

H&Q LIFE SCIENCES INVESTORS
Form N-CSR
December 09, 2008

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

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-06565

H&Q Life Sciences Investors
(Exact name of registrant as specified in charter)

2 Liberty Square, 9th Floor, Boston, MA
(Address of principal executive offices)

02109
(Zip code)

2 Liberty Square, 9th Floor, Boston, MA 02109
(Name and address of agent for service)

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

Date of fiscal year end: September 30

Date of reporting period: October 1, 2007 to September 30, 2008

ITEM 1. REPORTS TO STOCKHOLDERS.

H&Q LIFE SCIENCES INVESTORS

Annual Report

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To our Shareholders:

On September 30, 2008, the net asset value (NAV) per share of the Fund was \$13.18. During the twelve-month period ended September 30, 2008, total return at NAV of your Fund was -5.34%. During the most recent six-month period ended September 30, 2008, total return at NAV of your Fund was 1.37%. The total investment return at market was -13.52% during the twelve-month period ended September 30, 2008 and was -5.80% during the six-month period ended September 30, 2008. Comparisons to relevant indices are listed below:

Investment Returns	Six Months Ended 9/30/08	Fiscal Year Ended 9/30/08
Investment Return at Market	-5.80%	-13.52%
Net Asset Value	+1.37%	-5.34%
NASDAQ Biotech Index (NBI)	+7.07%	-2.12%
S&P 500 Index	-10.87%	-21.98%

These returns clearly indicate that during the twelve-month period ending September 30, 2008, performance in both the healthcare sector (as measured by the NBI) and the broader market have been weak. While we compare Fund performance to various indices, no one can be pleased with a loss of asset value over a one year period. Whether it is a -21.98% return in the S&P 500 Index or a -5.34% return at NAV in your Fund, overall we are not happy with Fund performance when it is negative.

To a limited degree we take some solace in the NAV of your Fund out-performing the S&P 500 Index and being above average in comparison to other healthcare investors (according to FactSet Research, the total return for the average of 204 healthcare funds during the twelve-month period ending September 30, 2008 was -11.37% vs. -5.34% for the Fund's return at NAV). Thus the NAV performance of your Fund compares favorably to the performance of other healthcare funds. Despite this, we are nonetheless displeased that the Fund's return at NAV and return at market trailed the NBI.

We continue to analyze our NAV performance versus the NBI to assess our strategic approach to stock picking. Over the last one to two years, we have generally increased our exposure to larger (though still mid-cap in traditional parlance) NBI companies while decreasing our exposure to the smallest public healthcare companies. Over recent years, the smallest public healthcare companies have generally underperformed the NBI. On the other hand, the largest company components in the NBI (e.g., Amgen, Inc., Gilead Sciences, Inc., Celgene Corporation, Teva Pharmaceutical Industries, Ltd., Genzyme Corporation and Biogen Idec Inc.) have generally outperformed the index over the same period. We have continued to increase the Fund's ownership of these companies. As of September 30, 2008, these six companies comprised 20.77% of Fund assets.

Certainly the dominant issue in both the healthcare sector and the broader market over the last several months has been the credit crisis and the ensuing market turbulence. This highly volatile time has continued into October. For growing healthcare companies (the emphasis of our Fund's efforts), it is our view that smaller, public pre-revenue development stage companies will be most negatively affected by the residual impact of the credit crisis. Our observation is that this group of companies have a relatively greater, more frequent need to access the public market for capital and have a greater need for debt financing vehicles. It is also our impression that such capital will be increasingly more difficult to obtain or will be available on less attractive terms. We expect that while this group of companies may exhibit short-term periods of out-performance, over the intermediate and long-term these smaller companies will struggle. As such, we have decreased our exposure to such companies. On September 30, 2008, a total of 7.7% of Fund assets were held in public companies with market capitalization of \$500 million or less versus a weighting of 10.9% in the NBI as of September 30, 2008.

In addition to recent macro market trends, we have observed a number of healthcare specific trends. In recent months, there has been a spate of new clinical data and other product related events reported. As is typical, some reports have been favorable to the reporting company and to the healthcare sector while others have been less favorable. Probably the most notable was the favorable data released by Amgen, Inc. regarding its denosumab antibody which is used in the treatment of osteoporosis. Other positive reports included generally favorable data from Vertex Pharmaceuticals Inc. regarding its treatment for hepatitis C as well as the approval of Genentech's Avastin product for use in breast cancer (after a less than favorable FDA panel review) and the filing by United Therapeutics Corporation of inhaled Remodulin for use in pulmonary arterial hypertension. On the other hand, examples of unfavorable data were reported by Savient Pharmaceuticals, Inc., Rigel Pharmaceuticals, Inc., Cardiome Pharma Corp. and Myriad Genetics, Inc.

