

H&Q LIFE SCIENCES INVESTORS
Form N-CSR
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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, 2009 to September 30, 2010

ITEM 1. REPORTS TO STOCKHOLDERS.

H&Q LIFE SCIENCES INVESTORS

Annual Report

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To our Shareholders:

On September 30, 2010, the net asset value (NAV) per share of the Fund was \$11.51. During the twelve month period ended September 30, 2010, total return at NAV of the Fund was 4.76%, with distributions reinvested. During the most recent six month period ended September 30, 2010, total return at NAV of the Fund was -4.67%, with distributions reinvested. The total investment return at market with distributions reinvested was 7.05% during the twelve month period ended September 30, 2010 and -3.88% during the six month period ended September 30, 2010. As such, market performance of the Fund exceeded that for the NBI benchmark noticeably. Note that the Fund NAV underperformed the NBI benchmark by 180bp for the full fiscal year while the NAV was nearly identical for the most recent six month period. Also note the Fund's market return exceeded the NBI benchmark for both periods. Both the Funds' NAV and the NBI underperformed the broad S&P 500 Index in both periods. Comparisons to relevant indices are listed below.

Investment Returns	Six Months Ended 9/30/10	Fiscal Year Ended 9/30/10
Investment Return at Market	-3.88%	7.05%
Net Asset Value	-4.67%	4.76%
NASDAQ Biotech Index (NBI)	-4.65%	6.61%
S&P 500 Index	-1.42%	10.12%

Portfolio Highlights

There were at least four major healthcare related themes that emerged over the last twelve months: 1) healthcare reform, 2) impact of the economic situation on healthcare, 3) FDA actions particularly with respect to drug approvals, and 4) merger and acquisition activity.

Few healthcare related events in the last ten years have played out more publicly than the recent debate surrounding healthcare reform. At its heart, this discussion involved whether and how to provide health insurance coverage for uncovered individuals. The issue divided those that believe that the United States government has a moral obligation to provide healthcare insurance to all versus those who don't feel such an obligation either for cost or philosophical reasons. In the end, the legislation was passed without popular

majority approval and is now law. This legislation appears to have been a significant factor in the most recent national elections. There are myriad views, intense on all sides, about its impact and whether it will remain law in its current form or at all. In considering the potential impact on individual healthcare sectors we agree with the consensus that the volume of healthcare related products and services will increase but that there will be pressure on prices and profit margins. In the longer term, we would expect profit margins for producers of drugs and medical devices as well as at health insurance companies to be challenged. Bundling of payments for certain classes of drugs may also challenge some drug manufacturers. On the other hand, volume increases may well benefit producers of generic drugs and possibly pharmacy benefit managers. It remains to be seen what the net effect of this legislation will be on hospital stocks, though we are pessimistic about this group particularly over the near term.

Both the healthcare reform and the overall economic situation have generated a great deal of discussion. It appears that protracted high rates of unemployment and corporate uncertainty about the fiscal and regulatory environment may have caused basic shifts in both individual and corporate behavior. There have been reports that, coincident with the economic downturn, doctor visits and elective (e.g. aesthetic and certain orthopedic) procedures are down. Furthermore, at times over the last year or two, there have been reductions in corporate purchase of capital and other laboratory equipment. It remains to be seen whether these occurrences will be sustained. For the business sector, these actions may be cyclical and may soon reverse as improvements in the business cycle gather momentum. In early/mid November 2010, the majority of companies are meeting or beating Street earnings (if not always revenue) estimates. This would suggest that the business cycle may be turning up which is supported by anecdotal evidence. It remains to be seen whether uncertainty regarding corporate taxes and regulation slows the turnaround or whether the results of the recent election reduces apparent corporate hesitancy to hire and invest. With prolonged unemployment in the range of 10% (and underemployment even higher), uncertainty remains. We would expect a reversal to occur but be delayed by a couple of years until people are more confident in their employment and home valuation situation. The impact of these trends should affect several healthcare subsectors. Reduced utilization by consumers has hurt a number of medtech companies and possibly the hospital sector. On the positive side, companies appear to be projecting more confident guidance (or at least tone) in quarterly conference calls.

