

H&Q LIFE SCIENCES INVESTORS
Form N-CSR
December 05, 2007

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)

30 Rowes Wharf, Fourth Floor, Boston, MA
(Address of principal executive offices)

02110-3328
(Zip code)

30 Rowes Wharf, Fourth Floor, Boston, MA 02110-3328
(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, 2006 to September 30, 2007

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. Section 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

H&Q LIFE SCIENCES INVESTORS

Annual Report

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To our Shareholders:

On September 30, 2007, the net asset value (NAV) per share of the Fund was \$15.34. During the twelve-month period ended September 30, 2007, total return at net asset value of your Fund was 19.51%. During the most recent six-month period ended September 30, 2007, total return at net asset value of your Fund was 11.22%. The total investment return at market was 10.56% during the twelve-month period ended September 30, 2007 and was 1.56% during the six-month period ended September 30, 2007. Comparisons to relevant indices are listed below:

Investment Returns	Six months Ended 9/30/07	Fiscal Year Ended 9/30/07
Investment Return at Market	+ 1.56%	+10.56%
Net Asset Value	+11.22%	+19.51%
NASDAQ Biotech Index (NBI)	+ 9.96%	+13.27%
S&P 500 Index	+ 8.44%	+16.44%

During both the fiscal year and six month period ending September 30, 2007, the NAV of the Fund exceeded both its NBI benchmark and the S&P 500 Index. In addition, during this period, the discount at which the Fund's shares trade increased. As of September 30, 2007 the Fund traded at a discount of 11.80% compared to a year earlier when the discount was 4.66%. Such widening of discount was observed in many other closed end funds during fiscal 2007, probably resulting from recent dynamics in the U.S. credit markets. Though we are unaware of any significant credit exposure in our portfolio, our Fund's discount may have been negatively affected by this general trend. The discount may have also been adversely affected by what we perceive as a recent trend in sentiment away from higher volatility investments. Our Fund typically exhibits greater volatility than the broad market indices.

During the twelve-month period ending September 30, 2007, a number of broad trends have been observed in the healthcare sector. In general, the biotechnology, managed care, pharmacy benefit manager, diagnostics and life science tool sub-sectors have been among the best performers during the twelve month period while the healthcare provider and small developing biotech sub-sectors have been among the weakest performers.

During the last twelve months, merger and acquisition activity has been a major theme in the healthcare sector in general and in the biotech sub-sector, particularly. The planned or completed acquisition of Fund holdings, such as MedImmune, Inc. and Cytoc

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Corporation for example, has had positive effect on the NAV of the Fund. We believe that other acquisitions within the sector, including the acquisitions of Caremark Rx, Inc., Organon BioSciences N.V. and New River Pharmaceuticals Inc. by CVS Corporation, Schering-Plough Corporation and Shire Plc, respectively, have helped to create general market interest in healthcare.

As always, specific clinical and marketing events, both positive and negative, have had significant apparent impact on interest in healthcare. The approval and rapid launch of Merck & Co.'s Januvia has been impressive. On the other hand, the apparent failure to attain market adoption by Pfizer Inc./Nektar Therapeutics's inhaled insulin product, Exubera, has been a significant disappointment.

We have also observed a general developing interest in technologies related to RNAi therapeutics and similar target-specific approaches. Alnylam Pharmaceuticals, Inc., Isis Pharmaceuticals, Inc. and Sangamo Biosciences, Inc. are all relatively early stage companies developing technologies and/or products in this area of science. Most have exhibited significant increases in the price of their stock over the last year. Sirna Therapeutics, Inc., a company developing related technologies, was acquired by Merck & Co., Inc. (Please note that regarding the above discussion of the companies mentioned, the Fund owned positions in Cytoc Corporation, Shire Plc and Alnylam Pharmaceuticals, Inc. at fiscal year end.)

During the report period the Centers for Medicare & Medicaid Services (CMS) reimbursement for products marketed by a number of companies including the anemia treating drugs sold by Amgen, Inc., the largest component of the NBI index, came under great debate. CMS reimbursement of other products made by such companies as Sepracor Inc., Cephalon, Inc. and Endo Pharmaceuticals Holdings was also affected. Separately, there were a number of developments affecting the way Hepatitis C may be treated in the future. These developments have had material impact on Idenix Pharmaceuticals Inc., Vertex Pharmaceuticals, Inc., Schering-Plough Corporation, Human Genome Sciences, Inc. and others.