In general, it appears that the FDA has continued to take a conservative approach to its review of drugs and other products. In particular, we observe what appears to us to be a trend toward increased safety concerns regarding specific drug products. For example, varying degrees of concern have been expressed regarding the cholesterol lowering drug, Vytorin (which is marketed by Merck/Schering Plough Pharmaceuticals), the MS drug, Tysabri (Biogen Idec Inc. and Elan Pharmaceuticals, Inc.), Merck's vaccine, Gardasil, and Amylin's diabetes drug, Byetta.

Another trend appears to be a continued interest in mergers and acquisitions. In recent months, the acquisition of a number of

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product related healthcare companies has been proposed or announced, including Genentech Inc., Barr Pharmaceuticals, Inc. and Xanthus Pharmaceuticals, Inc., which are portfolio companies of the Fund. In addition, the acquisition of ImClone Systems Inc., not owned by the Fund, was also proposed. CVS Caremark Corporation, not owned by the Fund, acquired Longs Drug Stores.

During the Fund's fiscal year ended September 30, 2008, the best performing assets in the Fund's portfolio included its position in CardioNet, Inc. (which completed an IPO in March 2008), Momenta Pharmaceuticals, Inc., Masimo Corporation, and Agensys, Inc. (which was acquired). Conversely, during this period, the worst performing assets included the Fund's positions in ACADIA Pharmaceuticals Inc., Align Technology, Inc., Inverness Medical Innovations, Inc. and WellPoint, Inc.

During the twelve-month period ended September 30, 2008, within the public portfolio, the Fund established positions in several companies, including Alkermes, Inc., Hologic, Inc., Myriad Genetics, Inc., OSI Pharmaceuticals, Inc. and United Therapeutics Corporation. During the same twelve-month period, the Fund exited its position in several companies, including Cubist Pharmaceuticals, Inc., Cytoc Corporation (through its merger with Hologic, Inc.), Emageon Inc., Mentor Corporation and Shire Plc.

During the same twelve-month period, within the venture portfolio, the Fund established positions in CardioKinetix, Inc., Elemé Medical, Inc. and MacroGenics, Inc. (when the company purchased Raven biotechnologies, Inc.). The Fund made follow-on investments in OmniSonics Medical Technologies, Inc., PHT Corporation and Xoft, Inc. The Fund also made a private investment in the public entity Penwest Pharmaceuticals Co. Exits within the venture portfolio during the period were Agensys, Inc., which was purchased by Astellas Pharma Inc., Xanthus Pharmaceuticals, Inc., which was acquired by Antisoma Plc. and Athersys, Inc. when its registration statement was declared effective by the SEC and the company's shares became publicly traded. Additionally, CardioNet, Inc. and Masimo Corporation exited the venture portfolio, but remained Fund assets after completing IPOs and Dako A/S exited the venture portfolio when it was converted to cash through a tender offer.

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, 2008

	% of Net Assets
Gilead Sciences, Inc.	4.65%
Genzyme Corporation	4.26%
Celgene Corporation	3.88%
Amgen Inc.	3.39%
CardioNet, Inc.	2.81%
Baxter International Inc.	2.80%
Teva Pharmaceutical Industries, Ltd.	2.80%
Concentric Medical, Inc.	2.45%
United Therapeutics Corporation	2.34%
Becton, Dickinson and Company	2.24%