It appears to us that the FDA and associated expert regulatory and reimbursement panels continue to take a very conservative approach to their review of many new products. There have been key approvals for such drugs as Provenge for prostate cancer by Dendreon and generic Lovenox for deep vein thrombosis by Sandoz/Momenta. However, in our view, recent FDA decisions denying or substantively delaying differentiated drugs in diseases such as diabetes, obesity and respiratory disease demonstrate that important new therapies are being denied to people in need. This trend is not good for most companies we consider for investment; we would like to see the trend reverse or at least moderate.

Merger and acquisition activity in the healthcare sector continue unabated. Many completed or proposed transactions are being advanced on friendly terms and have or will likely benefit both patients and investors. Examples include the recently proposed mergers of Pfizer/King and Celgene/Abraxis. Others proposed transactions have been more fractious. The proposed acquisition of Genzyme by Sanofi is an example. In any event we continue to expect a high rate of M&A in the healthcare sector. The Fund seeks to invest in companies on both sides of such transactions and have owned shares in at least two of these exemplar deals.

With regard to the Portfolio, during the twelve month period ending September 30, 2010, Fund performance benefited from ownership of two generic drug companies, Akorn and Perrigo. The Fund also benefited from owning shares in Acorda, a manufacturer of a recently approved drug used to treat multiple sclerosis and Align, a manufacturer of dental aligners. Fund performance was also helped by ownership of Targegen, a venture holding which has been acquired. In contrast, Fund performance was hindered by its ownership of Xenoport and Intermune, companies developing drugs that were challenged during FDA review. In this period, performance was also limited by owning a significant position in Gilead, though over the long term, ownership of Gilead has benefited the Fund substantially.

Investment Changes

During the twelve month period ended September 30, 2010, within the public portfolio, the Fund established positions in several companies including Eurand, Human Genome, Momenta Pharmaceuticals, Inc., Pharmasset, Inc., Incyte Corporation, Nektar Therapeutics, Elan Corp plc. During the same twelve month period, the Fund exited its position in several companies including Biogen Idec Inc., United Therapeutics Corporation, Zix, Sequenom, Life Technologies Corporation, Laboratory Corporation of America, Intuitive Surgical, Inc., Becton, Dickinson and Company.

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During the same twelve month period, within the venture portfolio, the Fund established positions in Euthymics Biosciences, Inc. The Fund made follow on investments in TargeGen, Inc. and Xoft, Inc., Eleme, CardioKinetix. The Fund exited its position in Flowcardia, Inc. and DOV Pharmaceutical, Inc.

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 (Excludes Short-Term Investments)

As of September 30, 2010

Issuer - Sector	% of Net Assets
Celgene Corporation	
<i>Biotechnologies/Biopharmaceuticals</i>	4.5%
Amgen Inc.	
<i>Biotechnologies/Biopharmaceuticals</i>	3.7%
Illumina, Inc.	
<i>Medical Devices and Diagnostics</i>	3.3%
Gilead Sciences, Inc.	
<i>Biotechnologies/Biopharmaceuticals</i>	3.0%
Teva Pharmaceutical Industries, Ltd.	
<i>Generic Pharmaceuticals</i>	2.8%
Alexion Pharmaceuticals	
<i>Biotechnologies/Biopharmaceuticals</i>	2.6%
Cephalon, Inc.	
<i>Biotechnologies/Biopharmaceuticals</i>	2.5%
Vertex Pharmaceuticals, Inc.	
<i>Biotechnologies/Biopharmaceuticals</i>	2.4%
Akorn, Inc.	
<i>Generic Pharmaceuticals</i>	2.2%
Incyte Corporation	
<i>Drug Discovery Technologies</i>	2.1%