Within the last year, several of our private venture companies have either attained public listing or have declared their intention to do so. In particular, Masimo Corporation has completed a very successful IPO and Cougar Biotechnology, Inc. completed a reverse merger which resulted in a public listing. Concentric Medical, Inc. and CardioNet, Inc. made S-1 filings with the Securities Exchange Commission (SEC), each declaring its intention to undertake an IPO.

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During the twelve-month period ending September 30, 2007, Align Technology, Inc., MedImmune, Inc., Zix Corporation, ACADIA Pharmaceuticals, Inc., and Conor Medsystems, Inc. produced the greatest positive impact on the Fund's NAV. Note that ACADIA Pharmaceuticals, Inc., Conor Medsystems, Inc. and Zix Corporation were originally restricted investments. Amgen, Inc., Emageon, Inc., and Idenix Pharmaceuticals Inc. had the largest negative effect on Fund NAV among the public portfolio. Write downs of venture investments in Raven biotechnologies, Inc. and OmniSonic Medical Technologies, Inc. also had significant negative impact on NAV.

During the twelve-month period ended September 30, 2007, within the public portfolio, the Fund established positions in several companies including Applera Corp.-Applied Biosystems Group, Becton, Dickinson, and Company, BioMarin Pharmaceutical Inc., PerkinElmer, Inc. and Thermo Fisher Scientific Inc. During the same twelve-month period the Fund exited its position in several companies including MedImmune, Inc., Natus Medical, Inc., Theravance, Inc., United Therapeutics Corp. and ZymoGenetics, Inc. The Fund exited its position in Conor Medsystems, Inc. when it was acquired by Johnson & Johnson and also exited its position in Myogen, Inc. when it was acquired by Gilead Sciences, Inc.

During the same twelve-month period, within the venture portfolio, the Fund established a position in Athersys, Inc., FlowCardia, Inc., Magellan Biosciences, Inc. and Xoft, Inc. and made follow on investments in Agensys, Inc., CardioNet, Inc., Ceres, Inc., Matritech Inc., TargeGen, Inc. and Xanthus Life Sciences, Inc. Also, Cougar Biotechnology, Inc. exited the Fund's venture portfolio when its registration statement was declared effective by the SEC and the company's shares became publicly traded. The Fund wrote off its venture position in Galileo Pharmaceuticals, Inc. and Therion Biologics Corporation.

Please note that during this report period, the Fund began to engage in options transactions.

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, 2007

	% of Net Assets
Gilead Sciences, Inc.	4.13%
Masimo Corporation	2.93%
Teva Pharmaceutical Industries, Ltd.	2.79%
Celgene Corporation	2.77%
Genzyme Corporation	2.55%
Amgen Inc.	2.43%
Becton, Dickinson and Company	2.36%
Concentric Medical, Inc.	2.21%
ACADIA Pharmaceuticals Inc.	2.14%
PerkinElmer, Inc.	2.10%