H&Q LIFE SCIENCES INVESTORS

PORTFOLIO

As of September 30, 2008

H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2008

CONVERTIBLE SECURITIES AND WARRANTS - 10.6% of Net Assets		
SHARES	Convertible Preferred (Restricted) ^(a) - 10.5%	VALUE
	<i>Drug Discovery Technologies - 1.1%</i>	
1,587,302	Agilix Corporation Series B ^{(b) (c)}	\$ 94,540
250,000	Ceres, Inc. Series C ^(b)	1,625,000
21,462	Ceres, Inc. Series C-1 ^(b)	139,503
175,540	Ceres, Inc. Series D ^(b)	1,141,010
28,385	Ceres, Inc. Series F ^(b)	184,502
5,677	Ceres, Inc. warrants (expiration 9/05/15) ^(b)	0
200,000	Zyomyx, Inc. Series A New ^(b)	20,000
200	Zyomyx, Inc. Series B New ^(b)	20
	<i>Emerging Biopharmaceuticals - 0.6%</i>	
204,275	MacroGenics, Inc. Series D ^(b)	133,208
50,145	MacroGenics, Inc. Series D ^(b)	21,798
1,415,385	TargeGen, Inc. Series C ^(b)	1,226,672
407,825	TargeGen, Inc. Series D ^(b)	353,450
	<i>Healthcare Services - 1.5%</i>	
322,168	CytoLogix Corporation Series A ^{(b) (c)}	3,222
151,420	CytoLogix Corporation Series B ^{(b) (c)}	531,484
3,589,744	PHT Corporation Series D ^{(b) (c)}	2,800,000
802,996	PHT Corporation Series E ^{(b) (c)}	626,337
99,455	PHT Corporation Series F ^{(b) (c)}	77,575
	<i>Medical Devices and Diagnostics - 7.3%</i>	
2,379,916	CardioKinetix, Inc. Series C ^{(b) (c)}	1,640,000
3,235,293	Concentric Medical, Inc. Series B ^{(b) (c)}	4,529,410
1,162,790	Concentric Medical, Inc. Series C ^{(b) (c)}	1,627,906
455,333	Concentric Medical, Inc. Series D ^{(b) (c)}	637,466
1,198,193	Elemé Medical, Inc. Series C ^(b)	2,254,999
177,778	EPR, Inc. Series A ^(b)	1,778
1,592,852	FlowCardia, Inc. Series C ^(b)	1,708,334
2,446,016	Labcyte Inc. Series C ^(b)	1,280,000
2,050,000	Magellan Biosciences, Inc. Series A ^(b)	2,050,000
1,031,992	OmniSonics Medical Technologies, Inc. Series A-1 ^(b)	586,171
877,747	OmniSonics Medical Technologies, Inc. Series B-1 ^(b)	498,560
43,478	TherOx, Inc. Series H ^(b)	277,390
99,646	TherOx, Inc. Series I ^(b)	635,741
2,813	TherOx, Inc. warrants (expiration 1/26/10) ^(b)	0
5,427	TherOx, Inc. warrants (expiration 6/09/09) ^(b)	0
640,625	Xoft, Inc. Series D ^(b)	2,139,688
122,754	Xoft, Inc. Series E ^(b)	409,998

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

H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2008

(continued)

PRINCIPAL AMOUNT	Convertible Notes - 0.1%	VALUE
	Drug Discovery Technologies - 0.1%	
\$ 700,000	deCODE Genetics, Inc., 3.50% due 2011	\$ 140,000
	TOTAL CONVERTIBLE SECURITIES AND WARRANTS	
	(Cost \$33,371,560)	\$ 29,395,762
SHARES	COMMON STOCKS AND WARRANTS - 79.6%	
	Biopharmaceuticals - 34.0%	
135,182	Affymax, Inc. ^(b)	2,683,363
624,321	Akorn, Inc. ^(b)	3,202,767
108,889	Akorn, Inc. warrants (expiration 3/08/11) ^{(a) (b)}	118,689
52,700	Alnylam Pharmaceuticals, Inc. ^(b)	1,525,665
158,807	Amgen Inc. ^(b)	9,412,491
55,000	Amylin Pharmaceuticals, Inc. ^(b)	1,112,100
525,965	Antisoma Plc ^{(b) (d)}	185,157
3,062,745	Antisoma Plc 12 Month Lock-up (Restricted) ^{(a) (b) (d)}	862,551
340,305	Antisoma Plc 18 Month Lock-up (Restricted) ^{(a) (b) (d)}	83,859
112,000	Biogen Idec Inc. ^(b)	5,632,480
149,900	BioMarin Pharmaceutical Inc. ^(b)	3,970,851
756,272	Critical Therapeutics, Inc. ^(b)	143,692
159,672	Critical Therapeutics, Inc. warrants (expiration 6/06/10) ^{(a) (b)}	0
88,550	Forest Laboratories, Inc. ^(b)	2,504,194
68,170	Genentech, Inc. ^(b)	6,045,315
146,357	Genzyme Corporation ^(b)	11,838,818
283,460	Gilead Sciences, Inc. ^(b)	12,920,107
140,394	Hologic, Inc. ^(b)	2,713,816
8,815	Intuitive Surgical, Inc. ^(b)	2,124,239
172,247	Martek Biosciences Corporation	5,412,001
187,400	Medarex, Inc. ^(b)	1,212,478
73,135	Medicines Company ^(b)	1,698,195
31,300	Merck & Co., Inc.	987,828
175,880	MiddleBrook Pharmaceuticals, Inc. warrants (expiration 4/29/10) ^{(a) (b)}	40,452
95,895	Myriad Genetics, Inc. ^(b)	6,221,667
143,190	Omrix Biopharmaceuticals, Inc. ^(b)	2,568,829
157,500	Vertex Pharmaceuticals Inc. ^(b)	5,235,300
83,471	XenoPort, Inc. ^(b)	4,047,509
		94,504,413

