

H&Q LIFE SCIENCES INVESTORS  
Form N-CSR  
December 09, 2005

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

**FORM N-CSR/A**

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

Investment Company Act file number 811-4889

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, 2004 to September 30, 2005

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.**

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H&Q LIFE SCIENCES INVESTORS

# Annual Report

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**T**o our Shareholders:

On September 30, 2005, the net asset value ("NAV") per share of the Fund was \$18.19. During the twelve month period ended September 30, 2005, total return at net asset value of your Fund was 24.04%. During the most recent six month period ended September 30, 2005, total return at net asset value of your Fund was 22.69%. The total investment return at market was 12.77% during the twelve month period ended September 30, 2005 and was 21.79% during the six month period ended September 30, 2005. Comparisons to relevant indices are listed below:

| <b>Investment Returns</b>   | <b>Six Months<br/>Ended<br/>9/30/05</b> | <b>Fiscal Year<br/>Ended<br/>9/30/05</b> |
|-----------------------------|---|--|
| Investment Return at market | +21.79%                                 | +12.77%                                  |
| Net Asset Value             | +22.69%                                 | +24.04%                                  |
| NASDAQ Biotech Index (NBI)  | +20.60%                                 | +9.80%                                   |
| S&P 500 Index               | +4.10%                                  | +10.20%                                  |

We are generally pleased with the performance of the Fund. Both the six month and fiscal year returns outperformed the NBI. In particular, the Fund's 2005 fiscal year NAV performance (more than 1400 basis points ahead of the NBI) was quite acceptable to us.

A number of positive developments occurred in the healthcare/biotechnology sector during the six month period ending September 30, 2005. These events included clinical results, such as those reported by Genentech for its Herceptin, Avastin and Lucentis drugs as well as financial results such as those reported by Genentech at the end of the second calendar quarter. Merger and acquisition activities such as the acquisition of Vicuron by Pfizer also buoyed the sector. These positive events helped to offset negative sentiment that had developed in the prior period after healthcare sector-related events such as the removal of drugs such as Vioxx and Tysabri from the market. We believe that these more recent positive events helped to catalyze the upward movement that has occurred in the biotech sector over the last six months.

For your Fund, factors that affected the stock price of key holdings include positive results reported for Cubist Pharmaceuticals' Cubicin product in the treatment of endocarditis and bacteremia; Renovis' Cerovive in the treatment of stroke; Myogen's Darusentan in the treatment of resistant hypertension; and in several of Medimmune's clinical programs. The Fund has also benefited from what we believe is a developing appreciation for the benefit of Conor Medsystems' unique drug eluting stent technology, the potential of Momenta Pharmaceuticals' m-enoxaparin, and the continued quality of Gilead Sciences' impressive launch of its HIV drug Truvada. We

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expect the Fund to benefit from the anticipated acquisition of Ivax by Teva Pharmaceutical Industries. Finally, the Fund significantly benefited from the acquisition of Idun, a venture holding, by Pfizer.

There have also been balancing events that suggest caution. These include renewed regulatory uncertainty at FDA following the resignation of FDA Commissioner Crawford so soon after senate confirmation, uncertainty for healthcare service providers in the Gulf Coast area, and any potential impact on entrepreneurship of the requirement to expense stock options. These and other items have the potential to slow down the growth of the healthcare/biotechnology sector. Despite these uncertainties, we continue to be impressed by a general trend demonstrating the benefits that new drugs appear to be having on patients with a wide range of diseases including cancer, diabetes, and hypertension. In the short term we are in a time of the year that has often been good for the biotech sector. In the intermediate and longer term, we are in an age where we are continuing to see individual drugs or combinations of agents that have impressive impact on the course of a number of diseases.

During the six-month period ended September 30, 2005, within the public portfolio, among others, the Fund established positions in Affymetrix, Inc., Align Technology, Inc., Bioenvision, Inc., Intralase Corporation, and ZymoGenetics, Inc. During the same six-month period, among others, the Fund exited its positions in Adolor Corporation, Imclone Systems, Inc., NPS Pharmaceuticals, Inc., and Pfizer, Inc. The Fund also exited its position in Provident Senior Living Trust when it was acquired by Ventas, Inc. and the Ventas shares were subsequently sold by the Fund.

Within the venture portfolio, the Fund made follow on investments in Agensys, Inc., CardioNet, Inc., Concentric Medical, Inc., Raven biotechnologies, Inc., and TherOx, Inc. Within the venture portfolio, the Fund also established positions in Labcyte, Inc., and TargeGen, Inc. The Fund exited its venture position in Triad Therapeutics, Inc. The Fund also exited its venture position Idun Pharmaceuticals, Inc. when it was acquired by Pfizer, Inc.

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

Daniel R. Omstead  
President

## H&Q LIFE SCIENCES INVESTORS

### LARGEST HOLDINGS

As of September 30, 2005

|                                       | <b>% of Net Assets</b> |
|---------------------------------------|------------------------|
| Conor Medsystems, Inc. (Restricted)   | 6.02%                  |
| Cubist Pharmaceuticals, Inc.          | 3.67%                  |
| Gilead Sciences, Inc.                 | 2.99%                  |
| Concentric Medical, Inc. (Restricted) | 2.96%                  |
| Myogen, Inc.                          | 2.60%                  |
| MedImmune, Inc.                       | 2.51%                  |
| IDEXX Laboratories, Inc.              | 2.43%                  |
| Theravance, Inc.                      | 2.38%                  |
| Critical Therapeutics, Inc.           | 2.33%                  |
| VNUS Medical Technologies, Inc.       | 1.74%                  |

## H&Q LIFE SCIENCES INVESTORS

### PORTFOLIO

As of September 30, 2005

## H&amp;Q LIFE SCIENCES INVESTORS

## SCHEDULE OF INVESTMENTS

SEPTEMBER 30, 2005

| Convertible Securities - 15.8% of Net Assets |  |               |
|--|--|---------------|
| SHARES                                       | Convertible Preferred (Restricted) - 15.6%                       | VALUE         |
|  | <i>Drug Discovery Technologies - 1.8%</i>                        |               |
| 1,587,302                                    | Agilix Corporation Series B <sup>(a) (b)</sup>                   | \$ 380,952    |
| 566,958                                      | Avalon Pharmaceuticals, Inc. Series B <sup>(a)</sup>             | 871,876       |
| 250,000                                      | Ceres, Inc. Series C <sup>(a)</sup>                              | 1,500,000     |
| 18,296                                       | Ceres, Inc. Series C-1 <sup>(a) (c)</sup>                        | 109,776       |
| 174,200                                      | Ceres, Inc. Series D <sup>(a) (c)</sup>                          | 1,045,200     |
| 932,488                                      | Galileo Pharmaceuticals, Inc. Series F-1 <sup>(a)</sup>          | 326,371       |
| 200,000                                      | Zyomyx, Inc. Series A New <sup>(a)</sup>                         | 20,000        |
| 200  | Zyomyx, Inc. Series B New <sup>(a)</sup>                         | 20            |
|  | <i>Emerging Biopharmaceuticals - 5.0%</i>                        |               |
| 744,921                                      | Agensys, Inc. Series C <sup>(a)</sup>                            | 2,200,201     |
| 1,724,138                                    | Corus Pharma, Inc. Series C <sup>(a)</sup>                       | 2,000,000     |
| 1,212,121                                    | Raven biotechnologies, Inc. Series B <sup>(a)</sup>              | 1,006,060     |
| 1,872,772                                    | Raven biotechnologies, Inc. Series C <sup>(a)</sup>              | 1,554,401     |
| 2,431,611                                    | Raven biotechnologies, Inc. Series D <sup>(a)</sup>              | 800,000       |
| 1,415,385                                    | TargeGen, Inc. Series C <sup>(a)</sup>                           | 1,840,001     |
| 30,920                                       | Therion Biologics Corporation Series A <sup>(a)</sup>            | 37,722        |
| 160,000                                      | Therion Biologics Corporation Series B <sup>(a)</sup>            | 195,200       |
| 271,808                                      | Therion Biologics Corporation Series C <sup>(a) (c)</sup>        | 331,606       |
| 22,224                                       | Therion Biologics Corporation Series C-2 <sup>(a) (c)</sup>      | 27,113        |
| 28,991                                       | Therion Biologics Corporation Sinking Fund <sup>(a)</sup>        | 290           |
| 1,400,000                                    | Xanthus Life Sciences, Inc. Series B <sup>(a)</sup>              | 1,400,000     |
|  | <i>Healthcare Services - 3.3%</i>                                |               |
| 1,051,429                                    | CardioNet, Inc. Series C <sup>(a) (c)</sup>                      | 3,680,001     |
| 322,168                                      | CytoLogix Corporation Series A <sup>(a) (b)</sup>                | 265,789       |
| 151,420                                      | CytoLogix Corporation Series B <sup>(a) (b) (c)</sup>            | 124,922       |
| 3,589,744                                    | PHT Corporation Series D <sup>(a) (b)</sup>                      | 2,800,000     |
| 802,996                                      | PHT Corporation Series E <sup>(a) (b)</sup>                      | 626,337       |
|  | <i>Medical Devices and Diagnostics - 5.5%</i>                    |               |
| 3,235,293                                    | Concentric Medical, Inc. Series B <sup>(a) (b)</sup>             | 4,529,410     |
| 1,162,790                                    | Concentric Medical, Inc. Series C <sup>(a) (b)</sup>             | 1,627,906     |
| 455,333                                      | Concentric Medical, Inc. Series D <sup>(a) (b)</sup>             | 637,466       |
| 177,778                                      | EPR, Inc. Series A <sup>(a)</sup>                                | 1,778         |
| 2,446,016                                    | Labcyte, Inc. Series C <sup>(a)</sup>                            | 1,280,000     |
| 130,000                                      | Masimo Corporation Series D <sup>(a)</sup>                       | 1,430,000     |
| 1,088,436                                    | OmniSonics Medical Technologies, Inc.<br>Series B <sup>(a)</sup> | 1,454,151     |
| 1,031,992                                    | OmniSonics Medical Technologies, Inc.<br>Series C <sup>(a)</sup> | 1,200,000     |
| 43,478                                       | TherOx, Inc. Series H <sup>(a)</sup>                             | 165,217       |
| 99,646                                       | TherOx, Inc. Series I <sup>(a) (c)</sup>                         | 384,733       |
|  |  | \$ 35,854,499 |