SECTOR DIVERSIFICATION (% of Net Assets)

As of September 30, 2010

H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2010

CONVERTIBLE SECURITIES AND WARRANTS - 8.4% of Net Assets		
SHARES	Convertible Preferred and Warrants (Restricted) ^(a) ^(b) - 7.8%	VALUE
	<i>Biotechnologies/Biopharmaceuticals - 0.2%</i>	
435,745	Euthymics Biosciences, Inc.	\$ 427,074
204,275	MacroGenics, Inc. Series D	133,208
50,145	MacroGenics, Inc. Series D 18 Month Lock-up	0
		560,282
	<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
		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
		3,503,912
	<i>Medical Devices and Diagnostics - 4.9%</i>	
2,379,916	CardioKinetix, Inc. Series C	1,640,000
N/A	CardioKinetix, Inc. warrants (expiration 12/11/19) ^(d)	0
N/A	CardioKinetix, Inc. warrants (expiration 06/03/20) ^(d)	0
3,235,293	Concentric Medical, Inc. Series B ^(c)	1,682,352
1,162,790	Concentric Medical, Inc. Series C ^(c)	604,651
455,333	Concentric Medical, Inc. Series D ^(c)	236,773
453,094	Concentric Medical, Inc. Series E ^(c)	235,609
1,198,193	Elemé Medical, Inc. Series C	644,628
1,304,545	Interlace Medical, Inc. Series C	1,435,000
2,446,016	Labcyte, Inc. Series C	1,280,000
2,161,090	Magellan Biosciences, Inc. Series A	2,161,090
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	OmniSonics Medical Technologies, Inc. Series A-1	1,031
877,747	OmniSonics Medical Technologies, Inc. Series B-1	877

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, 2010

(continued)

SHARES	Convertible Preferred and Warrants (Restricted) ^(a) ^(b) - continued	VALUE
	<i>Medical Devices and Diagnostics - continued</i>	
9,606,373	Palyon Medical Corporation Series A ^(c)	\$ 1,537,020
43,478	TherOx, Inc. Series H	72,122
99,646	TherOx, Inc. Series I	165,293
2,813	TherOx, Inc. warrants (expiration 1/26/11)	0
5,427	TherOx, Inc. warrants (expiration 2/06/11)	0
640,625	Xoft, Inc. Series D	474,063
122,754	Xoft, Inc. Series E	90,838
N/A	Xoft, Inc. warrants (expiration 6/12/14) ^(d)	0
N/A	Xoft, Inc. warrants (expiration 6/30/15) ^(d)	0
		12,261,347
		19,510,096
PRINCIPAL AMOUNT	Convertible Notes - 0.6%	
	<i>Drug Discovery Technologies - 0.0%</i>	
\$ 700,000	deCODE Genetics, Inc., 3.50% due 4/15/11	11,375
	<i>Medical Devices and Diagnostics - 0.6%</i>	
492,165	CardioKinetix, Inc., Cvt. Promissory Notes, 4.25% due 12/31/10 (Restricted) ^(a)	492,165
525,908	Elemé Medical, Inc., Subordinated Cvt Promissory Notes, 10.50% due 12/18/12 (Restricted) ^(a)	525,908
410,000	Xoft, Inc., Cvt. Promissory Notes, 10.00% due 3/31/11 (Restricted) ^(a)	410,000
51,588	Xoft, Inc., Cvt. Promissory Notes, 10.00% due 6/30/11 (Restricted) ^(a)	51,588
		1,479,661
		1,491,036
	TOTAL CONVERTIBLE SECURITIES AND WARRANTS	
	(Cost \$32,696,252)	21,001,132
	COMMON STOCKS AND WARRANTS - 85.0%	
SHARES	Biotechnologies/Biopharmaceuticals - 45.8%	
98,998	Acorda Therapeutics, Inc. ^(b)	3,268,914
837,744	Adolor Corporation ^(b)	904,764
352,127	Affymax, Inc. ^(b)	2,095,156
102,610	Alexion Pharmaceuticals, Inc. ^(b)	6,603,980
124,858	Alnylam Pharmaceuticals, Inc. ^(b)	1,533,256

