (since 2006) and Regulatory Affairs Associate (2004-2006), Hambrecht & Quist Capital Management LLC.

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 2 Liberty Square, 9th Floor, Boston, MA 02109.

H&Q LIFE SCIENCES INVESTORS

CERTIFICATIONS

The Fund's President has certified to the New York Stock Exchange (NYSE) that as of July 1, 2009, 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 11, 2009. Shareholders voted to elect three Trustees of the Fund to hold office for a term of three years or until their respective successors shall have been duly elected and qualified. The following votes were cast with respect to each of the nominees:

	<u>For</u>	<u>Withheld</u>
Rakesh K. Jain, Ph.D.	17,271,408	1,951,097
Daniel R. Omstead, Ph.D.	18,040,104	1,182,401
Lucinda H. Stebbins, CPA	18,043,679	1,178,826

The nominees were elected to serve until the 2012 Annual Meeting. Trustees serving until the 2010 Annual Meeting are Lawrence S. Lewin and Uwe E. Reinhardt, Ph.D. Trustees serving until the 2011 Annual Meeting are Robert P. Mack, M.D., Eric Oddleifson and Oleg Pohotsky.

Shareholders ratified the appointment of Deloitte & Touche LLP as the independent registered public accountants of the Fund for the fiscal year ending September 30, 2009 by the following votes:

<u>For</u>	<u>Against</u>	<u>Abstain</u>
18,554,064	541,062	127,379

H&Q LIFE SCIENCES 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 2 Liberty Square, 9th Floor, Boston, MA 02109; (iii) on the Fund's website at www.hqcm.com; and (iv) on the SEC's website at <http://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 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 <http://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.

PORTFOLIO MANAGEMENT

Daniel R. Omstead, Ph.D., Christopher F. Brinzey, M.B.A., Frank Gentile, Ph.D. and Jason C. Akus, M.D./M.B.A. are members of a team that analyzes investments on behalf of the Fund. Dr. Omstead exercises ultimate decision making authority with respect to investments.

SHARE REPURCHASE PROGRAM

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase, from time to time, its outstanding shares in the open market.

H&Q LIFE SCIENCES INVESTORS

New York Stock Exchange Symbol: HQL

2 Liberty Square, 9th Floor
Boston, Massachusetts 02109
(617) 772-8500
www.hqcm.com

Officers

Daniel R. Omstead, Ph.D., President
Laura Woodward, CPA, Chief Compliance Officer,
Secretary and Treasurer
Betty Chang, Assistant Treasurer

Trustees

Rakesh K. Jain, Ph.D.
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

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