

ANNUAL REPORT

**TETRAGON CREDIT INCOME FUND LIMITED
(FORMERLY KNOWN AS POLYGON CREDIT INCOME FUND LIMITED)**

**FOR THE YEAR ENDED 31 DECEMBER 2006 AND FOR THE PERIOD FROM 23 JUNE 2005
TO 31 DECEMBER 2005**

TETRAGON CREDIT INCOME FUND LIMITED

**ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2006 AND FOR THE PERIOD FROM 23 JUNE 2005
TO 31 DECEMBER 2005**

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TETRAGON CREDIT INCOME FUND LIMITED

DIRECTORS AND OTHER INFORMATION

DIRECTORS

Patrick Dear
Rupert Dorey*
David Jeffreys*
Byron Knief*
Lee Olesky*
David Wishnow

REGISTERED OFFICE

Dorey Court
Admiral Park
St. Peter Port
Guernsey
Channel Islands

PRINCIPAL MANAGER

Polygon Credit Management (Guernsey) Limited
P.O. Box 44
St. Peter Port
Guernsey
Channel Islands GY1 3BG

INVESTMENT MANAGER

Polygon Credit Management LP
598 Madison Avenue, 14th Floor
New York, NY 10022
United States of America

CUSTODIAN

Kleinwort Benson (Guernsey) Limited
P.O. Box 44
St. Peter Port
Guernsey
Channel Islands GY1 3BG

**ADMINISTRATOR, SECRETARY
AND REGISTRAR**

Kleinwort Benson (Channel Islands) Fund Services Limited
P.O. Box 44
St. Peter Port
Guernsey
Channel Islands GY1 3BG

* non-executive directors

TETRAGON CREDIT INCOME FUND LIMITED
DIRECTORS AND OTHER INFORMATION (continued)

AUDITORS

KPMG Channel Islands Limited
20 New Street
St. Peter Port
Guernsey
Channel Islands GY1 4AN

**LEGAL ADVISERS
IN THE UNITED KINGDOM**

Akin Gump Strauss Hauer & Feld
CityPoint, Level 32
One Ropemaker Street
London EC2Y 9AW
United Kingdom

**LEGAL ADVISERS
IN THE UNITED STATES**

Akin Gump Strauss Hauer & Feld LLP
590 Madison Avenue
New York, NY 10022
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**LEGAL ADVISERS
IN GUERNSEY**

Ogier
Ogier House
St. Julian's Avenue
St. Peter Port
Guernsey
Channel Islands GY1 1WA

TETRAGON CREDIT INCOME FUND LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

The Directors present to the shareholders their report together with the audited financial statements for the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005.

THE FUND

Tetragon Credit Income Fund Limited (the "Fund") is a Guernsey open-ended investment company incorporated on 23 June 2005 and is authorized by the Guernsey Financial Services Commission as a Class B Scheme under The Protection of Investors (Bailiwick of Guernsey) Law, 1987. On 3 April 2006 the Directors changed the name of the Fund from Polygon Credit Income Fund Limited to Tetragon Credit Income Fund Limited.

INVESTMENT OBJECTIVE

The investment objective of the Fund is to achieve capital appreciation primarily from investments (directly or indirectly) in the "equity" or residual tranches of a broad range of CDO products and other securitization vehicles by investing substantially all of its assets in Tetragon Credit Income Master Fund Limited (the "Master Fund").

RESULTS, ACTIVITIES AND FUTURE DEVELOPMENTS

The results of operations are set out on pages 13 and 14. A detailed review of activities and future developments is contained in the Investment Manager's Report on pages 8 and 9.

DIRECTORS

The Directors who held office during the period were:

Patrick Dear
Rupert Dorey
David Jeffreys
Byron Knief
Lee Olesky
David Wishnow

The annual remuneration for Directors shall not exceed GBP7,500 per Director for the Fund or such higher amount as may be approved by ordinary resolution of the shareholders. Mr. Wishnow and Mr. Dear have waived their entitlement to a fee.

SECRETARY

Kleinwort Benson (Channel Islands) Fund Services Limited held the office of Secretary throughout the period.

TETRAGON CREDIT INCOME FUND LIMITED

DIRECTORS' REPORT (continued)

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

DIVIDENDS

The Directors do not propose the payment of a dividend (2005: US\$Nil).

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing Financial Statements for each financial period which are presented fairly in all material respects the state of affairs of the Fund and of the net increase or decrease in net assets from operations of the Fund for that period in accordance with applicable laws and US Generally Accepted Accounting Principles. In preparing those Financial Statements the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
- Prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Fund will continue in business.

The Directors are also responsible for the keeping of proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Fund and to enable them to ensure that the Financial Statements comply with The Companies (Guernsey) Law, 1994 and The Collective Investment Schemes (Class B) Rules, 1990. They are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

KPMG Channel Islands Limited have been appointed as the independent auditors of the Fund and they have expressed their willingness to continue in office. A resolution for the re-appointment of KPMG Channel Islands Limited will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board of Directors:

Rupert Dorey

David Jeffreys

Date: 19 February 2007

**CUSTODIAN'S REPORT TO THE SHAREHOLDERS OF
TETRAGON CREDIT INCOME FUND LIMITED**

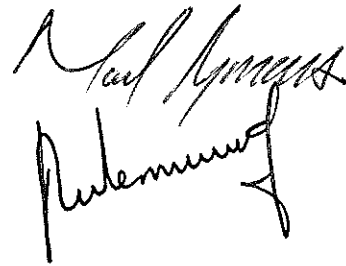
To the Shareholders of Tetragon Credit Income Fund Limited:

Dear Shareholders,

We confirm that, in our opinion, during the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005 the Manager has managed Tetragon Credit Income Fund Limited in accordance with the provisions of the principal documents and The Collective Investment Schemes (Class B) Rules, 1990.