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

H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2008

(continued)

SHARES		VALUE
	Biotechnology - 0.2%	
328,000	Athersys, Inc. ^(b)	\$ 570,720
82,000	Athersys, Inc. warrants (expiration 6/08/12) ^{(a) (b)}	13,120
		583,840
	Drug Delivery - 1.1%	
227,550	Alkermes, Inc. ^(b)	3,026,415
	Drug Discovery Technologies - 8.6%	
162,288	Avalon Pharmaceuticals, Inc. ^(b)	51,964
170,270	Celgene Corporation ^(b)	10,774,685
45,174	Cougar Biotechnology, Inc. ^(b)	1,508,360
1,601,039	MZT Holdings, Inc. ^{(b) (c)}	40,026
1,846,154	MZT Holdings, Inc. warrants (expiration 1/17/11) ^{(a) (b) (c)}	0
952,381	MZT Holdings, Inc. warrants (expiration 1/22/12) ^{(a) (b) (c)}	0
78,600	OSI Pharmaceuticals, Inc. ^(b)	3,874,194
399,028	Penwest Pharmaceuticals Co. ^(b)	821,998
199,514	Penwest Pharmaceuticals Co. warrants (expiration 3/11/13) ^{(a) (b)}	195,524
61,900	United Therapeutics Corporation ^(b)	6,510,023
200,000	Zyomyx, Inc. (Restricted) ^{(a) (b)}	2,000
		23,778,774
	Emerging Biopharmaceuticals - 3.3%	
430,995	ACADIA Pharmaceuticals Inc. ^(b)	1,155,067
90,552	DOV Pharmaceutical, Inc. warrants (expiration 12/31/09) ^{(a) (b)}	0
747,980	Exelixis, Inc. ^(b)	4,547,718
774,191	Lexicon Pharmaceuticals, Inc. ^(b)	1,378,060
242,522	NitroMed, Inc. ^(b)	111,560
256,000	Sangamo BioSciences, Inc. ^(b)	1,971,200
		9,163,605
	Generic Pharmaceuticals - 3.7%	
7,400	Barr Pharmaceuticals, Inc. ^(b)	483,220
186,550	Mylan Inc. ^(b)	2,130,401
169,768	Teva Pharmaceutical Industries, Ltd. ^(e)	7,773,677
		10,387,298
	Healthcare Services - 10.1%	
47,300	Aetna Inc.	1,708,003
25,000	Allergan, Inc.	1,287,500
148,148	Aveta, Inc. (Restricted) ^{(a) (b)}	1,481,480
347,628	CardioNet, Inc. (Restricted) ^{(a) (b)}	7,809,115
93,740	HealthExtras, Inc. ^(b)	2,448,489

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133,048

ICON Plc ^{(b) (e)}

5,089,086

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

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H&Q LIFE SCIENCES INVESTORS**SCHEDULE OF INVESTMENTS**

SEPTEMBER 30, 2008

(continued)