H&Q LIFE SCIENCES INVESTORS

PORTFOLIO

As of September 30, 2007

H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2007

CONVERTIBLE SECURITIES AND WARRANTS - 12.7% of Net Assets		
SHARES	Convertible Preferred (Restricted) ^(c) - 11.7%	VALUE
	<i>Drug Discovery Technologies - 1.1%</i>	
1,587,302	Agilix Corporation Series B ^{(a) (b)}	\$ 94,540
250,000	Ceres, Inc. Series C ^(a)	1,625,000
21,462	Ceres, Inc. Series C-1 ^(a)	139,503
175,540	Ceres, Inc. Series D ^(a)	1,141,010
28,385	Ceres, Inc. Series F ^(a)	184,502
5,677	Ceres, Inc. warrants (expiration 9/05/15) ^(a)	0
200,000	Zyomyx, Inc. Series A New ^(a)	20,000
200	Zyomyx, Inc. Series B New ^(a)	20
	<i>Emerging Biopharmaceuticals - 2.9%</i>	
744,921	Agensys, Inc. Series C ^(a)	2,681,716
138,261	Agensys, Inc. Series D ^(a)	497,740
1,212,121	Raven biotechnologies, Inc. Series B ^(a)	251,515
1,872,772	Raven biotechnologies, Inc. Series C ^(a)	388,600
2,722,014	Raven biotechnologies, Inc. Series D ^(a)	200,068
1,415,385	TargeGen, Inc. Series C ^(a)	1,840,000
407,825	TargeGen, Inc. Series D ^(a)	530,173
2,649,902	Xanthus Pharmaceuticals, Inc. Series B ^(a)	2,649,902
	<i>Healthcare Services - 2.6%</i>	
1,051,429	CardioNet, Inc. Series C ^(a)	3,680,001
635	CardioNet, Inc. Mandatorily Cvt. Pfd. ^(a)	653,052
35,254	CardioNet, Inc. warrants (expiration 5/01/11) ^(a)	0
1,390	CardioNet, Inc. warrants (expiration 8/29/11) ^(a)	0
322,168	CytoLogix Corporation Series A ^{(a) (b)}	3,222
151,420	CytoLogix Corporation Series B ^{(a) (b)}	348,266
3,589,744	PHT Corporation Series D ^{(a) (b)}	2,800,000
802,996	PHT Corporation Series E ^{(a) (b)}	626,337
	<i>Medical Devices and Diagnostics - 5.1%</i>	
3,235,293	Concentric Medical, Inc. Series B ^{(a) (b)}	4,529,410
1,162,790	Concentric Medical, Inc. Series C ^{(a) (b)}	1,627,906
455,333	Concentric Medical, Inc. Series D ^{(a) (b)}	637,466
177,778	EPR, Inc. Series A ^(a)	1,778
1,592,852	FlowCardia, Inc. Series C ^(a)	1,708,334
2,446,016	Labcyte Inc. Series C ^(a)	1,280,000
2,050,000	Magellan Biosciences, Inc. Series A ^(a)	2,050,000
1,031,992	OmniSonics Medical Technologies, Inc. Series A-1 ^(a)	781,218
438,873	OmniSonics Medical Technologies, Inc. Series B-1 ^(a)	332,227
43,478	TherOx, Inc. Series H ^(a)	167,869
99,646	TherOx, Inc. Series I ^(a)	384,733

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, 2007

(continued)

SHARES	Convertible Preferred (Restricted) ^(c) - continued	VALUE
2,813	TherOx, Inc. warrants (expiration 1/26/10) ^(a)	\$ 0
5,427	TherOx, Inc. warrants (expiration 6/09/09) ^(a)	0
640,625	Xoft, Inc. Series D ^(a)	2,050,000
		\$ 35,906,108
PRINCIPAL AMOUNT	Convertible Notes - 1.0%	
	<i>Drug Discovery Technologies - 1.0%</i>	
\$ 700,000	deCODE Genetics, Inc., 3.50% due 2011	472,500
1,583,334	Matritech Inc. Series A, 15.00% due 2009 (Restricted) ^{(b) (c)}	1,564,300
1,000,000	Matritech Inc. Series B, 15.00% due 2007 (Restricted) ^{(b) (c)}	1,089,747
		\$ 3,126,547
	TOTAL CONVERTIBLE SECURITIES AND WARRANTS	
	(Cost \$44,442,815)	\$ 39,032,655
SHARES	COMMON STOCKS AND WARRANTS - 84.8%	
	Biopharmaceuticals - 31.0%	
109,050	Adams Respiratory Therapeutics, Inc. ^(a)	4,202,787
132,600	Affymax Inc. ^(a)	3,588,156
320,571	Akorn, Inc. ^(a)	2,401,077
108,889	Akorn, Inc. warrants (expiration 3/08/11) ^{(a) (c)}	227,578
109,000	Alnylam Pharmaceuticals, Inc. ^(a)	3,571,930
132,157	Amgen Inc. ^(a)	7,476,121
36,535	Amylin Pharmaceuticals, Inc. ^(a)	1,826,750
59,000	Biogen Idec Inc. ^(a)	3,913,470
231,700	BioMarin Pharmaceuticals, Inc. ^(a)	5,769,330
456,205	Critical Therapeutics, Inc. ^(a)	821,169
159,672	Critical Therapeutics, Inc. warrants (expiration 6/06/10) ^{(a) (c)}	97,400
221,853	Cubist Pharmaceuticals, Inc. ^(a)	4,687,754
46,770	Genentech, Inc. ^(a)	3,648,995
126,632	Genzyme Corporation ^(a)	7,846,119
311,250	Gilead Sciences, Inc. ^(a)	12,720,787
438,692	Inspire Pharmaceuticals, Inc. ^(a)	2,355,776
127,166	Martek Biosciences Corporation ^(a)	3,691,629
116,900	Medarex, Inc. ^(a)	1,655,304
232,450	Medicines Company ^(a)	4,139,935
102,450	Mentor Corporation	4,717,822
175,880	MiddleBrook Pharmaceuticals, Inc. warrants (expiration 4/29/10) ^{(a) (c)}	43,970