Kleinwort Benson (Guernsey) Limited as Custodian of
Tetragon Credit Income Fund Limited.

Date: 19 February 2007



Neil Symonds
Kleinwort Benson

TETRAGON CREDIT INCOME FUND LIMITED

INVESTMENT MANAGER'S REPORT

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

Tetragon Credit Income Fund Limited invests substantially all of its assets in Tetragon Credit Income Master Fund Limited ("the Master Fund"). The following report relates to the portfolio and investing activities of the Master Fund.

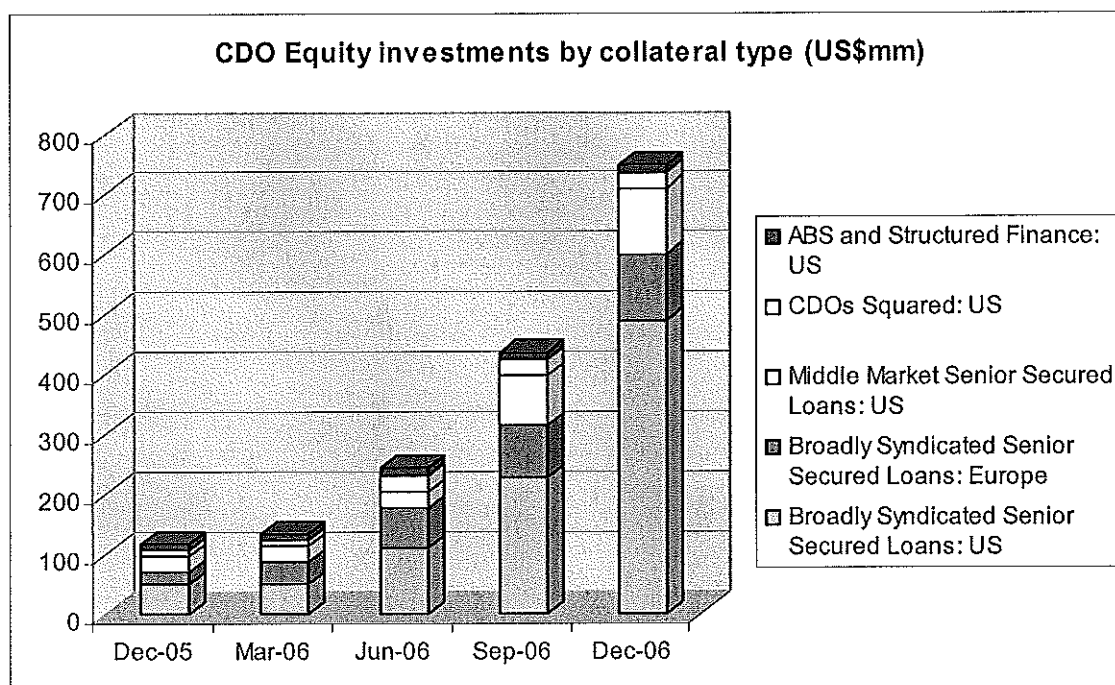
2006 has been a year of strong growth for the Master Fund

During its first full year of operation, the Master Fund grew its portfolio of CDO Equity investments from \$121.6 million (9 transactions, cost \$117.6 million) to \$785mm million (38 CDO transactions, 5 warehouse transactions, cost \$747.4 million).

During the same period Net Assets grew from \$85.4 million to \$606.1 million. As at the end of 2006, the Master Fund had exposure to approximately \$8.75 billion of underlying loans through its investments in CLOs and Warehouse Agreements, which are yielding a weighted average spread of 273 basis points over LIBOR.

The investment style has remained consistent ...

The manager has continued to invest mainly in CDO vehicles where the underlying asset class is broadly syndicated senior secured loans. The following chart shows the development of the portfolio from the end of 2005 to the end of 2006. As at 31 December, 2006 80% (2005: 58%) of the CDO investments were in senior secured loans.



...as has the geographic focus.

During the same period the geographic focus has continued to be dominated by US underlying loans. At the reporting date, 84% (2005: 83%) of the underlying collateral was on US companies.

TETRAGON CREDIT INCOME FUND LIMITED

INVESTMENT MANAGER'S REPORT (continued)

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

The manager has extended the Master Fund's financing sources...

The Master Fund now utilizes three main funding sources: Repo financing from the prime broker, Morgan Stanley, and Lehman brothers; secured borrowing from the prime broker, and a total return swap with Deutsche bank.

...and has maintained leverage within target levels for most of the year.

Other than brief periods when significant new capital was injected into the Master Fund, the Master Fund has maintained leverage (Cost to net asset value) around the target level of 1.2-1.4.

The manager remains positive about the outlook for the Master Fund in 2007

To the end of October 2006 an estimated total of US\$361 billion of CDOs had been issued in the market¹, up from approximately \$275 billion in the full year of 2005. CDOs have become the fastest-growing sector of the asset-backed securities market and the manager is positive about the availability of good quality deals during 2007.