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

H&Q LIFE SCIENCES INVESTORS

SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2010

(continued)

SHARES	Biotechnologies/ Biopharmaceuticals - continued	VALUE
64,852	AMAG Pharmaceuticals, Inc. ^(b)	\$ 1,116,103
169,027	Amgen, Inc. ^(b)	9,315,078
144,074	Amylin Pharmaceuticals, Inc. ^(b)	3,003,943
3,939,544	Antisoma plc ^{(b) (e)}	372,476
198,750	ARIAD Pharmaceuticals, Inc. ^(b)	759,225
	Athersys, Inc. warrants	
82,000	(Restricted, expiration 6/08/12) ^{(a) (b)}	820
151,000	BioMarin Pharmaceutical, Inc. ^(b)	3,374,850
190,000	Cadence Pharmaceuticals, Inc. ^(b)	1,586,500
195,924	Celgene Corporation ^(b)	11,287,182
100,153	Cephalon, Inc. ^(b)	6,253,553
174,224	Cornerstone Therapeutics, Inc. ^(b)	1,230,021
203,897	Cubist Pharmaceuticals, Inc. ^(b)	4,769,151
198,000	Curis, Inc. ^(b)	271,260
97,498	Dendreon Corporation ^(b)	4,014,968
380,480	Elan Corporation plc ^{(b) (f)}	2,187,760
38,249	Genzyme Corporation ^(b)	2,707,647
210,730	Gilead Sciences, Inc. ^(b)	7,504,095
176,000	Human Genome Sciences, Inc. ^(b)	5,243,040
120,000	Inspire Pharmaceuticals, Inc. ^(b)	714,000
103,976	InterMune, Inc. ^(b)	1,416,153
140,220	Ironwood Pharmaceuticals, Inc. ^(b)	1,427,440
360,400	Isis Pharmaceuticals, Inc. ^(b)	3,027,360
197,135	Martek Biosciences Corporation ^(b)	4,461,165
218,810	Momenta Pharmaceuticals, Inc. ^(b)	3,293,090
605,617	Neurocrine Biosciences, Inc. ^(b)	3,670,039
175,000	NPS Pharmaceuticals, Inc. ^(b)	1,197,000
115,200	Onyx Pharmaceuticals, Inc. ^(b)	3,038,976
10,250	Orexigen Therapeutics, Inc. ^(b)	60,780
113,086	Regeneron Pharmaceuticals, Inc. ^(b)	3,098,556
635,098	Telik, Inc. ^(b)	457,271
175,348	Vertex Pharmaceuticals, Inc. ^(b)	6,061,780
294,523	VIVUS, Inc. ^(b)	1,970,359
271,447	XenoPort, Inc. ^(b)	1,929,988
		115,227,699
	Drug Delivery - 2.8%	
154,900	Alkermes, Inc. ^(b)	2,269,285
1,083,690	DURECT Corporation ^(b)	2,752,573
142,000	Nektar Therapeutics ^(b)	2,097,340
		7,119,198

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, 2010

(continued)