SHARES	Healthcare Services - continued	VALUE
77,815	Medco Health Solutions, Inc. ^(b)	\$ 3,501,675
204,139	Syntiro Healthcare Services (Restricted) ^{(a) (b)}	204
40,350	WellPoint, Inc. ^(b)	1,887,170
1,285,000	Zix Corporation ^(b)	2,904,100
		28,116,822
	Medical Devices and Diagnostics - 18.6%	
257,790	Align Technology, Inc. ^(b)	2,791,866
65,600	Applied Biosystems Inc.	2,246,800
118,450	Baxter International Inc.	7,773,873
77,640	Becton, Dickinson and Company	6,231,386
440,141	Electro-Optical Sciences, Inc. ^(b)	2,297,536
105,892	IDEXX Laboratories, Inc. ^(b)	5,802,882
99,593	Inverness Medical Innovations, Inc. ^(b)	2,987,790
37,750	Laboratory Corporation of America Holdings ^(b)	2,623,625
162,180	Masimo Corporation ^(b)	6,033,096
130,000	Masimo Laboratories, Inc. (Restricted) ^{(a) (b)}	57,485
447,080	Medwave, Inc. ^{(a) (b)}	0
111,770	Medwave, Inc. warrants (expiration 8/21/11) ^{(a) (b)}	0
62,005	OmniSonics Medical Technologies, Inc. (Restricted) ^{(a) (b)}	620
87,200	PerkinElmer, Inc.	2,177,384
139	Songbird Hearing, Inc. (Restricted) ^{(a) (b)}	93
73,925	Stryker Corporation	4,605,528
110,840	Thermo Fisher Scientific Inc. ^(b)	6,096,200
		51,726,164
	TOTAL COMMON STOCKS AND WARRANTS	
	(Cost \$220,260,265)	\$ 221,287,331
PRINCIPAL AMOUNT	SHORT-TERM INVESTMENTS - 9.8%	
\$ 3,497,000	American Express Corporation; 2.25% due 10/03/08	3,495,033

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

H&Q LIFE SCIENCES INVESTORS**SCHEDULE OF INVESTMENTS**

SEPTEMBER 30, 2008

(continued)

PRINCIPAL AMOUNT	SHORT-TERM INVESTMENTS - <i>continued</i>	VALUE
	Repurchase Agreement, State Street Bank and Trust Co., repurchase value \$23,712,033 (collateralized by U.S. Treasury Bill 0.35% discount, 12/26/08, market value \$24,189,725); 0.05% due 10/01/08	\$23,712,000
\$ 23,712,000		
	TOTAL SHORT-TERM INVESTMENTS (Cost \$27,207,033)	\$ 27,207,033
	TOTAL INVESTMENTS - 100.0% (Cost \$280,838,858)	\$ 277,890,126
	OTHER LIABILITIES IN EXCESS OF ASSETS - (0.0%)	(\$ 69,890)
	NET ASSETS - 100%	\$ 277,820,236

(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 \$12,607,966).

(d) Foreign security.

(e) American Depository Receipt.

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

H&Q LIFE SCIENCES INVESTORS**STATEMENT OF ASSETS AND LIABILITIES**

SEPTEMBER 30, 2008

ASSETS:

Investments in non affiliated issuers, at value (identified cost \$267,998,142; see Schedule of Investments)	\$ 265,282,160
Investments in affiliated issuers, at value (identified cost \$12,840,716; see Schedule of Investments)	12,607,966
Cash	218
Dividends and interest receivable	53,477
Receivable for investments sold	1,739,538
Prepaid expenses	59,989
Other assets (See Note (5))	1,245,993
Total assets	\$ 280,989,341

LIABILITIES:

Payable for investments purchased	\$ 2,656,636
Accrued advisory fee	293,308
Accrued audit fees	84,045
Accrued trustee fees	46,606
Accrued shareholder reporting fees	25,457
Accrued legal fees	23,731
Accrued other	39,322
Total liabilities	\$ 3,169,105
NET ASSETS	\$ 277,820,236

SOURCES OF NET ASSETS:

Shares of beneficial interest, par value \$.01 per share, unlimited number of shares authorized, amount paid in on 21,084,815 shares issued and outstanding	\$ 282,313,202
Accumulated net realized loss on investments, options and foreign currency	(1,544,224)
Net unrealized loss on investments and foreign currency	(2,948,742)
Total net assets (equivalent to \$13.18 per share based on 21,084,815 shares outstanding)	\$ 277,820,236