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



## H&amp;Q LIFE SCIENCES INVESTORS

## SCHEDULE OF INVESTMENTS, continued

SEPTEMBER 30, 2005

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

| PRINCIPAL<br>AMOUNT | Convertible Securities - continued<br>Convertible Notes (Restricted) - 0.2% | VALUE         |
|---------------------|---|---------------|
|                     | <i>Drug Discovery Technologies - 0.0%</i>                                   |               |
| \$ 132,340          | Avalon Pharmaceuticals, Inc.<br>8% Cvt. Note, due 2006                      | \$ 85,499     |
|                     | <i>Healthcare Services - 0.2%</i>   |               |
| 200,000             | CardioNet, Inc. 8% Cvt. Note, due 2006                                      | 200,000       |
| 112,225             | CytoLogix Corporation 6.75% Cvt. Note <sup>(b) (d)</sup>                    | 112,224       |
|                     |   | 397,723       |
|                     | <b>TOTAL CONVERTIBLE SECURITIES</b><br>(Cost \$43,873,557)                  | \$ 36,252,222 |
| <b>SHARES</b>       | <b>COMMON STOCKS - 76.9%</b>  |               |
|                     | <b>Biopharmaceuticals - 15.4%</b>   |               |
| 385,500             | Bioenvision, Inc. <sup>(a)</sup>  | \$ 3,095,565  |
| 518,905             | Critical Therapeutics, Inc. <sup>(a)</sup>                                  | 4,888,085     |
| 159,672             | Critical Therapeutics warrants <sup>(a)</sup>                               | 453,468       |
| 390,603             | Cubist Pharmaceuticals, Inc. <sup>(a)</sup>                                 | 8,413,589     |
| 33,807              | Genzyme Corporation <sup>(a)</sup>  | 2,421,934     |
| 140,675             | Gilead Sciences, Inc. <sup>(a)</sup>  | 6,859,313     |
| 300,809             | Inspire Pharmaceuticals, Inc. <sup>(a)</sup>                                | 2,286,148     |
| 170,850             | MedImmune, Inc. <sup>(a)</sup>  | 5,749,103     |
| 312,200             | Vivus, Inc. <sup>(a)</sup>  | 1,120,798     |
|                     |   | 35,288,003    |
|                     | <b>Drug Delivery - 3.6%</b>   |               |
| 112,360             | Connetics Corporation <sup>(a)</sup>  | 1,900,008     |
| 499,955             | DepoMed, Inc. <sup>(a)</sup>  | 3,239,708     |
| 141,710             | Noven Pharmaceuticals, Inc. <sup>(a)</sup>                                  | 1,983,940     |
| 58,626              | Penwest Pharmaceuticals Co. <sup>(a)</sup>                                  | 1,027,714     |
|                     |   | 8,151,370     |
|                     | <b>Drug Discovery Technologies - 4.3%</b>                                   |               |
| 46,560              | Avalon Pharmaceuticals, Inc. (Restricted) <sup>(a)</sup>                    | 368,057       |
| 439,232             | deCODE Genetics, Inc. <sup>(a)</sup>  | 3,685,156     |
| 245,200             | Pharmacopeia Drug Discovery, Inc. <sup>(a)</sup>                            | 877,816       |
| 120,737             | Senomyx, Inc. <sup>(a)</sup>  | 2,056,151     |
| 180,050             | ZymoGenetics, Inc. <sup>(a)</sup>   | 2,970,825     |
| 200,000             | Zyomyx, Inc. (Restricted) <sup>(a)</sup>                                    | 2,000         |
|                     |   | 9,960,005     |
|                     | <b>Emerging Biopharmaceuticals - 29.0%</b>                                  |               |
| 277,235             | ACADIA Pharmaceuticals, Inc. <sup>(a)</sup>                                 | 3,152,162     |
| 187,600             | Applera Corporation - Celera Genomics Group <sup>(a)</sup>                  | 2,275,588     |
| 366,659             | Ariad Pharmaceuticals, Inc. <sup>(a)</sup>                                  | 2,724,276     |
| 239,420             | Barrier Therapeutics, Inc. <sup>(a)</sup>                                   | 2,008,734     |



## H&amp;Q LIFE SCIENCES INVESTORS

## SCHEDULE OF INVESTMENTS, continued

SEPTEMBER 30, 2005

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

| SHARES  | Emerging Biopharmaceuticals - continued                   | VALUE        |
|---------|---|--------------|
| 409,329 | Cytokinetics, Inc. <sup>(a)</sup>                         | \$ 3,331,938 |
| 177,000 | DOV Pharmaceutical, Inc. <sup>(a)</sup>                   | 3,005,460    |
| 97,704  | Dyax Corporation <sup>(a)</sup>                           | 546,165      |
| 442,800 | Epix Pharmaceuticals, Inc. <sup>(a)</sup>                 | 3,409,560    |
| 500,925 | Exelixis, Inc. <sup>(a)</sup>                             | 3,842,095    |
| 94,680  | Incyte Corporation <sup>(a)</sup>                         | 444,996      |
| 501,100 | Kosan Biosciences, Inc. <sup>(a)</sup>                    | 3,642,997    |
| 815,000 | Lexicon Genetics, Inc. <sup>(a)</sup>                     | 3,243,700    |
| 31,059  | Momenta Pharmaceuticals, Inc. <sup>(a)</sup>              | 846,358      |
| 219,740 | Myogen, Inc. <sup>(a)</sup>                               | 5,163,890    |
| 51,080  | Myogen, Inc. warrants <sup>(a)</sup>                      | 801,956      |
| 158,810 | Neurogen Corporation <sup>(a)</sup>                       | 1,092,613    |
| 61,077  | Nitromed, Inc. <sup>(a)</sup>                             | 1,099,386    |
| 270,044 | Nuvelo, Inc. <sup>(a)</sup>                               | 2,592,422    |
| 78,100  | Protein Design Labs, Inc. <sup>(a)</sup>                  | 2,186,800    |
| 153,300 | Rigel Pharmaceuticals, Inc. <sup>(a)</sup>                | 3,643,941    |
| 340,700 | Sangamo BioSciences, Inc. <sup>(a)</sup>                  | 1,495,673    |
| 455,320 | Seattle Genetics, Inc. <sup>(a)</sup>                     | 2,390,430    |
| 526,924 | Sirna Therapeutics, Inc. <sup>(a)</sup>                   | 2,318,466    |
| 192,354 | Telik, Inc. <sup>(a)</sup>                                | 3,146,911    |
| 226,384 | Tercica, Inc. <sup>(a)</sup>                              | 2,553,611    |
| 259,216 | Theravance, Inc. <sup>(a)</sup>                           | 5,453,905    |
| 146,982 | Therion Biologics Corporation (Restricted) <sup>(a)</sup> | 1,470        |
|         |   | 66,415,503   |
|         | <b>Generic Pharmaceuticals - 4.0%</b>                     |              |
| 277,300 | Caraco Pharmaceutical Laboratories, Ltd. <sup>(a)</sup>   | 2,409,737    |
| 240,882 | Impax Laboratories, Inc. <sup>(a)</sup>                   | 2,921,899    |
| 48,300  | IVAX Corporation <sup>(a)</sup>                           | 1,273,188    |
| 79,300  | Teva Pharmaceutical Industries, Ltd. ADR                  | 2,650,206    |
|         |   | 9,255,030    |
|         | <b>Healthcare Services - 1.5%</b>                         |              |
| 17,416  | DakoCytomation, Inc. (Restricted) <sup>(e)</sup>          | 181,300      |
| 233,705 | Emageon, Inc. <sup>(a)</sup>                              | 3,169,040    |
| 204,139 | Syntiro Healthcare Services (Restricted) <sup>(a)</sup>   | 204          |
|         |   | 3,350,544    |
|         | <b>Medical Devices and Diagnostics - 19.1%</b>            |              |
| 64,095  | Adeza Biomedical Corporation <sup>(a)</sup>               | 1,115,894    |
| 74,250  | Affymetrix, Inc. <sup>(a)</sup>                           | 3,432,577    |
| 458,850 | Align Technology, Inc. <sup>(a)</sup>                     | 3,083,472    |
| 618,799 | Conor Medsystems, Inc. (Restricted) <sup>(a)</sup>        | 13,814,688   |