SHARES		VALUE
Drug Discovery Technologies - 3.5%		
9,152	Clinical Data, Inc. ^(b)	\$ 154,397
315,071	Eurand N.V. ^(b)	3,100,299
337,270	Incyte Corporation ^(b)	5,392,947
1,601,039	MZT Holdings, Inc. ^{(b) (c)}	54,435
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
		8,702,090
Generic Pharmaceuticals - 9.7%		
1,327,905	Akorn, Inc. ^(b)	5,364,736
108,889	Akorn, Inc. warrants (Restricted, expiration 3/08/11) ^{(a) (b)}	41,378
160,953	Impax Laboratories, Inc. ^(b)	3,186,869
250,036	Mylan, Inc. ^(b)	4,703,177
60,245	Perrigo Company	3,868,934
135,629	Teva Pharmaceutical Industries, Ltd. ^(f)	7,154,430
		24,319,524
Healthcare Services - 4.8%		
311,900	Addus HomeCare Corporation ^(b)	1,244,481
55,910	Aetna, Inc.	1,767,315
148,148	Aveta, Inc (Restricted) ^{(a) (g)}	1,481,480
175,788	Pharmaceutical Product Development, Inc.	4,357,784
36,417	VCA Antech, Inc. ^(b)	768,035
44,450	WellPoint, Inc. ^(b)	2,517,648
		12,136,743
Medical Devices and Diagnostics - 12.3%		
122,594	Alere, Inc. ^(b)	3,791,832
255,972	Align Technology, Inc. ^(b)	5,011,932
57,493	Gen-Probe, Inc. ^(b)	2,786,111
237,544	Hologic, Inc. ^(b)	3,803,079
59,121	IDEXX Laboratories, Inc. ^(b)	3,648,948
167,027	Illumina, Inc. ^{(b) (h)}	8,217,728
130,000	Masimo Laboratories, Inc. (Restricted) ^{(a) (b)}	78,781
447,080	Medwave, Inc. ^(b)	894
111,770	Medwave, Inc. warrants (Restricted, expiration 8/21/11) ^{(a) (b)}	0
81,565	Myriad Genetics, Inc. ^(b)	1,338,482
62,005	OmniSonic Medical Technologies, Inc. (Restricted) ^{(a) (b)}	62

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, 2010

(continued)

SHARES	Medical Devices and Diagnostics - continued	VALUE
43,197	Stryker Corporation	\$ 2,162,010
		30,839,952
	Pharmaceuticals - 6.1%	
88,431	Forest Laboratories, Inc. ^(b)	2,735,171
95,439	Pharmasset, Inc. ^(b)	2,815,451
55,929	Shire plc ^(f)	3,762,903
526,000	Somaxon Pharmaceuticals, Inc. ^(b)	2,046,140
175,694	Warner Chilcott plc	3,942,573
		15,302,238
	TOTAL COMMON STOCKS AND WARRANTS	
	(Cost \$225,246,173)	213,647,444
PRINCIPAL AMOUNT	SHORT-TERM INVESTMENTS - 6.5%	
	General Electric Capital Corp. Commercial Paper, 0.12% due 10/12/10 Repurchase Agreement, State Street Bank and Trust Co., repurchase value \$11,566,002 (collateralized by U.S. Treasury Bill 2.5%, 04/30/15, market value \$11,799,114); 0.01% due 10/01/10	4,899,821
\$ 4,900,000		11,566,000
	TOTAL SHORT-TERM INVESTMENTS (Cost \$16,465,821)	16,465,821
	TOTAL INVESTMENTS BEFORE MILESTONE INTEREST AND OUTSTANDING OPTIONS WRITTEN - 99.9%	
	(Cost \$274,408,246)	251,114,397
INTEREST	MILESTONE INTEREST - 1.7%	
	Biotechnologies/Biopharmaceuticals - 1.7%	
1	Targegen Milestone Interest (restricted) ^{(a)(b)}	4,325,927
	TOTAL MILESTONE INTEREST	4,325,927

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

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

SEPTEMBER 30, 2010

(continued)

NUMBER OF CONTRACTS (100 SHARES EACH)	CALL OPTION CONTRACTS WRITTEN - 0.0%	VALUE
131	Illumina, Inc., strike @ 50, expires Oct - 2010	(\$ 10,480)
	TOTAL CALL OPTION CONTRACTS WRITTEN	
	(Premiums received \$19,400)	(10,480)
	TOTAL INVESTMENTS NET OF OUTSTANDING OPTIONS WRITTEN - 101.6%	
	(Cost \$274,388,846)	255,429,844
	OTHER LIABILITIES IN EXCESS OF ASSETS - (1.6)%	(4,001,325)
	NET ASSETS - 100%	\$ 251,428,519

(a) Security fair valued.