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

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

SEPTEMBER 30, 2007

(continued)

SHARES		VALUE
Biopharmaceuticals - continued		
141,200	Omrix Biopharmaceuticals, Inc. ^(a)	\$ 4,985,772
367,105	Synta Pharmaceuticals Corp. ^(a)	2,422,893
113,750	Vertex Pharmaceuticals, Inc. ^(a)	4,369,138
88,100	Xenoport, Inc. ^(a)	4,145,105
		95,326,767
Biotechnology - 1.6%		
328,000	Athersys, Inc. (Restricted) ^{(a) (c)}	1,640,000
82,000	Athersys, Inc. warrants (Restricted, expiration 6/08/12) ^{(a) (c)}	0
284,931	Momenta Pharmaceuticals, Inc. ^(a)	3,245,364
		4,885,364
Drug Discovery Technologies - 6.2%		
162,288	Avalon Pharmaceuticals, Inc. ^(a)	925,042
119,830	Celgene Corporation ^(a)	8,545,077
52,524	Cougar Biotechnology, Inc. ^(a)	1,339,362
1,601,039	Matritech, Inc. ^{(a) (b)}	162,025
1,846,154	Matritech, Inc. warrants (expiration 1/17/11) ^{(a) (b) (c)}	0
952,381	Matritech, Inc. warrants (expiration 1/22/12) ^{(a) (b) (c)}	0
174,250	Senomyx, Inc. ^(a)	2,134,562
55,675	Sepracor Inc. ^(a)	1,531,063
60,250	Shire Plc ^(d)	4,457,295
200,000	Zyomyx, Inc. (Restricted) ^{(a) (c)}	2,000
		19,096,426
Emerging Biopharmaceuticals - 8.2%		
437,770	ACADIA Pharmaceuticals Inc. ^(a)	6,588,439
600,000	ARIAD Pharmaceuticals, Inc. ^(a)	2,778,000
249,707	BioMimetic Therapeutics, Inc. ^(a)	3,331,091
90,552	DOV Pharmaceutical, Inc. warrants (expiration 12/31/09) ^{(a) (c)}	4,528
408,180	Exelixis, Inc. ^(a)	4,322,626
814,191	Lexicon Pharmaceuticals, Inc. ^(a)	2,817,101
242,522	NitroMed, Inc. ^(a)	431,689
125,000	Progenics Pharmaceuticals, Inc. ^(a)	2,763,750
272,260	XTENT, Inc. ^(a)	2,314,210
		25,351,434
Generic Pharmaceuticals - 5.6%		
165,100	Caraco Pharmaceutical Laboratories, Ltd. ^(a)	2,517,775
158,031	Impax Laboratories, Inc. ^(a)	1,847,382
277,500	Mylan Inc.	4,428,900

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

H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2007

(continued)