Polygon Credit Management LP

Date: 14 February 2007

¹ Source: Moody's, S&P, Fitch IBCA, MCM corporate Watch, Asset-backed alert

TETRAGON CREDIT INCOME FUND LIMITED

REPORT OF INDEPENDENT AUDITORS

Independent auditors' report to the members of Tetragon Credit Income Fund Limited

We have audited the financial statements (the "financial statements") of Tetragon Credit Income Fund Limited for the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005 which comprise the Statement of Assets and Liabilities, the Statement of Operations, the Statement of Changes in Net Assets, the Statement of Cash Flows and the related notes on pages 17 to 31. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 64 of The Companies (Guernsey) Law, 1994 and rule 4.02(3) of the Collective Investment Schemes (Class B) Rules 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable Guernsey law and accounting principles generally accepted in the United States of America as set out in the statement of directors' responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements are presented fairly in all material respects and are properly prepared in accordance with The Companies (Guernsey) Law, 1994, The Collective Investment Schemes (Class B) Rules 1990 and the principal documents. We also report to you if, in our opinion, the company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

TETRAGON CREDIT INCOME FUND LIMITED
REPORT OF INDEPENDENT AUDITORS (continued)

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- present fairly in all material respects, in accordance with accounting principles generally accepted in the United States of America, of the state of the company's affairs as at 31 December 2006 as at 31 December 2006 and 31 December 2005 and of its result for the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December; and
- have been properly prepared in accordance with The Companies (Guernsey) Law, 1994, The Collective Investment Schemes (Class B) Rules 1990 and the principal documents.

KPMG Channel Islands limited

Chartered Accountants

Guernsey

19 February 2007

TETRAGON CREDIT INCOME FUND LIMITED

STATEMENT OF ASSETS AND LIABILITIES
as at 31 December 2006 and 31 December 2005

	Note	2006 US\$	2005 US\$
Assets			
Cash and cash equivalents		269	-
Investment in Master Fund	3	490,175,214	31,024,522
Total assets		<u>490,175,483</u>	<u>31,024,522</u>
Liabilities			
Accrued audit fees		12,600	-
Accrued directors' fees		14,701	-
Accrued custodian fees		8,463	-
Accrued incentive fee	4	5,600,924	236,063
Equalization credit	5	7,579,271	30,298
Total liabilities		<u>13,215,959</u>	<u>266,361</u>
Net assets		<u>476,959,524</u>	<u>30,758,161</u>

		Number	Number
Shares outstanding			
Class A	6	3,501,654	298,485
Class B	6	10,473	2,500
Class C	6	522,374	-
Net asset value per share			
Class A	6	US\$117.84	US\$102.18
Class B	6	US\$122.53	US\$103.08
Class C	6	US\$120.67	-

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

On behalf of the Board of Directors:

Rupert Dorey 

David Jeffreys 

Date: 19 February 2007

TETRAGON CREDIT INCOME FUND LIMITED

STATEMENT OF OPERATIONS

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

	Note	Year ended 31 Dec 2006	Period from 23 June 2005 to 31 Dec 2005
		US\$	US\$
Direct investment income			
Interest income		5,641	-
Direct investment income		<u>5,641</u>	<u>-</u>
Investment income allocated from the Master Fund			
Interest income		39,196,748	1,820,668
Investment income allocated from the Master Fund		<u>39,196,748</u>	<u>1,820,668</u>
Total investment income		<u>39,202,389</u>	<u>1,820,668</u>
Direct expenses			
Management fees	7	(3,272,863)	-
Incentive fee (relates only to Class A and Class C Shares)	4	(5,600,924)	(236,063)
Custodian fees		(45,134)	-
Audit fees		(12,600)	-
Directors' fees		(56,213)	-
Other operating expenses		(3,322)	-
Direct expenses		<u>(8,991,056)</u>	<u>(236,063)</u>
Operating expenses allocated from the Master Fund			
Management fees	7	(796,943)	(224,013)
Administration fees		(301,802)	(43,030)
Custodian fees		-	(12,232)
Legal and professional fees		(117,089)	(43,920)
Audit fees		(86,374)	(53,774)
Directors' fees		(39,609)	(17,376)
Organizational costs		-	(479,595)
Other operating expenses		(32,806)	(820)
Interest expense		(4,896,718)	(194,825)
Operating expenses allocated from the Master Fund		<u>(6,271,341)</u>	<u>(1,069,585)</u>
Total operating expenses		<u>(15,262,397)</u>	<u>(1,305,648)</u>
Net investment income		<u>23,939,992</u>	<u>515,020</u>

TETRAGON CREDIT INCOME FUND LIMITED**STATEMENT OF OPERATIONS (continued)****For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005**

	Year ended 31 Dec 2006	Period from 23 June 2005 to 31 Dec 2005
	US\$	US\$
Net realized and unrealized gain / (loss) from investments and foreign currencies allocated from the Master Fund		
Net realized gain / (loss) from:		
Investments	-	13,444
Foreign currency transactions	(865,113)	341,105
Credit default swaps	(262,318)	-
	<u>(1,127,431)</u>	<u>354,549</u>
Net increase / (decrease) in unrealized appreciation / (depreciation) on:		
Investments	(15,057)	(360,240)
Forward foreign exchange contracts	(1,730,924)	(25,615)
Credit default swaps	(1,036,477)	-
Translation of assets and liabilities in foreign currencies	3,774,233	54,745
	<u>991,775</u>	<u>(331,110)</u>
Net realized and unrealized gain / (loss) from investments and foreign currencies allocated from the Master Fund	<u>(135,656)</u>	<u>23,439</u>
Net increase in net assets resulting from operations	<u>23,804,336</u>	<u>538,459</u>