(b) Non-income producing.

(c) Affiliated issuers in which the Fund holds 5% or more of the voting securities (total market value of \$7,949,292).

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

(e) Foreign security.

(f) American Depositary Receipt.

(g) 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.

(h) 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, 2010

(continued)

Other Information

Financial Accounting Standards Board Accounting Standards Codification No. 820, *Fair Value Measurements and Disclosures*, establishes 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. Level 1 includes quoted prices in active markets for identical investments. Level 2 includes prices determined using other significant observable inputs (including quoted prices for similar investments, interest rates, credit risk, etc.). Level 3 includes 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, 2010 to value the Fund's net assets:

Assets at Value	Level 1	Level 2	Level 3	Total
Convertible Securities and Warrants				
Biotechnologies/Biopharmaceuticals			\$ 560,282	\$ 560,282
Drug Discovery Technologies		\$ 11,375	3,184,555	3,195,930
Healthcare Services			3,503,912	3,503,912
Medical Devices and Diagnostics			13,741,008	13,741,008
Common Stocks and Warrants				
Biotechnologies/Biopharmaceuticals	\$ 115,226,879		820	115,227,699
Drug Delivery	7,119,198			7,119,198
Drug Discovery Technologies	8,702,078		12	8,702,090
Generic Pharmaceuticals	24,278,146		41,378	24,319,524
Healthcare Services	10,655,263		1,481,480	12,136,743
Medical Devices and Diagnostics	30,761,016		78,936	30,839,952
Pharmaceuticals	15,302,238			15,302,238
Milestone Interest				
Biotechnologies/Biopharmaceuticals			4,325,927	4,325,927
Short-Term Investments		16,465,821		16,465,821
Other Assets			878,114	878,114
Total	\$ 212,044,818	\$ 16,477,196	\$ 27,796,424	\$ 256,318,438
Liabilities at Value	Level 1	Level 2	Level 3	Total
Option Contracts Written	(\$ 10,480)	\$	\$	(\$ 10,480)

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

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

SEPTEMBER 30, 2010

(continued)

Other Information, continued

The following is a reconciliation of level 3 assets for which significant unobservable inputs were used to determine fair value. Realized and unrealized gain (loss) disclosed in the reconciliation are included in Net Realized and Unrealized Gain (Loss) on the Statement of Operations.

Level 3 Assets	Balance as of September 30, 2009	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, 2010
Convertible Securities and Warrants						
Biotechnologies/ Biopharmaceuticals	\$ 1,811,330		\$ 3,788,294	(\$ 5,039,342)		\$ 560,282
Drug Discovery Technologies	3,184,555					3,184,555
Healthcare Services	3,503,912					3,503,912
Medical Devices and Diagnostics	18,766,961		(3,366,759)	(1,659,194)		13,741,008
Common Stocks and Warrants						
Biotechnologies/ Biopharmaceuticals	187,738		168,324	(355,242)		820
Drug Delivery	185,548		89,781	(275,329)		
Drug Discovery Technologies	25,442		(25,430)			12
Generic Pharmaceuticals	16,333		25,045			41,378
Healthcare Services	1,481,480					1,481,480
Medical Devices and Diagnostics	56,419		22,517			78,936
Milestone Interests						
Biotechnologies/ Biopharmaceuticals			251,398	4,074,529		4,325,927
Other Assets	618,509		429,443	(169,838)		878,114
Total Level 3 Liabilities	\$ 29,838,227		\$ 1,382,613	(\$ 3,424,416)		\$ 27,796,424
Option Contracts Written	\$	\$	\$ 148,937	(\$ 148,937)	\$	\$ (\$ 3,370,438)

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Net change in unrealized appreciation (depreciation) from
investments still held as of September 30, 2010

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Valuation Measurements* (ASU 2010-06). ASU 2010-06 requires new disclosures regarding transfers in and out of Levels 1 and 2 effective for interim and annual reporting periods beginning after December 15, 2009. For the period ending September 30, 2010, there were no transfers between Levels 1 and 2. ASU 2010-06 will also require additional details regarding Level 3 transaction activity effective for interim and annual periods beginning after December 15, 2010. Management is currently evaluating the impact it will have on its financial statements.