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|         |  |           |
|---------|--|-----------|
| 83,350  | IDEXX Laboratories, Inc. <sup>(a)</sup>        | 5,574,448 |
| 169,413 | Intralase Corporation <sup>(a)</sup>           | 2,492,065 |
| 130,000 | Masimo Corporation (Restricted) <sup>(a)</sup> | 1,300     |
| 36,455  | Molecular Devices Corporation <sup>(a)</sup>   | 761,545   |
| 123,562 | Natus Medical, Inc. <sup>(a)</sup>             | 1,503,750 |

## H&amp;Q LIFE SCIENCES INVESTORS

## SCHEDULE OF INVESTMENTS, continued

SEPTEMBER 30, 2005

| SHARES                  | Medical Devices and Diagnostics - continued                               | VALUE          |
|-------------------------|---|----------------|
| 260,227                 | Orchid Cellmark, Inc. <sup>(a)</sup>                                      | \$ 2,211,930   |
| 784,900                 | Orthovita, Inc. <sup>(a)</sup>  | 3,359,372      |
| 139,019                 | Songbird Hearing, Inc. (Restricted) <sup>(a)</sup>                        | 1,390          |
| 499,050                 | Third Wave Technologies, Inc. <sup>(a)</sup>                              | 2,470,297      |
| 382,583                 | VNUS Medical Technologies, Inc. <sup>(a)</sup>                            | 3,986,515      |
|                         |   | 43,809,243     |
|                         | <b>TOTAL COMMON STOCKS</b><br>(Cost \$130,380,503)                        | \$ 176,229,698 |
| <b>PRINCIPAL AMOUNT</b> |   |                |
|                         | <b>SHORT-TERM INVESTMENTS - 6.6%</b>                                      |                |
| \$ 7,300,000            | American Express Credit Corp.; 3.58% - 3.74%,<br>due 10/03/05 - 10/14/05  | 7,296,220      |
| 7,950,000               | General Electric Capital Corp.; 3.69% - 3.72%,<br>due 10/05/05 - 10/14/05 | 7,943,865      |
|                         | <b>Total SHORT-TERM INVESTMENTS</b><br>(Cost \$15,240,085)                | \$ 15,240,085  |
|                         | <b>TOTAL INVESTMENTS - 99.3%</b><br>(Cost \$189,494,145)                  | \$ 227,722,005 |
|                         | <b>OTHER ASSETS IN EXCESS OF LIABILITIES - 0.7%</b>                       | 1,569,321      |
|                         | <b>NET ASSETS - 100%</b>  | \$ 229,291,326 |

(a) Non-income producing security.

(b) Affiliated issuers in which the Fund holds 5% or more of the voting securities (Total Market Value of \$11,105,006).

(c) Including associated warrants.

(d) Variable maturity.

(e) Foreign Security.

ADR 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, 2005*

|  |                       |
|--|-----------------------|
| <b>ASSETS:</b>   |                       |
| Investments in non affiliated issuers, at value<br>(identified cost \$178,499,628; see Schedule of<br>Investments)   | \$ 216,616,999        |
| Investments in affiliated issuers, at value<br>(identified cost \$10,994,517; see Schedule of<br>Investments)  | 11,105,006            |
| Cash   | 21,295                |
| Interest receivable  | 35,708                |
| Receivable for investments sold  | 2,447,860             |
| Prepaid expenses   | 49,377                |
| <b>Total assets</b>  | <b>\$ 230,276,245</b> |
| <b>LIABILITIES:</b>  |                       |
| Payable for investments purchased  | \$ 557,439            |
| Accrued advisory fee   | 243,838               |
| Accrued audit fee  | 57,285                |
| Accrued legal fees   | 20,368                |
| Accrued shareholder reporting fees   | 38,691                |
| Accrued other  | 67,298                |
| <b>Total liabilities</b>   | <b>\$ 984,919</b>     |
| <b>NET ASSETS</b>  | <b>\$ 229,291,326</b> |
| <b>SOURCES OF NET ASSETS:</b>  |                       |
| Shares of beneficial interest, par value \$.01 per<br>share, unlimited number of shares authorized,<br>amount paid in on 12,605,204 shares issued and<br>outstanding | \$ 177,528,617        |
| Accumulated net investment loss  | (14)                  |
| Accumulated net realized gain on investments   | 13,534,863            |
| Net unrealized gain on investments   | 38,227,860            |
| <b>Total net assets (equivalent to \$18.19 per<br/>share based on 12,605,204 shares outstanding)</b>   | <b>\$ 229,291,326</b> |

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, 2005*

|  |                       |
|--|-----------------------|
| <b>INVESTMENT INCOME:</b>                                      |                       |
| Dividend income (net of foreign tax of \$3,893)                | \$ 229,637            |
| Interest income from non affiliated issuers                    | 648,031               |
| Interest income from affiliated issuers                        | 8,847                 |
| <b>Total investment income</b>                                 | <b>\$ 886,515</b>     |
| <b>EXPENSES:</b>   |                       |
| Advisory fees  | \$ 2,676,602          |
| Trustees' fees and expenses                                    | 163,474               |
| Legal fees   | 126,922               |
| Custodian fees   | 74,195                |
| Shareholder reporting  | 96,470                |
| Accounting, administration and auditing fees                   | 93,021                |
| Transfer agent fees  | 55,597                |
| Stock exchange listing fee                                     | 27,114                |
| Other (see note (3))   | 160,681               |
| <b>Total expenses</b>  | <b>3,474,076</b>      |
| <b>Net investment loss</b>                                     | <b>(\$ 2,587,561)</b> |
| <b>NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b> |                       |
| Net realized gain on investments                               | \$ 26,035,268         |
| Increase in net unrealized gain on investments                 | 21,315,662            |
| <b>Net realized and unrealized gain on investments</b>         | <b>\$ 47,350,930</b>  |
| <b>Net increase in net assets resulting from operations</b>    | <b>\$ 44,763,369</b>  |

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

## H&Q LIFE SCIENCES INVESTORS

### STATEMENTS OF CHANGES IN NET ASSETS

|   | For the<br>year ended<br>September 30,<br>2005 | For the<br>year ended<br>September 30,<br>2004 |
|---|--|--|
| <b>NET INCREASE IN NET ASSETS</b>   |  |  |
| <b>RESULTING FROM OPERATIONS:</b>   |  |  |
| Net investment loss   | (\$ 2,587,561)                                 | (\$ 3,070,147)                                 |
| Net realized gain on investments  | 26,035,268                                     | 22,434,597                                     |
| Increase/decrease in net unrealized<br>gain on investments  | 21,315,662                                     | (12,204,850)                                   |
| Net increase in net assets<br>resulting from operations   | \$ 44,763,369                                  | \$ 7,159,600                                   |
| <b>DISTRIBUTIONS TO SHAREHOLDERS<br/>FROM:</b>  |  |  |
| Net realized capital gains  | (\$ 15,828,633)                                | (\$ 16,063,421)                                |
| <b>CAPITAL SHARE TRANSACTIONS:</b>  |  |  |
| Value of shares issued in<br>reinvestment of distributions<br>(538,795 and 653,934 shares,<br>respectively) | \$ 8,518,606                                   | \$ 10,389,334                                  |
| Net increase in net assets  | \$ 37,453,342                                  | \$ 1,485,513                                   |
| <b>NET ASSETS:</b>  |  |  |
| Beginning of year   | 191,837,984                                    | 190,352,471                                    |
| End of year   | \$ 229,291,326                                 | \$ 191,837,984                                 |
| Accumulated net investment loss<br>included in net assets at end<br>of year                                 | (\$ 14)  | \$ 0   |

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, 2005*

|   |                     |
|---|---------------------|
| <b>CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES:</b>   |                     |
| Purchases of portfolio securities   | (\$ 138,246,171)    |
| Net maturities of short-term investments  | (1,325,186)         |
| Sales and maturities of portfolio securities  | 149,331,532         |
| Interest income received  | 25,360              |
| Dividends received  | 229,637             |
| Operating expenses paid   | (3,415,021)         |
| Net cash provided from operating activities   | \$ 6,600,151        |
| <b>CASH FLOWS USED FOR FINANCING ACTIVITIES:</b>  |                     |
| Cash distributions paid, net  | (\$ 7,310,027)      |
| Net cash used for financing activities  | (\$ 7,310,027)      |
| <b>NET DECREASE IN CASH</b>   | <b>(\$ 709,876)</b> |
| <b>CASH AT BEGINNING OF YEAR</b>  | <b>731,171</b>      |
| <b>CASH AT END OF YEAR</b>  | <b>\$ 21,295</b>    |
| <b>RECONCILIATION OF NET INCREASE IN NET ASSETS<br/>RESULTING FROM OPERATIONS TO NET CASH<br/>PROVIDED FROM OPERATING ACTIVITIES:</b> |                     |
| Net increase in net assets resulting from operations  | \$ 44,763,369       |
| Purchases of portfolio securities   | (\$ 138,246,171)    |
| Net maturities of short-term investments  | (1,325,186)         |
| Sales and maturities of portfolio securities  | 149,331,532         |
| Accretion of discount   | (618,892)           |
| Net realized gain on investments  | (26,035,268)        |
| Increase in net unrealized gain on investments  | (21,315,662)        |
| Increase in interest receivable   | (12,626)            |
| Increase in accrued expenses  | 58,953              |
| Decrease in prepaid expenses  | 102                 |
| Net cash provided from operating activities   | \$ 6,600,151        |

Noncash financing activities not included herein consist of reinvested distributions of \$8,518,606.