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

TETRAGON CREDIT INCOME FUND LIMITED

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

	Year ended 31 Dec 2006	Period from 23 June 2005 to 31 Dec 2005
	US\$	US\$
Total investment income	39,202,389	1,820,668
Total operating expenses	(15,262,397)	(1,305,648)
Net realized gain / (loss) from investments and foreign currencies allocated from the Master Fund	(1,127,431)	354,549
Net unrealized gain / (loss) from investments and foreign currencies allocated from the Master Fund	991,775	(331,110)
Net increase in net assets resulting from operations	<u>23,804,336</u>	<u>538,459</u>
Class A subscriptions	361,513,027	29,969,702
Class B subscriptions	884,000	250,000
Class C subscriptions	60,000,000	-
Increase in net assets resulting from net share transactions	<u>422,397,027</u>	<u>30,219,702</u>
Total increase / (decrease) in net assets	446,201,363	30,758,161
Net assets at start of year / inception	30,758,161	-
Net assets at end of year / period	<u>476,959,524</u>	<u>30,758,161</u>

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

TETRAGON CREDIT INCOME FUND LIMITED

STATEMENT OF CASH FLOWS

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

	Year ended 31 Dec 2006	Period from 23 June 2005 to 31 Dec 2005
	US\$	US\$
Operating and investing activities		
Net increase in net assets resulting from operations	23,804,336	538,459
Adjustments for:		
Net unrealized appreciation on investments in Master Fund	(32,789,751)	(774,522)
Operating cash flows before movements in working capital	(8,985,415)	(236,063)
Increase in accrued expenses	5,400,625	236,063
Cash flows from operations	(3,584,790)	-
Net purchase of investments	(426,360,941)	(30,250,000)
Cash outflows from operating and investing activities	(429,945,731)	(30,250,000)
Financing activities		
Proceeds from issue of redeemable preference shares	422,397,027	30,219,702
Increase in equalization credit payable	7,548,973	30,298
Cash inflows from financing activities	429,946,000	30,250,000
Net increase / (decrease) in cash and cash equivalents	269	-
Cash and cash equivalents at beginning of year / period	-	-
Cash and cash equivalents at end of year / period	269	-

TETRAGON CREDIT INCOME FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

Note 1 General Information

Tetragon Credit Income Fund Limited (the "Fund") is a Guernsey open-ended investment company incorporated on 23 June 2005 and is authorized by the Guernsey Financial Services Commission as a Class B Scheme under The Protection of Investors (Bailiwick of Guernsey) Law, 1987.

The registered office of the Fund is Dorey Court, Admiral Park, St. Peter Port, Guernsey, Channel Islands.

On 3 April 2006 the Fund changed its name from Polygon Credit Income Fund Limited to Tetragon Credit Income Fund Limited.

The Fund acts as a feeder fund in a "master feeder structure" investing substantially all of its assets in Tetragon Credit Income Master Fund Limited (the "Master Fund").

The investment objective of the Fund is to achieve capital appreciation primarily from investments (directly or indirectly) in the "equity" or residual tranches of a broad range of CDO (Collateralized Debt Obligations) products and other securitization vehicles.

Note 2 Significant Accounting Policies

Basis of Presentation

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("USGAAP").

The Fund's investment in the Master Fund is valued at fair value, which is the Fund's proportionate interest in the net assets of the Master Fund. The performance of the Fund is directly affected by the performance of the Master Fund. The Fund's Statement of Operations includes its pro-rata share of each type of gain, loss, income and expense of the Master Fund's Statement of Operations. Attached are the audited financial statements of the Master Fund, which are an integral part of these financial statements. As at 31 December 2006, the Fund had 81% (2005: 37%) ownership interest in the Master Fund.

The financial statements are presented in United States Dollars.

Use of Estimates

The financial statements, prepared in conformity with USGAAP, require management to make estimates and assumptions that may affect the reported amounts of assets and liabilities. Actual amounts could differ from the estimates included in the financial statements.

TETRAGON CREDIT INCOME FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

**For the year ended 31 December 2006 and for the period from 23 June 2005 to 31
December 2005**

Note 2 Significant Accounting Policies (continued)

Valuation of Investments

The value of the investment in the Master Fund is based on the accounting net asset value per share obtained from the Master Fund's administrator.

Expenses

Expenses, including management fees, incentive fees, administration fees and prime broker fees, are recognized in the statement of operations on an accrual basis.

Income taxes

The Fund is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged GBP600 per annum.

Change in reporting framework

In 2005 financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). During 2006, the directors decided to change from preparing the financial statements in accordance with IFRS to preparing them in accordance with US GAAP as they believe that financial statements prepared under US GAAP are more meaningful than those prepared on an IFRS basis. The 2005 comparatives in these financial statements have been amended from the amounts originally included in the financial statements for the period ended 31 December 2005 to comply with US GAAP. A summary of the comparison between 2005 IFRS and 2005 US GAAP is as follows:

	USGAAP 2005 US\$	IFRS 2005 US\$
Net assets attributable to redeemable preference shares	30,758,161	31,175,107
Net increase in net assets attributable to redeemable preference shares resulting from operations	538,459	955,405
Cash outflows from operating and investing activities	(30,250,000)	(30,250,000)
Cash inflows from financing activities	30,250,000	30,250,000

TETRAGON CREDIT INCOME FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

Note 2 Significant Accounting Policies (continued)

Change in reporting framework (continued)

Under US GAAP, preference shares in the Company are classified as equity, as the preference shares are not mandatorily redeemable as defined in FAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. Under IFRS, as all redeemable preference shares issued by the Company provide the investors the right to require redemption for cash at the value proportionate to the investor's share in the Company's net assets at the redemption date, then in accordance with IAS 32, such instruments were presented as a financial liability for the present value of the redemption amount.

