

ANNUAL REPORT

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

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

TETRAGON CREDIT INCOME MASTER FUND LIMITED

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TO 31 DECEMBER 2005**

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TETRAGON CREDIT INCOME MASTER 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

PRIME BROKER

Morgan Stanley & Co. International Limited
25 Cabot Square Canary Wharf
London E14 4QA
United Kingdom

**ADMINISTRATOR, SECRETARY
AND REGISTRAR**

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

TETRAGON CREDIT INCOME MASTER 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
United States of America

**LEGAL ADVISERS
IN GUERNSEY**

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

TETRAGON CREDIT INCOME MASTER 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 Master 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 10 February 2006 the Fund changed its name from Polygon Credit Income Master Fund Limited to Tetragon Credit Income Master 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.

RESULTS, ACTIVITIES AND FUTURE DEVELOPMENTS

The results of operations are set out on page 12. A detailed review of activities and future developments is contained in the Investment Manager's Report on pages 7 and 8.

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 MASTER 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 year which present 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 has 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

TETRAGON CREDIT INCOME MASTER 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

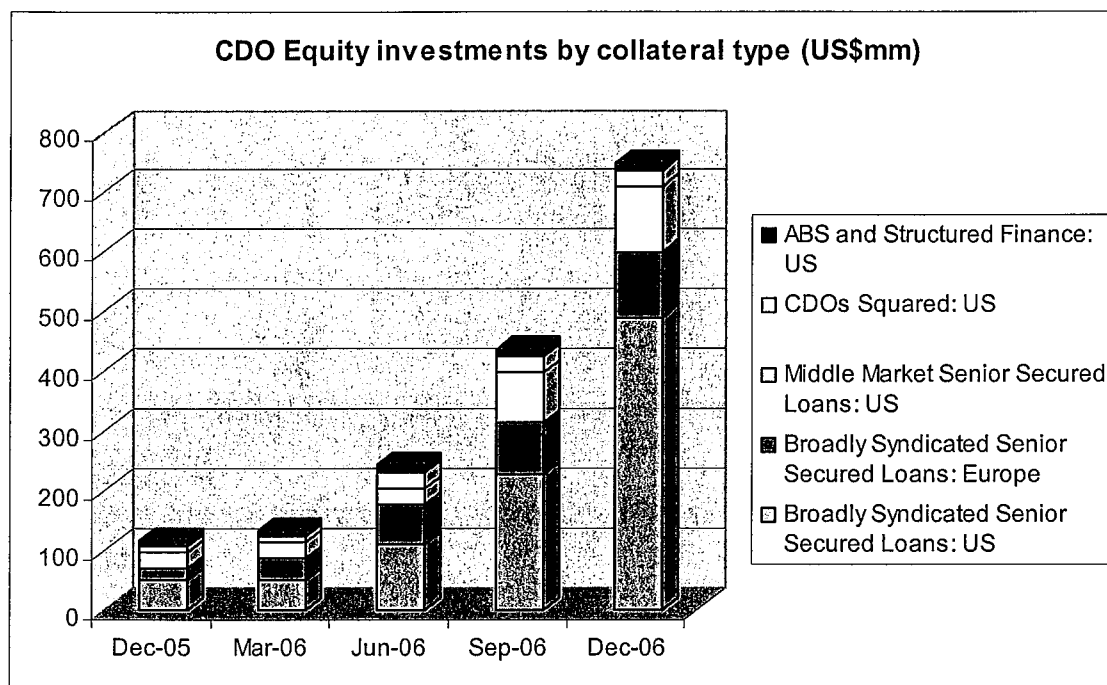
2006 has been a year of strong growth for the fund

During its first full year of operation, the fund grew its portfolio of CDO Equity investments from \$121.6 million (9 transactions, cost \$117.6 million) to \$785 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 MASTER 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 Fund's financing sources...

The 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 fund, the 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 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 MASTER FUND LIMITED

REPORT OF INDEPENDENT AUDITORS

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

We have audited the financial statements (the "financial statements") of Tetragon Credit Income Master 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 15 to 35. 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 MASTER 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 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 2005; 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

Date: 19 February 2007

TETRAGON CREDIT INCOME MASTER 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	3	117,859,435	35,686,369
Investments in securities, at fair value* (cost US\$747,360,668; 2005: US\$117,569,202)		785,260,048	121,614,863
Other receivables	5	543,791	128,070
Total assets		903,663,274	157,429,302
Liabilities			
Payables under repurchase and swap agreements	6 & 7	266,966,810	71,014,359
Derivative financial liabilities - Credit Default Swaps	8	1,487,269	-
Amounts payable for purchase of investments		23,904,647	-
Unrealized loss on forward contracts	4	2,559,966	76,216
Interest payable		2,422,084	557,794
Other payables and accrued expenses	10	199,258	383,497
Total liabilities		297,540,034	72,031,866
Net assets		606,123,240	85,397,436
 Shares outstanding			
Redeemable Preference Shares	11	Number 4,893,542	Number 828,485
 Net asset value per share			
Redeemable Preference Shares		US\$123.86	US\$103.08

* US\$461,187,827 (2005: US\$118,246,292) of these investments are pledged as collateral under repurchase and swap agreements.

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 MASTER 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\$
Interest income	12	56,244,498	5,417,245
Investment income		56,244,498	5,417,245
Management fees	13	(1,143,555)	(666,534)
Administration fees		(433,064)	(128,032)
Custodian fees		-	(36,394)
Legal and professional fees		(168,014)	(130,680)
Audit fees		(123,941)	(160,000)
Directors' fees	13	(56,836)	(51,700)
Organizational costs	13	-	(1,334,084)
Other operating expenses		(47,075)	(2,440)
Interest expense		(7,026,436)	(579,684)
Operating expenses		(8,998,921)	(3,089,548)
Net investment income		47,245,577	2,327,697
Realized and unrealized gain / (loss) from investments and foreign currency			
Net realized gain / (loss) from:			
Investments		-	40,000
Foreign currency transactions		(1,241,375)	1,014,930
Credit default swaps		(376,407)	-
		(1,617,782)	1,054,930
Net increase / (decrease) in unrealized appreciation / (depreciation) on:			
Investments		(21,605)	-
Forward foreign exchange contracts		(2,483,750)	(76,216)
Credit default swaps		(1,487,269)	-
Translation of assets and liabilities in foreign currencies		5,415,750	(908,975)
		1,423,126	(985,191)
Net realized and unrealized gain / (loss) from investments and foreign currencies		(194,656)	69,739
Net increase in net assets resulting from operations		47,050,921	2,397,436

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

TETRAGON CREDIT INCOME MASTER 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\$
Investment income	56,244,498	5,417,245
Operating expenses	(8,998,921)	(3,089,548)
Net realized gain / (loss) from investments and foreign currency	(1,617,782)	1,054,930
Net unrealized appreciation / (depreciation) on investments and translation of assets and liabilities in foreign currencies	1,423,126	(985,191)
Net increase in net assets resulting from operations	<u>47,050,921</u>	<u>2,397,436</u>
Issue of redeemable preference shares	478,285,135	83,000,000
Redemption of redeemable preference shares	(4,610,252)	-
Increase in net assets resulting from net share transactions	<u>473,674,883</u>	<u>83,000,000</u>
Total increase in net assets	520,725,804	85,397,436
Net assets at start of year / inception	85,397,436	-
Net assets at end of year / period	<u>606,123,240</u>	<u>85,397,436</u>

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