Noncash operating activities not included herein consist of three conversions of restricted preferred stock with a cost of \$7,156,360 to restricted common stock each 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, |                |                |                |                |
|--|----------------------------------|----------------|----------------|----------------|----------------|
|  | 2005                             | 2004           | 2003           | 2002 (1)       | 2001           |
| Net asset value per share:                             |                                  |                |                |                |                |
| Beginning of year                                      | \$ 15.90                         | \$ 16.68       | \$ 15.14       | \$ 23.09       | \$ 39.37       |
| Net investment loss(2)                                 | (\$ 0.21)                        | (\$ 0.26)      | (\$ 0.21)      | (\$ 0.26)      | (\$ 0.22)      |
| Net realized and unrealized gain (loss) on investments | 3.79                             | 0.86           | 3.55           | (4.84)         | (12.13)        |
| Total increase (decrease) from investment operations   | \$ 3.58                          | \$ 0.60        | \$ 3.34        | (\$ 5.09)      | (\$ 12.36)     |
| Capital gain distributions to shareholders             | (\$ 1.29)                        | (\$ 1.38)      | (\$ 1.80)      | (\$ 2.86)      | (\$ 3.92)      |
| Net asset value per share:                             |                                  |                |                |                |                |
| End of year  | \$ 18.19                         | \$ 15.90       | \$ 16.68       | \$ 15.14       | \$ 23.09       |
| Per share market value:                                |                                  |                |                |                |                |
| End of year  | \$ 16.85                         | \$ 16.20       | \$ 15.28       | \$ 11.79       | \$ 18.45       |
| Total investment return at market value                | 12.77%                           | 15.52%         | 47.65%         | (25.82%)       | (29.07%)       |
| <b>RATIOS AND SUPPLEMENTAL DATA:</b>                   |                                  |                |                |                |                |
| Net assets at end of year                              | \$ 229,291,326                   | \$ 191,837,984 | \$ 190,352,471 | \$ 157,585,450 | \$ 215,162,600 |
| Ratio of operating expenses to average net assets      | 1.74%                            | 1.73%          | 1.74%          | 1.71%          | 1.58%          |
| Ratio of net investment loss to average net assets     | (1.29%)                          | (1.56%)        | (1.38%)        | (1.25%)        | (0.83%)        |
| Portfolio turnover rate                                | 73.79%                           | 34.93%         | 32.36%         | 17.36%         | 16.49%         |
| Number of shares outstanding at end of year            | 12,605,204                       | 12,066,409     | 11,412,475     | 10,409,622     | 9,318,998      |

(1) In 2002, the Fund adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began accreting discounts and amortizing premiums on all debt securities. The effect of this change for the year ended September 30, 2002 was a decrease in net investment loss per share of \$.006, an increase in net realized and unrealized loss on investments per share of \$.006, and a decrease in the ratio of net investment loss to average net assets from (1.28%) to (1.25%). Per share data and ratios for the period prior to October 1, 2001 have not been restated to reflect this change in presentation.

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

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

## H&Q LIFE SCIENCES INVESTORS

### NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

#### *(1) Organization*

H&Q Life Sciences 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 securities of companies in the healthcare industries. The Fund invests primarily in securities of public and private companies that are believed to have significant potential for above-average growth. The Fund was organized on February 20, 1992 and commenced operations on May 8, 1992.

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.

#### *Investment Securities & Investment Income*

Investments traded on national securities exchanges or in the over-the-counter market that are National Market System securities are valued at the last sale price or, lacking any sales, at the mean between the last bid and asked prices. Other over-the-counter securities are valued at the most recent bid prices as obtained from one or more dealers that make markets in the securities. Exchange traded investments for which market quotations are not readily available are valued at fair value as determined in good faith by the Trustees of the Fund. The value of venture capital and other restricted securities is determined in good faith by the Trustees. However, because of the uncertainty of venture capital and other restricted security 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. See note 4 below. Short-term investments with maturity of 60 days or less are valued at amortized cost.

Investment transactions are recorded on a trade date basis. Gains and losses from sales of investments are recorded using the "identified cost" method. Interest income is recorded on the accrual basis, adjusted for amortization of premiums and accretion of discounts. Dividend income is recorded on the ex-dividend date.

#### *Repurchase Agreements*

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

#### *Federal Income Taxes*

It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute to its shareholders substantially all of its taxable income and its net realized capital gains, if any. Therefore, no Federal income or excise tax provision is required.

#### *Distributions*

The Fund records all distributions to shareholders from net investment income, if any, and realized gains on the ex-dividend date. Such distributions are determined in conformity with income tax regulations. Due to permanent book/tax differences in accounting for certain

## H&Q LIFE SCIENCES INVESTORS

### NOTES TO FINANCIAL STATEMENTS, *continued*

SEPTEMBER 30, 2005

transactions, certain distributions may be treated as distributions from capital as opposed to distributions of net investment income or realized capital gains.

#### *Distribution Policy*

Distributions will automatically be paid in newly issued shares of the Fund unless otherwise instructed by the shareholder. Pursuant to an SEC exemptive order, the Fund has implemented a fixed distribution policy that permits the Fund to make quarterly distributions at a rate of 2% of the Fund's net assets to shareholders of record. The Fund intends to use net realized capital gains when making quarterly distributions. This could result in a return of capital to shareholders if the amount of the distribution exceeds the Fund's net investment income and realized capital gains. It is anticipated that net realized capital gains in excess of the total distributed under this policy would be included in the December distribution.

Pursuant to Section 852 of the Internal Revenue Code, the Fund has designated \$15,828,633 as a long-term capital gain distribution for its taxable year ended September 30, 2005.

#### *Statement of Cash Flows*

The cash amount shown in the Statement of Cash Flows is the amount included in the Fund's Statement of Assets and Liabilities and represents cash on hand at its custodian and does not include short-term investments at September 30, 2005.

#### *Indemnifications*

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

#### *(2) Securities Transactions*

The aggregate cost of purchases and proceeds from sales of investment securities (other than short-term investments) for the year ended September 30, 2005 totaled \$137,914,676 and \$151,209,219 respectively.

At September 30, 2005, the total cost of securities for Federal income tax purposes was \$189,728,428. The net unrealized gain for Federal income tax purposes on securities held by the Fund was \$37,993,577 including gross unrealized gain of \$61,132,191 and gross unrealized loss of \$23,138,614.

#### *(3) Investment Advisory Fees and Other Transactions with Affiliates*

The Fund has entered into an Investment Advisory Agreement (the Advisory Agreement) with Hambrecht & Quist Capital Management, LLC (the Adviser). Pursuant to the terms of the Advisory Agreement, the Fund pays the Adviser a monthly fee at the rate when annualized of (i) 2.5% of the average net assets for the month of its venture capital and other restricted securities up to 25% of net assets and (ii) for the month, for all other assets, 1.0% of the average net assets up to \$250 million, 0.9% of the average net assets for the next \$250 million, 0.8% of the average net assets for the next \$500 million and 0.7% of the average net assets thereafter. The aggregate fee may not exceed a rate when annualized of 1.375%.

## H&Q LIFE SCIENCES INVESTORS

### NOTES TO FINANCIAL STATEMENTS, *continued*

*SEPTEMBER 30, 2005*

As of February 2005, Daniel R. Omstead, Ph.D, Christopher F. Brinzey, M.B.A., Frank T. Gentile, Ph.D. and Jason C. Akus, M.D./M.B.A. are members of the team that makes investments on behalf of the Fund. These members also perform other duties, including making investment decisions on behalf of another closed-end investment Company, H&Q Healthcare Investors, which invests in companies in the healthcare industries.

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 a portion of the payment of salary and provision of benefits to the Fund's Chief Compliance Officer. During the year ended September 30, 2005 these payments amounted to \$66,017 and are included in the "other" category in the Statement of Operations, together with insurance expenses of \$55,489 incurred to unaffiliated entities. Such expenses are the major components of "other" in the Statement of Operations. Expenses incurred pursuant to the Agreement as well as certain expenses paid by the Adviser are allocated in an equitable fashion to the Fund.

Certain officers and Trustees of the Fund are also officers of the Adviser. Trustees who are not affiliates of the Adviser receive an annual fee of \$20,000 plus \$500 for each Committee on which they serve and \$1,000 for each meeting attended.