Note 3 Investment in Master Fund

The Master Fund at the year end held investments in securities, at fair value, cash and cash equivalents, forward contracts, credit default swaps, repurchase / swap agreements and other receivables and payables. As at 31 December 2006 the Fund had an investment of US\$490,175,214 (2005: US\$31,024,522) in the Master Fund with a cost of US\$456,610,941 (2005: US\$30,250,000).

In accordance with the Offering memorandum of the Master Fund, for the purposes of calculating a net asset value at which shareholders may redeem their shares, the organizational / formation costs of the Master Fund are amortized on a straight line basis over a period of up to three years from the date on which the Master Fund commenced business. Under US GAAP it is not permitted to amortize these costs and they were charged to expenses as incurred.

Note 4 Incentive fee

The Fund pays the Principal Manager an incentive fee in respect of the Class A Shares and Class C Shares for each Calculation Period (a period of twelve months ending on 31 December in each year, or as otherwise determined by the Directors, save for the first calculation period which commenced upon the first allotment of Shares and ended on 31 December 2005) calculated on a Share by Share basis.

In respect of each Class A Share, the Incentive Fee is equal to 20 percent of the increase in the Net Asset Value per Class A Share during the Calculation Period above the Reference Net Asset Value per Share.

In respect of each Class C Share, the Incentive Fee is equal to 25 percent of the increase in the Net Asset Value per Class C Share during the Calculation Period above the Reference Net Asset Value of that Share plus 8 percent per annum thereon (the "Hurdle"). If the Calculation Period is less than one year, the Hurdle is pro rated. If the Hurdle is not met in any Calculation Period (and no Incentive Fee is paid), the shortfall will not carry forward to any subsequent Calculation Period.

TETRAGON CREDIT INCOME FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

Note 4 Incentive fee (continued)

The Reference Net Asset Value per Class A Share or Class C Share is the greater of the Net Asset Value per Share of such Class at the time of issue or acquisition of that Share and the highest Net Asset Value per Share at the end of a Calculation Period (other than the current Calculation Period) subsequent to the issue or acquisition of the Share.

The Incentive Fee in respect of each Calculation Period is calculated by reference to the Net Asset Value before deduction of any accrued Incentive Fee. The Incentive Fee is normally payable in arrears within 14 calendar days of the end of the Calculation Period. Class A or Class C Shares redeemed other than at the end of a Calculation Period will be treated as if the date of redemption was the end of the Calculation Period and the above provisions will apply.

Class B Shares are not subject to the Incentive Fee.

The Incentive Fee for the year ended 31 December 2006 was US\$5,600,924 (period from 23 June 2005 to 31 December 2005: US\$236,063), all of which was outstanding at the year end (31 December 2005: US\$236,063).

Note 5 Equalization credit

If shares are purchased at a time when the net asset value per share is greater than the High Watermark, the shareholder will be required to pay, in addition to the net asset value per share, an amount equal to 20% of the appreciation from the High Watermark to the net asset value at the date of purchase (an "Equalization Credit"). The Equalization Credit may then appreciate or depreciate based on the performance of the net asset value of the Fund during the year but does not appreciate beyond its initial value. Immediately following the end of each fiscal year in which the net asset value per share exceeds the High Watermark, the remaining Equalization Credits, if any, are applied to purchase additional shares for the respective shareholder. As of 31 December 2006, the Equalization Credit payable was US\$7,579,271 (31 December 2005: US\$30,298).

TETRAGON CREDIT INCOME FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

Note 6 Share Capital

Authorized

The Fund's authorized share capital is US\$50,000 divided into 10 Founder Shares, par value US\$0.001 per share and 49,999,990 unclassified shares, par value US\$0.001 per share. Unclassified shares are available for issue either as Class A, Class B, Class C or Nominal Shares. All shares are in registered form and no share certificates will be issued.

Founder Shares

The 10 Founder Shares in issue were issued at par and are beneficially owned by the Principal Manager. The Founder Shares have been created so that other types of shares may be issued. To qualify as participating redeemable preference shares, the Class A Shares, the Class B Shares and the Class C Shares are required under Guernsey law to have preference over some other class of share capital. The Founder Shares are not redeemable and carry no right to dividends or to vote (unless there are no Shares issued in which case each Founder Share carries one vote). The Founder Shares do not form part of the net asset value of the Fund and are thus disclosed in the financial statements by way of this note only.

Class A Shares, Class B Shares and Class C Shares

Class B Shares may only be offered to (i) employees or affiliates of the Investment Manager, including without limitation members of their immediate families and trusts or other entities for their benefit and (ii) collective investment schemes managed by Polygon Credit Management (Guernsey) Limited, Polygon Credit Management LP or their affiliates. Class B Shares will be entitled to the same rights and privileges as the Class A Shares and Class C Shares, except that Class B Shares will not be subject to the Incentive Fee.

Class A Shares, Class B Shares and Class C Shares carry an equal right to any dividends or other distributions. At any meeting of shareholders of the Fund resolutions may be passed by a show of hands at the meeting unless a poll is required. Subject to any special rights or restrictions attached to a class of shares: (i) on a show of hands, every shareholder who holds a Class A Share, a Class B Share, Class C Share or a Nominal Share who is present in person or by proxy shall have one vote; and (ii) on a poll, every shareholder who is present in person or by proxy shall be entitled to one vote in respect of each Class A Share, Class B Share or Class C Share held by him and to one vote in respect of all Nominal Shares held by him.