SHARES	Generic Pharmaceuticals - continued	VALUE
193,408	Teva Pharmaceutical Industries, Ltd. ^(d)	\$ 8,600,854
		17,394,911
	Healthcare Services - 8.0%	
148,148	Aveta, Inc. (Restricted) ^{(a) (c)}	1,481,480
30,478	Dako A/S (Restricted) ^{(c) (e)}	733,605
505,090	Emageon Inc. ^(a)	4,232,654
52,500	HealthExtras, Inc. ^(a)	1,461,075
75,924	ICON Plc ^{(a) (d)}	3,874,402
28,500	Medco Health Solutions, Inc. ^(a)	2,576,115
79,020	National Medical Health Card Systems, Inc. ^(a)	756,221
48,700	PAREXEL International Corporation ^(a)	2,009,849
204,139	Syntiro Healthcare Services (Restricted) ^{(a) (c)}	204
35,050	UnitedHealth Group, Inc.	1,697,472
40,250	WellPoint, Inc. ^{(a) (f)}	3,176,530
1,014,715	Zix Corporation ^(a)	1,948,253
1,485,000	Zix Corporation Warrants (expiration 10/05/11) ^{(a) (c)}	564,300
		24,512,160
	Medical Devices and Diagnostics - 24.2%	
251,060	Align Technology, Inc. ^(a)	6,359,350
	Applera Corporation - Applied	
175,550	Biosystems Group	6,081,052
82,050	Baxter International Inc.	4,617,774
88,740	Becton, Dickinson and Company	7,281,117
90,860	Cytec Corporation ^(a)	4,329,479
241,940	eResearch Technology, Inc. ^(a)	2,755,697
36,156	IDEXX Laboratories, Inc. ^(a)	3,962,336
66,443	Inverness Medical Innovations, Inc. ^(a)	3,675,627
	Laboratory Corporation of America Holdings ^(a)	
51,050		3,993,641
20,500	Masimo Corporation	526,030
390,000	Masimo Corporation (Restricted) ^(c)	8,506,290
130,000	Masimo Laboratories, Inc. (Restricted) ^{(a) (c)}	1,300
447,080	Medwave, Inc. ^{(a) (c)}	19,001
	Medwave, Inc. warrants (expiration 8/21/11) ^{(a) (c)}	
111,770		0
	OmniSonics Medical Technologies, Inc. (Restricted) ^{(a) (c)}	
62,005		620
20,910	Patterson Companies, Inc. ^(a)	807,335
221,400	PerkinElmer, Inc.	6,467,094
139	Songbird Hearing, Inc. (Restricted) ^{(a) (c)}	93
44,225	Stryker Corporation	3,040,911

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, 2007

(continued)

SHARES	Medical Devices and Diagnostics - continued	VALUE
140,000	Symmetry Medical Inc. ^(a)	\$ 2,338,000
101,000	Thermo Fisher Scientific Inc. ^(a)	5,829,720
130,473	Third Wave Technologies, Inc. ^(a)	1,125,982
181,916	VNUS Medical Technologies, Inc. ^(a)	2,890,645
		74,609,094
	TOTAL COMMON STOCKS AND WARRANTS	
	(Cost \$219,400,180)	\$ 261,176,156
PRINCIPAL AMOUNT	SHORT-TERM INVESTMENTS - 2.8%	
\$ 4,300,000	American Express Corporation; 4.60% due 10/02/07	4,298,352
4,264,000	Repurchase Agreement, State Street Bank and Trust Co., repurchase value \$4,264,711 (collateralized by U.S. Treasury Bond 7.125%, 2/15/23, market value \$4,355,414); 2.00% due 10/01/07	4,264,000
	TOTAL SHORT-TERM INVESTMENTS	
	(Cost \$8,562,352)	\$ 8,562,352
	TOTAL INVESTMENTS - 100.3%	
	(Cost \$272,405,347)	\$ 308,771,163
	OTHER LIABILITIES IN EXCESS OF ASSETS - (0.3%)	(\$773,538)
	NET ASSETS - 100%	\$ 307,997,625

(a) Non-income producing security.

(b) Affiliated issuers in which the Fund holds 5% or more of the voting securities (Total Market Value of \$13,483,219).

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

(d) American Depository Receipt.

(e) Foreign Security.

(f) A portion of security is pledged as collateral for call options written.

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

H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2007

(continued)

SCHEDULE OF WRITTEN OPTIONS

NUMBER OF CONTRACTS (100 SHARES EACH)	CALL OPTIONS WRITTEN	EXPIRATION DATE	CURRENT VALUE
98	Wellpoint, Inc., strike @ 80	Oct-2007	(\$9,800)
			(\$9,800)

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

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H&Q LIFE SCIENCES INVESTORS**STATEMENT OF ASSETS AND LIABILITIES***SEPTEMBER 30, 2007*