An affiliate company is a company in which the Fund holds 5% or more of the voting securities. Transactions with such companies during the year ended September 30, 2005 were as follows:

| Issuer                   | Value on<br>October 1, 2004 | Purchases  | Sales | Income   | Value on<br>September 30, 2005 |
|--------------------------|-----------------------------|------------|-------|----------|--------------------------------|
| Agilix Corporation       | \$ 380,952                  | \$ -       | \$ -  | \$ -     | \$ 380,952                     |
| Concentric Medical, Inc. | 3,782,351                   | 637,466    | -     | -        | 6,794,782                      |
| CytoLogix Corporation    | 502,935                     |            |       | 8,847    | 502,935                        |
| PHT Corporation          | 3,271,255                   | 155,082    |       |          | 3,426,337                      |
|                          | \$ 7,937,493                | \$ 792,548 | \$ -  | \$ 8,847 | \$ 11,105,006                  |

#### *(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 22% of the Fund's net assets at September 30, 2005.

During the year ended September 30, 2004, restricted securities from one issuer were exchanged for cash in connection with a corporate action, a portion of which has been retained by the issuer in an escrow account pending resolution of certain contingencies and whose estimated value of \$456,340 at September 30, 2005 has been determined by the Trustees. The value of the escrow account is included in the Receivable for Investments Sold in the Statement of Assets and Liabilities.

## H&amp;Q LIFE SCIENCES INVESTORS

NOTES TO FINANCIAL STATEMENTS, *continued*

SEPTEMBER 30, 2005

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, 2005, as determined by the Trustees of the Fund

| Security <sup>(f)</sup>              | Acquisition Date  | Cost         | Carrying Value per Unit | Value        |
|--------------------------------------|-------------------|--------------|-------------------------|--------------|
| <b>Agensys, Inc.</b>                 |                   |              |                         |              |
| Series C Cvt. Pfd.                   | 2/14/02, 9/27/05  | \$ 2,203,583 | \$ 2.95                 | \$ 2,200,201 |
| <b>Agilix Corporation</b>            |                   |              |                         |              |
| Series B Cvt. Pfd.                   | 11/8/01           | 2,009,507    | 0.24                    | 380,952      |
| <b>Avalon Pharmaceuticals, Inc.</b>  |                   |              |                         |              |
| Series B Cvt. Pfd.                   | 10/22/01          | 2,005,767    | 1.54                    | 871,876      |
| Convertible Note                     | 2/11/05           | 132,340      | 0.65                    | 85,499       |
| Restricted Common                    | 9/29/05           | 488,880      | 7.91                    | 368,057      |
| <b>CardioNet, Inc.</b>               |                   |              |                         |              |
| Series C Cvt. Pfd.                   | 5/3/01 - 3/25/03  | 3,699,455    | 3.50                    | 3,680,001    |
| Convertible Note                     | 8/14/05           | 200,000      | 1.00                    | 200,000      |
| <b>Ceres, Inc.</b>                   |                   |              |                         |              |
| Series C Cvt. Pfd.                   | 12/23/98          | 1,000,875    | 6.00                    | 1,500,000    |
| Series C-1 Cvt. Pfd.                 | 3/31/01           | 74,325       | 6.00                    | 109,776      |
| Series D Cvt. Pfd.                   | 3/14/01           | 1,046,778    | 6.00                    | 1,045,200    |
| <b>Concentric Medical, Inc.</b>      |                   |              |                         |              |
| Series B Cvt. Pfd.                   | 5/7/02 - 1/24/03  | 2,219,473    | 1.40                    | 4,529,410    |
| Series C Cvt. Pfd.                   | 12/19/03          | 999,999      | 1.40                    | 1,627,906    |
| Series D Cvt. Pfd.                   | 9/30/05           | 637,466      | 1.40                    | 637,466      |
| <b>Conor Medsystems, Inc.</b>        |                   |              |                         |              |
| Restricted Common                    | 10/23/03 - 8/6/04 | 1,954,131    | 22.33                   | 13,814,688   |
| <b>Corus Pharma, Inc.</b>            |                   |              |                         |              |
| Series C Cvt. Pfd.                   | 4/8/04            | 2,001,540    | 1.16                    | 2,000,000    |
| <b>CytoLogix Corporation</b>         |                   |              |                         |              |
| Series A Cvt. Pfd.                   | 1/13/98 - 7/21/99 | 1,077,912    | 0.83                    | 265,789      |
| Series B Cvt. Pfd.                   | 1/11/01           | 506,622      | 0.83                    | 124,922      |
| Convertible Note                     | 5/29/02           | 112,224      | 1.00                    | 112,224      |
| <b>DakoCytomation, Inc.</b>          |                   |              |                         |              |
| Restricted Common                    | 6/14/04           | 734,913      | 10.41                   | 181,300      |
| <b>EPR, Inc.</b>                     |                   |              |                         |              |
| Series A Cvt. Pfd.                   | 3/9/94            | 800,331      | 0.01                    | 1,778        |
| <b>Galileo Pharmaceuticals, Inc.</b> |                   |              |                         |              |
| Series F-1 Cvt. Pfd.                 | 8/18/00           | 2,001,929    | 0.35                    | 326,371      |
| <b>Labcyte, Inc.</b>                 |                   |              |                         |              |
| Series C Cvt. Pfd.                   | 7/18/05           | 1,280,000    | 0.52                    | 1,280,000    |
| <b>Masimo Corporation</b>            |                   |              |                         |              |
| Series D Cvt. Pfd.                   | 8/14/96           | 910,027      | 11.00                   | 1,430,000    |
| Restricted Common                    | 3/31/98           | 0            | 0.01                    | 1,300        |

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|                                       |                    |              |         |              |
|---------------------------------------|--------------------|--------------|---------|--------------|
| Omnisonics Medical Technologies, Inc. |                    |              |         |              |
| Series B Cvt. Pfd.                    | 5/24/01            | 1,606,312    | 1.34    | 1,454,151    |
| Series C Cvt. Pfd.                    | 10/1/03            | 1,200,224    | 1.16    | 1,200,000    |
| PHT Corporation                       |                    |              |         |              |
| Series D Cvt. Pfd.                    | 7/23/01            | 2,803,841    | 0.78    | 2,800,000    |
| Series E Cvt. Pfd.                    | 9/12/03 - 12/17/03 | 627,472      | 0.78    | 626,337      |
| Raven biotechnologies, Inc.           |                    |              |         |              |
| Series B Cvt. Pfd.                    | 12/12/00           | \$ 2,001,150 | \$ 0.83 | \$ 1,006,060 |
| Series C Cvt. Pfd.                    | 11/26/02           | 1,554,400    | 0.83    | 1,554,401    |
| Series D Cvt. Pfd.                    | 6/23/05            | 800,000      | 0.33    | 800,000      |
| Songbird Hearing, Inc.                |                    |              |         |              |
| Restricted Common                     | 12/14/00           | 2,003,239    | 0.01    | 1,390        |
| Syntiro Heathcare Services            |                    |              |         |              |
| Restricted Common                     | 2/5/97             | 800,325      | 0.001   | 204          |



## H&amp;Q LIFE SCIENCES INVESTORS

## NOTES TO FINANCIAL STATEMENTS, continued

SEPTEMBER 30, 2005

| Security <sup>(f)</sup>              | Acquisition Date   | Cost          | Carrying Value per Unit | Value                        |
|--------------------------------------|--------------------|---------------|-------------------------|------------------------------|
| <b>TargeGen, Inc.</b>                |                    |               |                         |                              |
| Series C Cvt. Pfd.                   | 8/30/05            | \$ 1,840,001  | \$ 1.30                 | \$ 1,840,001                 |
| <b>Therion Biologics Corporation</b> |                    |               |                         |                              |
| Series A Cvt. Pfd.                   | 8/20/96 - 10/16/96 | 289,847       | 1.22                    | 37,722                       |
| Series B Cvt. Pfd.                   | 6/22/99            | 600,929       | 1.22                    | 195,200                      |
| Series C Cvt. Pfd.                   | 9/26/01 - 10/15/01 | 1,019,568     | 1.22                    | 331,606                      |
| Series C-2 Cvt. Pfd.                 | 8/13/03            | 40,003        | 1.22                    | 27,113                       |
| Sinking Fund Cvt. Pfd.               | 10/18/94 - 4/3/96  | 582,505       | 0.01                    | 290                          |
| Restricted Common                    | 6/30/93            | 251,642       | 0.01                    | 1,470                        |
| <b>TherOx, Inc.</b>                  |                    |               |                         |                              |
| Series H Cvt. Pfd.                   | 9/11/00            | 2,001,626     | 3.80                    | 165,217                      |
| Series I Cvt. Pfd.                   | 7/8/05             | 384,734       | 3.86                    | 384,733                      |
| <b>Xanthus Life Sciences, Inc.</b>   |                    |               |                         |                              |
| Series B Cvt. Pfd.                   | 12/5/03            | 1,400,880     | 1.00                    | 1,400,000                    |
| <b>Zyomyx, Inc.</b>                  |                    |               |                         |                              |
| Series A New Cvt. Pfd.               | 2/19/99 - 1/12/04  | 199,800       | 0.10                    | 20,000                       |
| Series B New Cvt. Pfd.               | 3/31/04            | 112           | 0.10                    | 20                           |
| New Restricted Common                | 2/19/99 - 7/22/02  | 2,401,101     | 0.01                    | 2,000                        |
|                                      |                    | \$ 52,507,788 |                         | \$ 50,622,631 <sup>(g)</sup> |

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

(g) Represents 22% of the Fund's net assets as of September 30, 2005.