The minimum initial subscription for Class A Shares, Class B Shares and Class C Shares is US\$5 million. Subsequent subscriptions are for a minimum of US\$1 million. The Directors may, in their discretion, accept a lesser amount, subject to an absolute minimum of US\$100,000.

TETRAGON CREDIT INCOME FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

Note 6 Share Capital (continued)

Class A Shares, Class B Shares and Class C Shares (continued)

Class A Shares and Class B Shares are non-redeemable for the first year following the date of entry in the register. Thereafter, Class A Shares and Class B Shares may generally be redeemed semi-annually as of the first business day following 31 December and 30 June each year (a "Redemption Day", "Class A Redemption day" or "Class B Redemption Day"). Written notice of redemption must be received by the Administrator 90 days prior to the Redemption Day.

Class C Shares were initially available for subscription by Qualified Investors (as defined by the Guernsey Financial Services Commission) on the first available Subscription Day (the first business day of the months unless otherwise determined by the Directors) at a price equal to the prevailing Net Asset Value per Class A Share. Thereafter, Class C Shares were available for subscription by Qualified Investors on Subscription Days at the prevailing Net Asset Value per Class C Share.

Class C Shares are non-redeemable by the shareholder for the first three years following the date of subscription. Thereafter, Class C Shares may be redeemed as of the first business day following the earlier of 31 December or 30 June (a "Class C Redemption Day"). In lieu of redeeming its Class C Shares on the relevant Class C Redemption Day, each holder may elect, subject to the consent of the Directors, to exchange its Class C Shares (net of any applicable Incentive Fee) for Class A Shares having an equivalent Net Asset Value, effective as of such Class C Redemption Day. The one-year lock-up period applicable to Class A Shares shall not apply to the Class A Shares received in such exchange, and such Class A Shares may generally be redeemed as of the next Class A Redemption Day. If a holder of Class C Shares does not elect to redeem or exchange its Class C Shares on the relevant Class C Redemption Day, such Class C Shares will be subject to successive lock-up periods of three years and, accordingly, may only be redeemed (or exchanged for Class A Shares) as of each three-year anniversary of the relevant Class C Redemption Day.

Nominal Shares

The Nominal Shares can only be issued at par value to the Principal Manager. The Nominal Shares carry no right to dividends. In a winding-up, they have right to repayment only of paid-up capital after repayment of the paid-up capital on the Class A Shares, Class B and Class C Shares. The Principal Manager is obliged to subscribe for Nominal Shares in cash at par value when Class A Shares, Class B and Class C Shares are redeemed to ensure that funds are available to redeem the nominal amount paid-up on each Share unless the Directors decide that the nominal amount of such Class A Shares, Class B and Class C Shares is to be redeemed out of profits.

TETRAGON CREDIT INCOME FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

Note 6 Share Capital (continued)

	Founder Shares No.	Nominal Shares No.	
Shares in issue at inception	-	-	-
Issued	10	-	-
Redeemed	-	-	-
Shares in issue at 31 December 2005	<u>10</u>	-	-
Issued	-	-	-
Redeemed	-	-	-
Shares in issue at 31 December 2006	<u>10</u>	-	-
	Class A No.	Class B No.	Class C No.
Shares in issue at inception	-	-	-
Issued	298,485.068	2,500.000	-
Redeemed	-	-	-
Shares in issue at 31 December 2005	<u>298,485.068</u>	<u>2,500.000</u>	-
Issued	3,203,168.560	7,973.349	522,374.326
Redeemed	-	-	-
Shares in issue at 31 December 2006	<u>3,501,653.628</u>	<u>10,473.349</u>	<u>522,374.326</u>

The net asset value (NAV) per Share as at 31 December 2006 for each share class is as follows:

	Class A US\$	Class B US\$	Class C US\$
Total Net Asset Value	412,642,516	1,283,344	63,033,654
Net Asset Value per Share	117.84	122.53	120.67

The net asset value (NAV) per Share as at 31 December 2005 for each share class is as follows:

	Class A US\$	Class B US\$	Class C US\$
Total Net Asset Value	30,500,469	257,692	-
Net Asset Value per Share	102.18	103.08	-

TETRAGON CREDIT INCOME FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

Note 7 Related party transactions

Polygon Credit Management (Guernsey) Limited (the "Principal Manager"), a company incorporated in Guernsey with limited liability under the Companies Law, will serve as the principal manager of the Fund. The Principal Manager has appointed Polygon Credit Management LP, a Delaware limited partnership (the "Investment Manager"), to manage the Fund's investment programmes. The investment activities of the Investment Manager are subject to the overall supervision, control and policies of the Directors. The Investment Manager will be compensated by the Principal Manager and not by the Fund.

For the period from inception to 30 June 2006 the management fee was charged to the Master Fund, and the Fund as a shareholder in the Master Fund, bore its proportionate share of management fees payable by the Master Fund (year ended 31 December 2006: US\$796,943; period from 23 June 2005 to 31 December 2005: US\$224,013). As a result of the creation of a new Feeder share class with a different fee structure the management fee now has to be calculated at the Feeder level. With effect from 1 July 2006 the management fee is charged directly to the Fund. The Principal Manager is entitled to receive management fees equal to (i) two percent (2%) per annum of the Net Asset Value per Class A and Class B Share and (ii) one and one-half percent (1.5%) per annum of the Net Asset Value per Class C Share, in each case calculated on a Share-by-Share basis and payable monthly in advance prior to the deduction of any accrued incentive fees applicable to such Class.