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, 2010

ASSETS:	
Investments in unaffiliated issuers, at value (cost \$262,283,059)	\$ 243,165,105
Investments in affiliated issuers, at value (cost \$12,125,187)	7,949,292
Milestone Interest, at value	4,325,927
Cash	308
Dividends and interest receivable	68,296
Receivable for investments sold	392,098
Prepaid expenses	1,355
Other assets (See Note 4)	878,114
Total assets	256,780,495
LIABILITIES:	
Payable for investments purchased	4,805,118
Accrued advisory fee	225,490
Accrued shareholder reporting fees	55,771
Accrued trustee fees	4,780
Options written, at value (premium received \$19,400)	10,480
Accrued other	250,337
Total liabilities	5,351,976
NET ASSETS	\$ 251,428,519
SOURCES OF NET ASSETS:	
Shares of beneficial interest, par value \$.01 per share, unlimited number of shares authorized, amount paid in on 21,842,141 shares issued and outstanding	\$ 271,945,790
Accumulated net realized gain on investments, milestone interest and options	2,516,260
Net unrealized loss on investments, milestone interest and options	(23,033,531)
Total net assets (equivalent to \$11.51 per share based on 21,842,141 shares outstanding)	\$ 251,428,519

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

H&Q LIFE SCIENCES INVESTORS**STATEMENT OF OPERATIONS**

YEAR ENDED SEPTEMBER 30, 2010

INVESTMENT INCOME:	
Dividend income (net of foreign tax of \$16,876)	\$ 1,771,828
Interest income	50,748
Total investment income	1,822,576
EXPENSES:	
Advisory fees	2,849,028
Legal fees	185,447
Trustees' fees and expenses	184,672
Administration and auditing fees	167,262
Custodian fees	99,673
Shareholder reporting	94,438
Transfer agent fees	36,890
Other (see Note 2)	165,332
Total expenses	3,782,742
Net investment loss	(1,960,166)
REALIZED AND UNREALIZED GAIN (LOSS):	
Net realized gain on:	
Investments in unaffiliated issuers	12,942,911
Closed or expired option contracts written	488,755
Net realized gain	13,431,666
Change in unrealized appreciation (depreciation) on:	
Investments in unaffiliated issuers	1,515,051
Investments in affiliated issuers	(3,053,701)
Milestone interest	251,398
Option contracts written	8,920
Change in unrealized appreciation (depreciation)	(1,278,332)
Net realized and unrealized gain (loss)	12,153,334
Net increase in net assets resulting from operations	\$ 10,193,168

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, 2010	Year ended September 30, 2009
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment loss	(\$ 1,960,166)	(\$ 3,152,783)
Net realized gain	13,431,666	285,197
Change in net unrealized appreciation (depreciation)	(1,278,332)	(18,806,457)
Net increase (decrease) in net assets resulting from operations	10,193,168	(21,674,043)
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net realized capital gains	(6,272,293)	(2,046,323)
Return of capital (tax basis)		(12,491,241)
Total distributions	(6,272,293)	(14,537,564)
CAPITAL SHARE TRANSACTIONS:		
Fund shares repurchased (390,499 and 0 shares, respectively)	(3,795,325)	
Reinvestment of distributions (282,420 and 865,405 shares, respectively)	2,719,510	6,974,830
Total capital share transactions	(1,075,815)	6,974,830
Net increase (decrease) in net assets	2,845,060	(29,236,777)
NET ASSETS:		
Beginning of year	248,583,459	277,820,236
End of year	\$ 251,428,519	\$ 248,583,459