## (5) Sources of Net Assets

The changes in the sources of net assets for the period from October 1, 2004 through

September 30, 2005 are as follows:

|   | Capital Paid<br>in on Shares<br>of Beneficial<br>Interest | Accumulated<br>Net<br>Investment<br>Loss | Accumulated<br>Net Realized<br>Gain on<br>Investments | Net<br>Unrealized<br>Gain on<br>Investments | Total Net<br>Assets |
|---|---|--|---|---|---------------------|
| As of October 1,<br>2004:   | \$ 169,010,011  | \$ -                                     | \$ 5,915,775  | \$ 16,912,198                               | \$ 191,837,984      |
| For the period from<br>October 1, 2004<br>through<br>September 30,<br>2005: |   |  |   |   |                     |
| Net investment loss   |   | (2,587,561)                              |   |   | (2,587,561)         |
| Net realized gains  |   |  | 26,035,268  |   | 26,035,268          |
| Distributions   |   |  | (15,828,633)  |   | (15,828,633)        |

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|   |                |           |               |               |                |
|---|----------------|-----------|---------------|---------------|----------------|
| Value of shares issued in reinvestment of dividends | 8,518,606      |           |               |               | 8,518,606      |
| Increase in net unrealized gain on investments      |                |           | 21,315,662    |               | 21,315,662     |
| Reclassification for federal income tax purposes    |                | 2,587,547 | (2,587,547)   | -             | -              |
| As of September 30, 2005:                           | \$ 177,528,617 | \$ (14)   | \$ 13,534,863 | \$ 38,227,860 | \$ 229,291,326 |

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying statement of assets and liabilities of H&Q Life Sciences Investors (the "Fund"), including the schedule of investments, as of September 30, 2005, and the related statements of operations and cash flows for the year then ended, and the statements of changes in net assets and the financial highlights for each of the two years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The financial highlights for the years ended September 30, 2003, 2002, and 2001 were audited by other auditors whose report, dated November 23, 2003, expressed an unqualified opinion on the financial highlights.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of September 30, 2005, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of H&Q Life Sciences Investors as of September 30, 2005, the results of its operations and its cash flows for the year then ended, and the changes in its net assets and the financial highlights for each of the two 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 18, 2005

## H&Q LIFE SCIENCES INVESTORS

### TRUSTEES

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

| Name, Address <sup>1</sup><br>and Date of Birth<br>Independent<br>Trustees: | Position(s) Held with<br>Fund, Term of Office <sup>2</sup><br>and<br>Length of Time Served | Principal Occupation(s)<br>During Past 5 Years and<br>Other Directorships Held   | Number of<br>Portfolios in Fund<br>Complex Overseen<br>by Trustee |
|---|--|--|---|
| Lawrence S.<br>Lewin 4/1938   | Trustee (since 1992) and<br>Chairman (since 2000)  | Executive Consultant. Formerly Chief Executive Officer (from 1970-1999) of The Lewin Group (healthcare public policy and management consulting), a subsidiary of Quintiles Transnational Corp.; and Director (since 2003) of Medco Health Solutions, Inc.; Director (since 2001) of CardioNet, Inc.; and Director (since 2005) of Care Fusion.   | 2   |
| Robert P. Mack<br>8/1935  | Trustee (since 1992)   | Consultant in Orthopedic Surgery to Orthopedic Associates of Aspen (since 2001). Formerly Orthopedic Surgeon (from 1996-1998) at the Steadman-Hawkins Orthopedic Clinic and (from 1977-1996) at the Denver Orthopedic Clinic; and Director of the Department of Orthopedic Surgery at Metropolitan General Hospital and Assistant Professor of Orthopedics at Case Western Reserve University, Cleveland, OH (from 1968-1977). | 2   |
| Eric Oddleifson<br>4/1935   | Trustee (since 1992)   | Partner (since 2001) and Managing Director (from 1997-2000) of Renewable Resources LLC (forest properties investment). Formerly Managing Director (from 1995-1997) of UBS Asset Management (forest properties investment); and President, Director and Chief Investment Officer (from 1984-1995) of Resource Investments, Inc. (forest properties investment).   | 2   |
| Oleg M. Pohotsky<br>3/1947  | Trustee (since 2000)   | Senior Vice President (from 1991-2001) of FAC/Equities, a division of First Albany Corporation (investment bank). Formerly General Partner (from 1989-1991) of Strategic Capital Associates (financial advisory firm); and General Partner (from 1986-1989) of Capital Growth Partners (private mezzanine capital institutional investment partnership).   | 2   |

## H&amp;Q LIFE SCIENCES INVESTORS

## TRUSTEES

(continued)

| <b>Name, Address<sup>1</sup><br/>and Date of Birth<br/>Independent<br/>Trustees:</b> | <b>Position(s) Held with<br/>Fund, Term of Office<sup>2</sup><br/>and<br/>Length of Time Served</b> | <b>Principal Occupation(s)<br/>During Past 5 Years and<br/>Other Directorships Held</b>  | <b>Number of<br/>Portfolios in Fund<br/>Complex Overseen<br/>by Trustee</b> |
|--|---|--|---|
| (continued)  |   |  |   |
| Uwe E. Reinhardt,<br>Ph.D.<br>9/1937   | Trustee (since 1992)  | Professor of Economics (since 1968) at Princeton University. Director (from 2000) of Triad Hospitals; Boston Scientific (since 2002); Amerigroup (since 2002); Duke University (since 2001); The Duke University Health System (since 2001) and the National Bureau of Economic Research (since 2002).   | 2   |
| Henri A. Termeer<br>2/1946   | Trustee (since 1992)  | Chairman (since 1988), Chief Executive Officer (since 1985) and President (since 1983) of Genzyme Corporation (human healthcare products); Director (since 1987) of ABIOMED, Inc.; Director (from 1992-2003) of AutoImmune, Inc.; Director (from 1993-2002) of Genzyme Transgenics; and Director (from 1996-2002) of Diacrin, Inc.   | 2   |
| <b>Interested<br/>Trustees:</b>  |   |  |   |
| Daniel R.<br>Omstead,<br>Ph.D.<br>7/1953   | President (since 2001)  | President & Chief Executive Officer (since July 2002) of Hambrecht & Quist Capital Management LLC; President of HQH and of HQL (since 2001); President, Chief Executive Officer (from 2001 to July 2002) and Managing Director (from 2000 to July 2002) of Hambrecht & Quist Capital Management Inc.; formerly President and Chief Executive Officer (from 1997-2000) and Chief Operating Officer (1997) of Reprogenesis, Inc. | 2   |

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

<sup>2</sup> Each Trustee currently is serving a three year term.

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

## H&Q LIFE SCIENCES INVESTORS

### OFFICERS

| Name,<br>Address <sup>1</sup><br>and Age<br>Officers: | Position(s) Held with<br>Fund, Term of Office <sup>2</sup> and<br>Length of Time Served | Principal Occupation(s) During Past 5 Years   |
|---|---|---|
| Daniel R.<br>Omstead,<br>Ph.D.<br>7/1953              | President (since 2001)  | President & Chief Executive Officer (since July 2002) of Hambrecht & Quist Capital Management LLC; President of HQH and of HQL (since 2001); President, Chief Executive Officer (from 2001 to July 2002) and Managing Director (from 2000 to July 2002) of Hambrecht & Quist Capital Management Inc.; formerly President and Chief Executive Officer (from 1997-2000) and Chief Operating Officer (1997) of Reprogenesis, Inc.  |
| Kathleen<br>Eckert 12/1966                            | Chief Compliance Officer (since 2004);<br>Treasurer and Secretary (since 2005)          | Chief Compliance Officer of Hambrecht & Quist Capital Management LLC (since October 2004); Chief Compliance Officer (since October 2004), Treasurer and Secretary (since February 2005) of HQH and HQL (since October 2004); Senior Vice President of Ivy Mackenzie Services Corp., from June 2002 to January 2004. Chief Compliance Officer of Mackenzie Investment Management, Inc. from June 2002 to June 2003. Director of Fund Administration of Mackenzie Investment Management, Inc. from 1999 to June 2003. |

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

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

## H&Q LIFE SCIENCES INVESTORS

### INVESTMENT ADVISORY AGREEMENT APPROVAL

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

On April 12, 2005, the Board, and the independent Trustees voting separately, determined that the terms of the Advisory Agreement are fair and reasonable and approved the continuance of the Advisory Agreement as being in the best interests of the Fund and its shareholders. In making its determination, the Board considered materials that were specifically prepared by the Adviser at the request of the Board and Fund counsel for purposes of the contract review process, including comparisons of (i) the Fund's performance to its benchmark and to other investment companies, (ii) the Fund's expenses and expense ratios to those of a peer group of other investment companies, and (iii) the Adviser's profitability with respect to its services for the Fund to the profitability of other investment managers, as described below. The Trustees took into account that the Adviser presently provides investment management services only to the Fund and to H&Q Healthcare Investors and does not derive any benefit from its relationship with the Fund other than receipt of advisory fees pursuant to the Advisory Agreement. The Board also received and reviewed information throughout the year about portfolio, performance, investment strategy, portfolio management team and fees and expenses of the Fund.