For the period from inception to 31 December 2005 all expenses relating to the Master Fund and the two Feeders were charged to the Master Fund, and the Fund as a shareholder in the Master Fund, bore its proportionate share. With effect from 1 January 2006 expenses which relate wholly and specifically to the individual Feeders are charged to the Feeder to which they relate. These include custodian, directors', audit, and other legal and regulatory fees.

The Fund pays the Principal Manager an incentive fee as disclosed in Note 4.

The Fund invests substantially all of its assets in Tetragon Credit Income Master Fund Limited, a Guernsey based open-ended investment company which the same Principal Manager and Investment Manager as the Fund.

Class B Shares may only be offered to (i) employees or affiliates of the Investment Manager, including without limitation members of their immediate families and trusts or other entities for their benefit and (ii) collective investment schemes managed by Polygon Credit Management (Guernsey) Limited, Polygon Credit Management LP or their affiliates. Class B Shares will be entitled to the same rights and privileges as the Class A Shares and Class C Shares, except that Class B Shares will not be subject to the Incentive Fee.

Patrick Dear holds 2,500 Class B Shares as at 31 December 2006 and 31 December 2005. No Director held a material interest in Class A Shares.

TETRAGON CREDIT INCOME FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

Note 8 Reconciliation of Net Asset Value

In accordance with the Offering memorandum of the Master Fund, for the purposes of calculating a net asset value at which shareholders of the Master Fund may redeem their shares, the organizational / formation costs of the Master Fund are amortized on a straight line basis over a period of up to three years from the date on which the Fund commenced business. Under US GAAP it is not permitted to amortize these costs and they were charged to expenses as incurred.

The impact on the net asset valuation of the Fund is as follows:

	2006	2005
	US\$	US\$
Net Asset Valuation as determined in accordance with the Offering Memorandum (for redemption purposes)	477,528,031	31,175,107
Fund's allocation of amortization of Organizational Costs	(568,507)	(416,946)
Net Asset Valuation per financial statements	<u>476,959,524</u>	<u>30,758,161</u>

Note 9 Post balance sheet events

When the Fund was launched in 2005, it was recognized that the Fund and/or its Master Fund, Tetragon Credit Income Master Fund Limited, may in the future seek to list its shares on a recognized exchange. In that event, there may be an uplift in value of such shares, or "listing premium", reflecting goodwill attributable to the business at the time of listing. In connection with the Initial Offer, the Master Fund issued to the Principal Manager for \$6 a special class of shares ("Growth Shares"), which will be redeemable at the holder's option only in the event of a listing of the Master Fund or its feeders. The purpose of the Growth Shares is to provide a mechanism to reward the Principal Manager, equivalent to a 20% incentive fee, for value delivered to shareholders.

The Growth Shares are Redeemable Preference Shares and are freely assignable by the holder. Prior to any listing of Redeemable Preference Shares in the Master Fund or Tetragon Credit Income Fund Limited, the Growth Shares shall have no right to participate in any dividends or distributions by the Master Fund. The Growth Shares shall entitle each holder to one vote on all matters on which the Redeemable Preference Shares are entitled to vote. The consent of each holder of Growth Shares shall be required for any amendment or modification to the terms of the Growth Shares.

TETRAGON CREDIT INCOME FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

Note 9 Post balance sheet events (continued)

The Fund proposes to convert into a closed-ended fund and to engage in an initial public offering ("IPO") and listing on Eurolist by Euronext Amsterdam. Conditional upon the occurrence of the events set forth below, immediately prior to the closing of the IPO, the Fund shall be converted into a closed-ended fund and all participating shares of the Fund that are outstanding at such time will be automatically converted into a new class of shares having rights identical to those to be issued in the IPO (the "Conversion"). The Conversion shall be conditional upon (i) requisite shareholder approval, (ii) the approval of parallel amendments to the U.S. Feeder Fund limited partnership agreement, (iii) the admission to trading of the Fund's shares on Eurolist by Euronext Amsterdam on an "as-if-and-when-issued-or-delivered" basis and (iv) the Fund certifying that all conditions to the listing and the closing of the IPO (other than the effectiveness of the shareholder resolution effecting the Conversion) have been satisfied or waived. Any existing investors who do not wish to continue as shareholders after the IPO and listing may elect a one-time pre-IPO redemption at net asset value. If the IPO closes the Fund will bear the costs, however if the IPO does not close the Investment Manager will bear these costs.

It is envisaged that holders of the Growth Shares would receive new shares with a value equal to 20% of the premium uplift, if any, adjusted for the cost of the IPO, in the Fund. If any such shares are issued to holders of the growth shares, it will reduce the number of shares allocated to pre-existing holders in the conversion of existing shares, but will not change the total number of shares outstanding immediately after the conversion and IPO. Following the IPO the Growth Shares will cease to be outstanding.

When and if the IPO happens, any transfer of value between the shareholders will be appropriately recognized.

Since the year end the Fund has received net additional inflows of US\$83,672,985.

Note 10 Recent changes to USGAAP

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 requires companies to recognize the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. The tax benefit recognized is the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. FIN 48 is effective for fiscal years beginning after 15 December 2006. The adoption of FIN 48 is not expected to have a material impact on the Fund's financial statements.