ASSETS:	
Investments in non affiliated issuers, at value (identified cost \$258,414,762; see Schedule of Investments)	\$ 295,287,944
Investments in affiliated issuers, at value (identified cost \$13,990,585; see Schedule of Investments)	13,483,219
Cash	672
Dividends and interest receivable	224,434
Receivable for investments sold	16,085
Prepaid expenses	64,626
Total assets	\$ 309,076,980
LIABILITIES:	
Payable for investments purchased	\$ 554,414
Accrued advisory fee	307,042
Accrued audit fee	64,001
Accrued shareholder reporting fees	27,665
Accrued legal fees	34,111
Accrued trustee fee	37,279
Options written, at value (premium received \$20,421)	9,800
Accrued other	45,043
Total liabilities	\$ 1,079,355
NET ASSETS	\$ 307,997,625
SOURCES OF NET ASSETS:	
Shares of beneficial interest, par value \$.01 per share, unlimited number of shares authorized, amount paid in on 20,083,135 shares issued and outstanding	\$ 272,947,282
Accumulated undistributed net realized loss on investments and options	(1,326,187)
Net unrealized gain on investments, options and foreign currency	36,376,530
Total net assets (equivalent to \$15.34 per share based on 20,083,135 shares outstanding)	\$ 307,997,625

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, 2007*

INVESTMENT INCOME:		
Dividend income (net of foreign tax of \$13,372)	\$	542,605
Interest income from non affiliated issuers		1,988,036
Interest income from affiliated issuers		345,449
Total investment income	\$	2,876,090
EXPENSES:		
Advisory fees	\$	3,456,338
Legal fees		232,023
Trustees' fees and expenses		192,387
Administration and auditing fees		174,416
Custodian fees		116,932
Shareholder reporting		93,085
Transfer agent fees		51,171
Stock exchange listing fee		27,531
Other (See Note (3))		243,682
Total expenses		4,587,565
Net Investment loss	(\$)	1,711,475
NET REALIZED AND UNREALIZED GAIN ON INVESTMENTS, OPTIONS, AND FOREIGN CURRENCY:		
Net realized gain on investments and options	\$	20,234,837
Increase in net unrealized gain on investments, options and foreign currency		31,988,951
Net realized and unrealized gain on investments, options and foreign currency	\$	52,223,788
Net increase in net assets resulting from operations	\$	50,512,313

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, 2007	For the year ended September 30, 2006
NET INCREASE/(DECREASE) IN NET ASSETS		
RESULTING FROM OPERATIONS:		
Net investment loss	(\$ 1,711,475)	(\$ 1,338,725)
Net realized gain on investments and options	20,234,837	13,733,052
Increase/(decrease) in net unrealized gain on investments, options and foreign currency	31,988,951	(33,840,281)
Net increase/(decrease) in net assets resulting from operations	\$ 50,512,313	(\$ 21,445,954)
DISTRIBUTIONS TO SHAREHOLDERS		
FROM:		
Net realized capital gains	(\$ 22,280,388)	(\$ 26,482,790)
CAPITAL SHARE TRANSACTIONS:		
Value of shares issued in reinvestment of distributions (855,433 and 1,016,450 shares, respectively)	\$ 11,646,931	\$ 15,348,652
Value of 5,606,048 shares issued in rights offering		71,869,535
Offering costs charged to paid-in-capital		(462,000)
Net increase in net assets resulting from capital share transactions	\$ 11,646,931	\$ 86,756,187
Net increase in net assets	\$ 39,878,856	\$ 38,827,443
NET ASSETS:		
Beginning of year	268,118,769	229,291,326
End of year	\$ 307,997,625	\$ 268,118,769

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, 2007*

CASH FLOWS FROM OPERATING ACTIVITIES:	
Purchases of portfolio securities	(\$ 350,394,626)
Options written	9,800
Net maturities of short-term investments	79,034,305
Sales of portfolio securities	285,651,272
Interest income received	562,810
Dividends received	496,958
Operating expenses paid	(4,727,837)
Net cash provided from operating activities	\$ 10,632,682
CASH FLOWS FROM FINANCING ACTIVITIES:	
Cash distributions paid	(\$ 10,633,457)
Net cash used for financing activities	(\$ 10,633,457)
NET DECREASE IN CASH	(\$ 775)
CASH AT BEGINNING OF PERIOD	1,447
CASH AT END OF PERIOD	\$ 672
RECONCILIATION OF NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH USED FOR OPERATING ACTIVITIES:	
Net increase in net assets resulting from operations	\$ 50,512,313
Purchases of portfolio securities	(350,394,626)
Net maturities of short-term investments	79,034,305
Sales of portfolio securities	285,651,272