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

H&Q LIFE SCIENCES INVESTORS**STATEMENT OF CASH FLOWS**

YEAR ENDED SEPTEMBER 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:	
Purchases of portfolio securities	\$ (147,952,576)
Purchases to close option contracts written	(102,716)
Net maturities of short-term investments	2,266,532
Sales of portfolio securities	148,987,785
Proceeds from option contracts written	815,537
Interest income received	15,313
Dividend income received	1,762,553
Other operating receipts (expenses paid)	(3,919,792)
Net cash provided from operating activities	1,872,636
CASH FLOWS FROM FINANCING ACTIVITIES:	
Cash distributions paid	(3,552,783)
Fund shares repurchased	(3,795,325)
Net cash used for financing activities	(7,348,108)
NET DECREASE IN CASH	(5,475,472)
CASH AT BEGINNING OF YEAR	5,475,780
CASH AT END OF YEAR	\$ 308
RECONCILIATION OF NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH PROVIDED FROM OPERATING ACTIVITIES:	
Net increase in net assets resulting from operations	\$ 10,193,168
Purchases of portfolio securities	(147,952,576)
Purchases to close options written	(102,716)
Net sales of short-term investments	2,266,532
Sales of portfolio securities	148,987,785
Proceeds from option contracts written	815,537
Accretion of discount	(6,253)
Net realized gain on investments and options	(13,431,666)
Increase in net unrealized appreciation (depreciation) on investments and options	1,278,332
Increase in dividends and interest receivable	(38,458)
Increase in accrued expenses	68,982
Increase in prepaid expenses and other assets	(206,031)
Net cash provided from operating activities	\$ 1,872,636

Noncash financing activities not included herein consist of reinvested distributions to shareholders of \$2,719,510.

Noncash operating activity not included herein consists of corporate actions of \$113,676.

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

H&Q LIFE SCIENCES INVESTORS

FINANCIAL HIGHLIGHTS

Years ended September 30,

	2010	2009	2008	2007	2006
OPERATING PERFORMANCE FOR A SHARE					
OUTSTANDING THROUGHOUT EACH YEAR					
Net asset value per share, Beginning of year	\$ 11.32	\$ 13.18	\$ 15.34	\$ 13.94	\$ 18.19
Net investment loss (1)	(0.09)(3)	(0.15)	(0.14)	(0.09)	(0.10)(2)
Net realized and unrealized gain (loss)	0.53	(1.03)	(0.87)	2.63	(2.10)
Total increase (decrease) from investment operations	0.44	(1.18)	(1.01)	2.54	(2.20)
Distributions to shareholders from:					
Net realized capital gain	(0.29)	(0.10)	(1.15)	(1.14)	(2.05)
Return of capital (tax basis)		(0.58)			
Total distributions	(0.29)	(0.68)	(1.15)	(1.14)	(2.05)
Increase resulting from shares repurchased (1)	0.04				
Net asset value per share, End of year	\$ 11.51	\$ 11.32	\$ 13.18	\$ 15.34	\$ 13.94
Per share market value, End of year	\$ 9.59	\$ 9.23	\$ 10.62	\$ 13.53	\$ 13.29
Total investment return at market value	7.05%	(5.56%)	(13.52%)	10.56%	(9.95%)
RATIOS AND SUPPLEMENTAL DATA					
Net assets, end of year (in millions)	\$ 251	\$ 249	\$ 278	\$ 308	\$ 268
Ratio of expenses to average net assets	1.52%	1.58%	1.56%	1.60%	1.74%
Ratio of net investment loss to average net assets	(0.79%)(3)	(1.38%)	(0.99%)	(0.60%)	(0.64%)(2)
Portfolio turnover rate	57.45%	82.88%	73.89%	112.69	