TETRAGON CREDIT INCOME FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

Note 10 Recent changes to USGAAP (continued)

In February 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 155, "Accounting for Certain Hybrid Financial Instruments", which amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS 155 provides, among other things, that (i) for embedded derivatives which would otherwise be required to be bifurcated from their host contracts and accounted for at fair value in accordance with SFAS 133 an entity may make an irrevocable election, on an instrument-by-instrument basis, to measure the hybrid financial instrument at fair value in its entirety, with changes in fair value recognized in earnings and (ii) concentrations of credit risk in the form of subordination are not considered embedded derivatives.

SFAS 155 is effective for all financial instruments acquired, issued or subject to remeasurement after the beginning of an entity's first fiscal year that begins after 15 September 2006. Upon adoption, differences between the total carrying amount of the individual components of an existing bifurcated hybrid financial instrument and the fair value of the combined hybrid financial instrument should be recognized as a cumulative effect adjustment to beginning retained earnings. Prior periods are not restated. The adoption of SFAS 155 is not expected to have a material impact on the Fund's financial statements.

In September 2006, the FASB cleared Statement of Position No. 71, "Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies" ("SOP 71") for issuance. SOP 71 addresses whether the accounting principles of the Audit and Accounting Guide for Investment Companies may be applied to an entity by clarifying the definition of an investment company and whether those accounting principles may be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. SOP 71 applies to the later of (i) reporting periods beginning on or after 15 December 2007 or (ii) the first permitted early adoption date of the FASB's proposed fair value option statement. . The adoption of SOP 71 is not expected to have a material impact on the Fund's financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies to reporting periods beginning after 15 November 2007. The adoption of SFAS 157 is not expected to have a material impact on the Fund's financial statements.

Note 11 Approval of financial statements

The Directors approved the financial statements on 19 February 2007.

TETRAGON CREDIT INCOME FUND LIMITED

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

The following represents selected per share operating performance of the Fund, ratios to average net assets and total return information for the year ended 31 December 2006.

<u>31 December 2006</u>	Class A	Class B	Class C*
	US\$	US\$	US\$
Per share operating performance			
Net asset value at start of year / initial issue date	102.18	103.08	113.02
Net investment income	15.75	19.54	7.69
Net realized and unrealized gain / (loss) from investments and foreign currencies	(0.09)	(0.09)	(0.04)
Net asset value at the end of the period	117.84	122.53	120.67
Total return before performance fee	19.17%	18.87%	7.74%
Performance fee	(3.84%)	-	(0.97%)
Total return after performance fee	15.33%	18.87%	6.77%
Ratios and supplemental data			
Ratio to average net assets:			
Direct operating expenses (see Note 7)	(1.82%)	(1.28%)	(0.77%)
Operating expenses allocated from the Master Fund (see Note 7)	(3.32%)	(3.32%)	(1.58%)
Total operating expenses	(5.14%)	(4.60%)	(2.35%)
Performance fee	(3.11%)	-	(0.94%)
Net investment income	12.48%	16.11%	6.60%

An individual shareholder's per share operating performance and ratios may vary from the above based on the timing of capital transactions.

* The Class C Shares of the Fund were issued on 1 July 2006. The ratios and returns have not been annualized.

TETRAGON CREDIT INCOME FUND LIMITED

FINANCIAL HIGHLIGHTS (continued)

For the year ended 31 December 2006 and for the period from 23 June 2005 to 31 December 2005

The following represents selected per share operating performance of the Fund, ratios to average net assets and total return information for the period ended 31 December 2005.

<u>31 December 2005</u>	Class A	Class B
	US\$	US\$
Per share operating performance (1)		
Net asset value at initial issue date	100.00	100.00
Net investment income	2.11	2.99
Net realized and unrealized gain / (loss) from investments and foreign currencies	0.07	0.09
Net asset value at the end of the period	102.18	103.08
Total return before performance fee	3.15%	3.08%
Performance fee	(0.97%)	-
Total return after performance fee	2.18%	3.08%
Ratios and supplemental data (1)		
Ratio to average net assets:		
Direct operating expenses (see Note 7)	-	-
Operating expenses allocated from the Master Fund (see Note 7)	(4.06%)	(4.22%)
Total operating expenses	(4.06%)	(4.22%)
Performance fee	(0.91%)	-
Net investment income	1.95%	2.96%

An individual shareholder's per share operating performance and ratios may vary from the above based on the timing of capital transactions.

(1) The Class A Shares and Class B Shares of the Fund were issued on 1 August 2005. The ratios and returns have not been annualized.

TETRAGON CREDIT INCOME FUND LIMITED

SCHEDULE OF INVESTMENTS
as at 31 December 2006

Security Description	Nominal /Shares	Cost US\$	Market Value US\$	% of Net Assets
<i>Investment Funds - Guernsey</i>				
Tetragon Credit Income Master Fund Limited – redeemable preference shares	3,957,433	456,610,941	490,175,214	102.77%
Total Investments			490,175,214	102.77%
Cash and cash equivalents			269	0.00%
Other Assets and Liabilities			(13,215,959)	(2.77%)
Net Assets			476,959,524	100.00%

TETRAGON CREDIT INCOME FUND LIMITED

SCHEDULE OF INVESTMENTS
as at 31 December 2005

Security Description	Nominal /Shares	Cost US\$	Market Value US\$	% of Net Assets
<i>Investment Funds - Guernsey</i> Tetragon Credit Income Master Fund Limited – redeemable preference shares	300,985	<u>30,250,000</u>	<u>31,024,522</u>	<u>100.87%</u>
Total Investments			31,024,522	100.87%
Other Assets and Liabilities			<u>(266,361)</u>	<u>(0.87%)</u>
Net Assets			<u>30,758,161</u>	<u>100.00%</u>