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

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

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

## H&Q LIFE SCIENCES INVESTORS

### INVESTMENT ADVISORY AGREEMENT APPROVAL

(continued)

Fund over the past three-, six-, twelve- and fifteen-month periods and discussed the Fund's strategy with the Adviser and concluded that they continue to be satisfied with the performance of the Fund and the Adviser. In particular the Trustees noted that, although the performance of the Fund fluctuated relative to the performance of the average U.S. S&P equity mutual fund, during the periods under review the Fund outperformed its benchmark (the NBI).

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

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



## H&Q LIFE SCIENCES INVESTORS

### CERTIFICATIONS

The Fund's President has certified to the New York Stock Exchange ("NYSE") that as of July 7, 2005, 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 relate 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 14, 2005 at 9:00am. The 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.

|                      | For        | Withheld |
|----------------------|------------|----------|
| Robert P. Mack, M.D. | 11,124,870 | 119,760  |
| Eric Oddleifson      | 11,119,089 | 125,542  |
| Oleg M. Pohotsky     | 11,009,551 | 235,080  |

The nominees were elected to serve until the 2008 Annual Meeting. Daniel R. Omstead, Ph.D., and Henri Termeer will serve until the 2006 Annual Meeting. Trustees serving until the 2007 Annual Meeting are Lawrence S. Lewin and Uwe E. Reinhardt, Ph.D.

The Shareholders ratified the appointment of Deloitte & Touche LLP as the independent registered public accountants of the Fund for the fiscal year ending September 30, 2005 by the following votes.

| For        | Against | Abstain | No Vote |
|------------|---------|---------|---------|
| 11,139,555 | 38,300  | 66,772  | 4       |

### FOR MORE INFORMATION

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

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**H&Q LIFE SCIENCES INVESTORS**

New York Stock Exchange Symbol: HQL

30 Rowes Wharf, 4th Floor  
Boston, Massachusetts 02110-3328  
(617) 772-8500  
www.hqcm.com

**Officers**

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

**Trustees**

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

**Investment Adviser**

Hambrecht & Quist Capital Management LLC

**Administrator & Custodian**

State Street Bank and Trust Company

**Transfer Agent**

Computershare Shareholder Services, Inc.

**Legal Counsel**

Dechert LLP

Shareholders with questions regarding share transfers may call

**1-800-426-5523**

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

**1-800-451-2597**

**Item 2. CODE OF ETHICS.**

(a) As of the end of the period covered by this report, the Registrant has adopted a code of ethics that applies to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the Registrant or a third party.

(b) No disclosures are required by this Item.

(c) During the period covered by this report, the Registrant did not make any substantive amendment to the code of ethics.

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(d) During the period covered by this report, the Registrant did not grant any waiver, including any implicit waiver, from any provision of the code of ethics.

(e) Not applicable.

(f) A copy of the Registrant's Code of Ethics is filed as Exhibit 1 to this Form N-CSR. Copies of the code will also be made available, free of charge, upon request, by writing or calling Hambrecht & Quist Capital Management, LLC at 30 Rowes Wharf, Boston, MA 02110, 1-800-451-2597.

**ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.**

The Registrant's Board of Trustees has determined that the Registrant has at least one audit committee financial expert serving on its audit committee. The audit committee financial expert is Oleg M. Pohotsky. He is independent for the purposes of Item 3.

**ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

(a) **Audit Fees.** The aggregate fees each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the Registrant's financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years were \$67,000 for the fiscal year ended September 30, 2005 and \$59,660 for the fiscal year ended September 30, 2004.

(b) **Audit Related Fees.** The Registrant was not billed any fees by the principal accountant for the last two fiscal years ended September 30 for the Fund for assurance and related services that were reasonably related to the performance of the audit of the Registrant's financial statements and not otherwise included above.

(c) **Tax Fees.** The aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning were \$5,500 for the fiscal year ended September 30, 2005 and \$5,000 for the fiscal year ended September 30, 2004. The nature of the services comprising the fees disclosed under this category was tax compliance.

(d) **All Other Fees.** The aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported in paragraphs (a) through (c) of this

Item were \$0 for the fiscal year ended September 30, 2005 and \$12,631 for the fiscal year ended September 30, 2004. The nature of the services comprising the fees disclosed for the fiscal year ended September 30, 2004 was review of fund administration.

(e) Pre-approval Policies and Procedures.

Pursuant to the Registrant's Audit Committee Charter ( Charter ), the Audit Committee is responsible for approving in advance the firm to be employed as the Registrant's independent auditor. In addition, the Charter provides that the Audit Committee is responsible for approving any and all proposals by the Registrant, its investment adviser or their affiliated persons or any entity controlling, controlled by, or under common control with the adviser that provides services to the Registrant to employ the independent auditor to render permissible non-audit services related directly to the operations and financial reporting of the Registrant. In determining whether to pre-approve non-audit services, the Audit Committee considers whether such services are consistent with the independent auditor's independence. The Charter further permits the Audit Committee to delegate to one or more of its members authority to pre-approve permissible non-audit services to the

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registrant, provided that any pre-approval determination of a delegate is for services with an estimated budget of less than \$15,000.

(2) All of the services described in each of paragraphs (b) through (d) of this Item were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

(f) None.

(g) None.

(h) None.

**ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.**

The Registrant has a separately-designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the Audit Committee are Eric Oddleifson, Oleg M. Pohotsky, and Uwe E. Reinhardt.

**ITEM 6. SCHEDULE OF INVESTMENTS.**

The Registrant's Schedule of Investments is included as part of the Report to Shareholders filed under Item 1 of this form.

**ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.**

The Registrant has adopted the following proxy voting policies and procedures.

**PROXY VOTING POLICIES AND PROCEDURES**

**Policy**

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The following are the policies and procedures adopted and implemented by Hambrecht & Quist Capital Management LLC (the Adviser) for voting proxies with respect to portfolio securities held by H&Q Healthcare Investors and H&Q Life Sciences Investors (each a Fund and collectively the Funds). The policies and procedures are reasonably designed to ensure that proxies are voted in the best interest of the Funds and the Funds' shareholders, in accordance with the Adviser's fiduciary duties and Rule 206(4)-6 under the Investment Advisers Act of 1940 (the Investment Advisers Act). The Adviser considers the best interests of the Funds and their shareholders to mean their best long-term economic interests.

The Adviser shall vote proxies for the exclusive benefit, and in the best economic interest, of the Funds and their shareholders. Such exercise of voting rights shall be subject to the same standard of care as is generally applicable to the Adviser's performance of its duties, as set forth in the advisory agreements with the Funds. The policies and procedures contained herein are designed to be guidelines, however each vote is ultimately cast on a case-by-case basis, taking into consideration the relevant facts and circumstances at the time of the vote. Any material conflicts that may arise will be resolved in the best interests of the Funds and their shareholders.

A proxy committee has been designated and is responsible for administering and overseeing the proxy voting process. The committee consists of the President of the Adviser, the Treasurer of the Adviser, and the analyst responsible for oversight of the company that is the subject of the proxy. The committee considers proxy questions and determines the vote on behalf of the Funds.

### **Procedures**

### **Logistics**

The Treasurer shall be responsible for maintaining the proxy log, monitoring corporate actions and confirming the timely voting of proxies. The proxy log shall contain the following information, in accordance with Form N-PX:

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the name of the issuer;

the exchange ticker symbol, if available;

the CUSIP number, if available;

the shareholder meeting date;

a brief identification of the matter voted on;

whether the matter was proposed by the issuer or a security holder;

whether the Adviser cast its vote on the matter;

how the Adviser cast its vote on the matter (for, against, abstain; for or withhold regarding the election of directors); and

whether the Adviser cast its vote for or against management;

The Treasurer shall also record whether any conflicts of interest have been identified and, if so, what action was taken to resolve the conflict with respect to each vote cast and each abstention.

#### **Substantive Voting Decisions**

The Adviser's substantive voting decisions turn on the particular facts and circumstances of each proxy vote. The following is a list of common proxy vote issues and the Adviser's standard considerations when determining how to vote such proxies.

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Routine Matters/Corporate Administrative Items. After an initial review, the Adviser generally votes with management on routine matters related to the operation of the issuer that are not expected to have a significant economic impact on the issuer and/or its shareholders.

Potential for Major Economic Impact. The Adviser reviews and analyzes on a case-by-case basis, non-routine proposals that are more likely to affect the structure and operation of the issuer and to have a greater impact on the value of the investment.

Corporate Governance. The Adviser reviews and considers corporate governance issues related to proxy matters and generally supports proposals that foster good corporate governance practices.

Special Interest Issues. The Adviser considers: (i) the long-term benefit to shareholders of promoting corporate accountability and responsibility on social issues; (ii) management's responsibility with respect to special interest issues; (iii) any economic costs and restrictions on management; and (iv) the responsibility of the Adviser to vote proxies for the greatest long-term shareholder value.