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

H&Q LIFE SCIENCES INVESTORS**STATEMENT OF OPERATIONS***FOR THE YEAR ENDED SEPTEMBER 30, 2008*

INVESTMENT INCOME:		
Dividend income (net of foreign tax of \$14,920)	\$ 986,498	
Interest income from non affiliated issuers	550,933	
Interest income from affiliated issuers	129,291	
Total investment income		\$ 1,666,722
EXPENSES:		
Advisory fee	\$ 3,612,411	
Legal fees	208,712	
Trustees' fees and expenses	190,951	
Administration and auditing fees	153,621	
Custodian fees	101,301	
Shareholder reporting	95,246	
Transfer agent fees	50,981	
Stock exchange listing fee	27,238	
Other (See Note (3))	143,584	
Total expenses		4,584,045
Net Investment loss		(\$ 2,917,323)
REALIZED AND UNREALIZED GAIN (LOSS):		
Net realized gain on:		
Investments in non affiliated issuers		\$ 22,004,319
Investments in affiliated issuers		1,593,577
Closed or expired options contracts written		222,251
Foreign currency		16,968
Net realized gain		\$ 23,837,115
Change in unrealized appreciation (depreciation) on:		
Investments in non affiliated issuers		(\$ 39,589,162)
Investments in affiliated issuers		274,615
Closed or expired options contracts written		(10,621)
Foreign currency		(104)
Change in unrealized appreciation (depreciation)		(\$ 39,325,272)
Net realized and unrealized gain (loss)		(\$ 15,488,157)
Net decrease in net assets resulting from operations		(\$ 18,405,480)

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

H&Q LIFE SCIENCES INVESTORS**STATEMENTS OF CHANGES IN NET ASSETS**

	For the year ended September 30, 2008	For the year ended September 30, 2007
NET (DECREASE)/INCREASE IN NET ASSETS		
RESULTING FROM OPERATIONS:		
Net investment loss	(\$ 2,917,323)	(\$ 1,711,475)
Net realized gain on investments, options and foreign currency (Decrease)/increase in net unrealized gain on investments, options and foreign currency	23,837,115	20,234,837
Net (decrease)/increase in net assets resulting from operations	(39,325,272)	31,988,951
DISTRIBUTIONS TO SHAREHOLDERS FROM:	(\$ 18,405,480)	\$ 50,512,313
Net realized capital gains	(\$ 23,504,432)	(\$ 22,280,388)
CAPITAL SHARE TRANSACTIONS:		
Value of shares issued in payment of distributions (1,001,680 and 855,433 shares, respectively)	\$ 11,732,523	\$ 11,646,931
Net (decrease)/increase in net assets	(\$ 30,177,389)	\$ 39,878,856
NET ASSETS:		
Beginning of year	307,997,625	268,118,769
End of year	\$ 277,820,236	\$ 307,997,625

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

H&Q LIFE SCIENCES INVESTORS**STATEMENT OF CASH FLOWS***FOR THE YEAR ENDED SEPTEMBER 30, 2008*

CASH FLOWS FROM OPERATING ACTIVITIES:	
Purchases of portfolio securities	(\$ 210,591,248)
Options written	(9,800)
Net purchases of short-term investments	(18,302,368)
Sales of portfolio securities	244,990,550
Interest income received	520,860
Dividends received	991,534
Operating expenses paid	(5,828,073)
Net cash provided from operating activities	\$ 11,771,455
CASH FLOWS FROM FINANCING ACTIVITIES:	
Cash distributions paid	(\$ 11,771,909)
Net cash used for financing activities	(\$ 11,771,909)
NET DECREASE IN CASH	(\$ 454)
CASH AT BEGINNING OF PERIOD	672
CASH AT END OF PERIOD	\$ 218
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	(\$ 18,405,480)
Purchases of portfolio securities	(210,591,248)
Net purchases of short-term investments	(18,302,368)
Sales of portfolio securities	244,990,550
Accretion of discount	(325,285)
Net realized gain on investments, options and foreign currency	(23,837,115)
Decrease in net unrealized appreciation on investments, options and foreign currency	39,325,272
Decrease in dividends and interest receivable	170,957
Decrease in options written	(9,800)
Decrease in accrued expenses	(2,672)
Increase in prepaid expenses and other assets	(1,241,356)
Net cash provided from operating activities	\$ 11,771,455

Noncash financing activities not included herein consist of reinvested distributions to shareholders of \$11,732,523.

Noncash operating activity not included herein consist of one conversion of restricted preferred stock with a cost of \$4,339,561 to common stock of the same issuer.

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

H&Q LIFE SCIENCES INVESTORS

FINANCIAL HIGHLIGHTS

(Selected data for each share of beneficial interest outstanding throughout the period indicated)

	For the year ended September 30,				
	2008	2007	2006	2005	2004
Net asset value per share:					
Beginning of year	\$ 15.34	\$ 13.94	\$ 18.19	\$ 15.90	\$ 16.68
Net investment loss (1)	(\$ 0.14)	(\$ 0.09)	(\$ 0.10) ⁽²⁾	(\$ 0.21)	(\$