Limitations on Director Tenure and Retirement. The Adviser considers: (i) a reasonable retirement age for directors, *e.g.* 70 or 72; (ii) the introduction of new perspectives on the board; and (iii) the arbitrary nature of such limitations and the possibility of detracting from the board's stability and continuity.

Directors' Minimum Stock Ownership. The Adviser considers: (i) the benefits of additional vested interest; (ii) the ability of a director to serve a company well regardless of the extent of his or her share ownership; and (iii) the impact of limiting the number of persons qualified to be directors.

D&O Indemnification and Liability Protection. The Adviser considers: (i) indemnifying directors for acts conducted in the normal course of business; (ii) limiting liability for monetary damages for violating the duty of care; (iii) expanding coverage beyond legal expenses to acts that represent more serious violations of fiduciary obligation than carelessness (*e.g.* negligence); and (iv) providing expanded coverage in cases when a director's legal defense was unsuccessful if the director was found to have acted in good faith and in a manner that he or she reasonably believed was in the best interests of the issuer.

Director Nominations in Contested Elections. The Adviser considers: (i) long-term financial performance of the issuer relative to its industry; (ii) management's track record; (iii) background to proxy contest; (iv) qualifications of both slates of nominees; (v) evaluations of what each side is offering shareholders as well as the likelihood that the proposed objectives and goals can be met; and (vi) stock ownership positions.

Cumulative Voting. The Adviser considers: (i) the ability of significant stockholders to elect a director of their choosing; (ii) the ability of minority shareholders to concentrate their support in favor of a director or directors of their choosing; and (iii) the potential to limit the ability of directors to work for all shareholders.

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**Classified Boards.** The Adviser considers: (i) providing continuity; (ii) promoting long-term planning; and (iii) guarding against unwanted takeovers.

**Poison Pills.** The Adviser considers: (i) the Adviser's position on supporting proposals to require a shareholder vote on other shareholder rights plans; (ii) ratifying or redeeming a poison pill in the interest of protecting the value of the issuer; and (iii) other alternatives to prevent a takeover at a price demonstrably below the true value of the issuer.

**Fair Price Provisions.** The Adviser considers: (i) the vote required to approve the proposed acquisition; (ii) the vote required to repeal the fair price provision; (iii) the mechanism for determining fair price; and (iv) whether these provisions are bundled with other anti-takeover measures (e.g., supermajority voting requirements) that may entrench management and discourage attractive tender offers.

**Equal Access.** The Adviser considers: (i) the opportunity for significant shareholders of the issuer to evaluate and propose voting recommendations on proxy proposals and director nominees, and to nominate candidates to the board; and (ii) the added complexity and burden.

**Charitable Contributions.** The Adviser considers: (i) the potential benefits to shareholders; (ii) the potential to detract the issuer's resources from more direct uses of increasing shareholder value; and (iii) the responsibility of shareholders to make individual contributions.

**Stock Authorizations.** The Adviser considers: (i) the need for the increase; (ii) the percentage increase with respect to the existing authorization; (iii) voting rights of the stock; and (iv) overall capitalization structures.

**Preferred Stock.** The Adviser considers: (i) whether the new class of preferred stock has unspecified voting, conversion, dividend distribution, and other rights; (ii) whether the issuer expressly states that the stock will not be used as a takeover defense or carry superior voting rights; (iii) whether the issuer specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable; and (iv) whether the stated purpose is to raise capital or make acquisitions in the normal course of business.

**Director Compensation.** The Adviser considers: (i) whether director shares are at the same market risk as those of the shareholders; and (ii) how option programs for outside directors compare with the standards of internal programs.

**Golden and Tin Parachutes.** The Adviser considers: (i) whether they will be submitted for shareholder approval; and (ii) the employees covered by the plan and the quality of management.

### **Limitations**

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The Adviser may abstain from voting a proxy if it concludes that the effect on shareholders' economic interests or the value of the portfolio holding is indeterminable or insignificant. The Adviser may abstain from voting a proxy if it concludes that the cost of voting is disproportionate to the economic impact the vote would have on the portfolio holdings.

### **Conflicts of Interest**

The Proxy Committee identifies any potential conflicts of interest. Each potential conflict must be addressed in a manner which will be in the best interest of the Funds and their shareholders. If any potential conflict is identified the Proxy Committee consults with the Adviser's CCO. Where conflicts of interest arise between clients and the Adviser, the Adviser may convene an ad-hoc committee to debate the conflict and to give a ruling on a preferred course of action. If the ad-hoc committee determines that the Adviser has a conflict of interest in any instance, the Adviser's CCO shall disclose the conflict to the Board and seek voting instructions.

The Adviser may cause the proxies to be voted in accordance with the recommendations of an independent third party service provider that the Adviser may use to assist in voting proxies.

### **Disclosure**

The following disclosure shall be provided in connection with these policies and procedures:

The Adviser shall provide a description or a copy of these policies and procedures to the Boards of Trustees of the Funds annually and upon request.

The Adviser shall make available to the Funds its proxy voting records, for inclusion on the Funds Form N-PX.

The Adviser shall include its proxy voting policies and procedures in its annual filing on Form N-CSR.

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The Adviser shall cause the Funds' shareholder reports to include a statement that a copy of these policies and procedures is available upon request (i) by calling a toll-free number; (ii) on the Funds' website, (if the Funds choose); and (iii) on the SEC's website.

The Adviser shall cause the Funds' annual and semi-annual reports to include a statement that information is available regarding how the Funds voted proxies during the most recent twelve-month period (i) without charge, upon request, either by calling a toll-free number or on or through the Funds' website, or both; and (ii) on the SEC's website.

### Recordkeeping

The Adviser shall maintain records of proxies voted in accordance with Section 204-2 of the Advisers Act, including proxy statements, a record of each vote cast, and a copy of any document created by the Adviser that was material to making a decision of how to vote the proxy, or that memorializes the basis for the Adviser's decision on how to vote the proxy. The Adviser shall also maintain a copy of its policies and procedures and each written request from a client for proxy voting records and the Adviser's written response to any client request, either written or oral, for such records. Proxy statements that are filed on EDGAR shall be considered maintained by the Adviser. All such records shall be maintained for a period of five years in an easily accessible place, the first two years in the offices of the Adviser.

### ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES

Not yet applicable.

### ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

| Period<br>(12 months)                    | (a) Total No.<br>of Shares<br>Purchased | (b) Average<br>Price Paid per<br>Share | (c) Total No.<br>of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced Plans<br>or Programs | (d) Maximum No.<br>of Shares that<br>May Yet Be<br>Purchased Under<br>the Plans or<br>Programs |
|--|---|--|---|--|
| Month #1 (Oct. 1, 2004 - Oct. 31, 2004)  |   |  |   |  |
| Month #2 (Nov. 1, 2004 - Nov. 30, 2004)  |   |  |   |  |
| Month #3 (Dec. 1, 2004 - Dec. 31, 2004)  |   |  |   |  |
| Month #4 (Jan. 1, 2005 - Jan. 31, 2005)  |   |  |   |  |
| Month #5 (Feb. 1, 2005 - Feb. 28, 2005)  |   |  |   |  |
| Month #6 (Mar. 1, 2005 - Mar. 31, 2005)  |   |  |   |  |
| Month #7 (Apr. 1, 2005 - Apr. 30, 2005)  | 2,900                                   | \$ 14.50                               |   |  |
| Month #8 (May 1, 2005 - May 31, 2005)    |   |  |   |  |
| Month #9 (June 1, 2005 - June 30, 2005)  |   |  |   |  |
| Month #10 (Jul. 1, 2005 - Jul. 31, 2005) |   |  |   |  |

Month #11 (Aug. 1, 2005 Aug. 31, 2005)

Month #12 (Sep. 1, 2005 Sep. 30, 2005)

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**ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

There have been no material changes to the procedures by which the shareholders may recommend nominees to the registrant's Board of Trustees, where those changes were implemented after the registrant last provided disclosure in response to the requirements of Item 7(d)(2)(ii)(G) of Schedule 14A, or this Item.

**ITEM 11. CONTROLS AND PROCEDURES.**

(a) In the opinion of the principal executive officer and principal financial officer, based on their evaluation which took place within 90 days of this filing, the Registrant's disclosure controls and procedures are adequately designed and are operating effectively to ensure (i) that material information relating to the Registrant, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which this report is being prepared; and (ii) that information required to be disclosed by the registrant on Form N-CSR is recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission's rules and forms.

(b) Effective July 1, 2005, the Registrant appointed State Street Bank and Trust Company to be its Administrator. The Administrator prepares financial reports and certain administrative filings on behalf of the Registrant.

**ITEM 12. EXHIBITS**

(a)(1) The Code of Ethics that is the subject of the disclosure required by Item 2 is attached hereto (Exhibit 1).

(a)(2) Separate certifications of the Principal Executive and Financial Officers pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto (Exhibit 2).

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto (Exhibit 3).

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant)

H&Q LIFE SCIENCES INVESTORS

By (Signature and Title)\*

/s/ Daniel R. Omstead  
Daniel R. Omstead, President

Date: December 9, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)\*

/s/ Kathleen Eckert  
Kathleen Eckert, Treasurer

Date: December 9, 2005

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\* Print the name and title of each signing officer under his or her signature.

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