TETRAGON

TETRAGON FINANCIAL GROUP LIMITED

2007 ANNUAL REPORT

Corporate Profile

Tetragon Financial Group Limited ("TFG") is a Guernsey closed-ended investment company that currently invests in selected securitized asset classes and aims to provide stable returns to investors across various credit and interest rate cycles. TFG is traded on the Euronext Amsterdam Exchange under the ticker symbol "TFG," and commenced operations on August 1, 2005.

In this performance report, unless otherwise stated, we report on the consolidated business incorporating TFG, Tetragon Financial Group LP ("TFGLP") and Tetragon Financial Group Master Fund Limited (the "Master Fund"). [1] We refer to these entities collectively as the "Company."

Investment Objective

TFG's investment objective is to generate distributable income and capital appreciation. To achieve this objective, and to aim to provide stable returns to investors across various interest rate and credit cycles, Polygon Credit Management LP (the "Investment Manager") seeks to identify asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favorable transaction terms for vehicles in which the Company invests. As part of this current investment strategy, the Investment Manager employs hedging strategies and moderate leverage in seeking to provide attractive returns from the portfolio while managing risk.

Note

(1) TFG invests substantially all its capital through the Master Fund, in which it holds a 94% share. TFGLP, a U.S. "feeder fund", holds the remaining 6% interest in the Master Fund. TFG and TFGLP receive a pro-rata allocation of the performance of the Master Fund.

TETRAGON

Contents

Financial and Operational Highlights	1
Letter to Shareholders	3
Portfolio Overview	5
Portfolio Management Approach	5
Financing Sources and Initiatives	5
Investment Outlook and Strategy	6
Financial Review 2007	7
Description of Business	11
Risk Factors	15

Appendix I:
Tetragon Financial Group Limited
2007 Audited Financial Statements

Appendix II:
Tetragon Financial Group Master Fund Limited
2007 Audited Financial Statements

Tetragon Financial Group Limited (TFG)
2007 Financial and Operating Performance at a Glance

Financial Results:

- **Earnings per share:** EPS for 2007, including an imputed calculation for the period prior to the settlement of the IPO on April 26, 2007, was $0.94. [1] EPS for the period from IPO to year-end was $0.48.

- **Quarterly dividends initiated post-IPO:** In each of the three quarters since the IPO, the Board of Directors of TFG has declared a dividend of $0.15 per share, for a total of $0.45 per share for the year. The dividend for Q4 2007 of $0.15 per share was approved on February 27, 2008 and will be paid on March 27, 2008.

- **Strong growth in net income and cash flows:** Net income increased by over 170% year-over-year during 2007 and totaled $99.2 million. Cash flows from operations increased approximately 500% during 2007 relative to 2006.

- **Growth in net assets:** At the end of December 2007, consolidated net assets were approximately $1.26 billion. Year-end NAV per share was $10.03.

- **IRRs held up well in 2007:** Weighted-average IRRs remained within our historical range in 2007, ending the year at approximately 16.6%.

- **Life-to-date net loss reserves building well:** Approximately $106 million of net excess losses have been factored into our IRR calculations at the end of December 2007 up from $38 million at the end of Q1 2007.

- **Reduced leverage:** Overall corporate leverage was approximately 1.1x as of December 31, 2007 down from 1.3x at the end of 2006.

- **Solid results:** Measured in portfolio growth, income and dividend payouts in a challenging market environment.

Portfolio Summary:

- **Portfolio size grew significantly:** As of the end of 2007, the investment portfolio totaled approximately $1.45 billion, with exposure to approximately $17 billion of leveraged loans. During 2007, the investment portfolio grew by over 180% and our exposure to leveraged loans increased by over 200%.

- **Portfolio composition now focused exclusively on CLOs:** As of the end of 2007, TFG's performing portfolio consists solely of 61 collateralized loan obligation investments managed by 32 CLO managers. TFG's transactions with exposure to RMBS, which represented approximately 5.3% of net assets, were written down to zero in October 2007.

2007 FINANCIAL AND OPERATING PERFORMANCE AT A GLANCE (continued)

Operating Performance Highlights:

- **TFG default loss levels outperformed the market:** TFG's 2007 corporate loan defaults were 0.13% – a level that is over 67% below the 0.40% U.S. speculative grade loan default rate, based on the total par amount outstanding, reported by Moody's for the 12-months ending December 2007 [2] and over 95% below the historical average of 3.1%. [3]

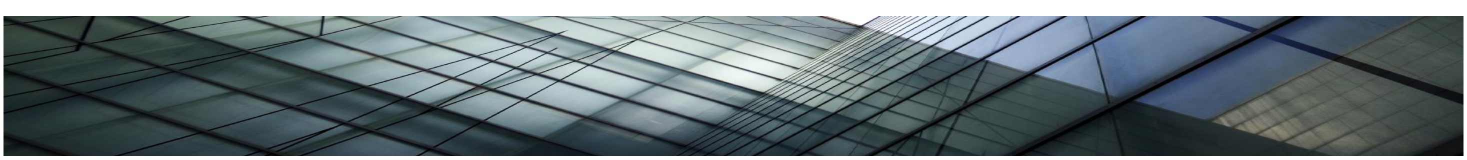
- **Spread widening helped performance:** The stability of our 2007 CLO transaction cash flows was supported by the reinvestment of prepayment proceeds at wider spread levels and/or at lower prices within our transactions, as well as incremental trading gains generated by our asset managers during the recent credit market dislocation.

Notes

(1) January 1, 2007 through April 26, 2007 EPS was derived from illustrative historical TFG Class C share performance, calculated as a change in Net Asset Value per Share during the period of January 1, 2007 through April 26, 2007. This reflects EPS based on the average shares in issue during the month, after translating pre-IPO shares into post-IPO equivalents.

(2) Source: Moody's Investor Service: "Moody's Global Leveraged Finance Monthly Commentary" February 2008.

(3) Source: Barclays Capital: "U.S. Credit Strategy" January 2008.



To our Shareholders

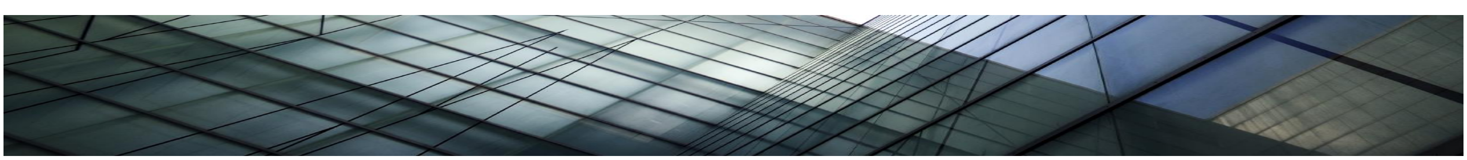
2007 was a milestone year for TFG as we became a public company following the initial public offering ("IPO") of our shares on Euronext Amsterdam by NYSE Euronext in April 2007. Our objective is to generate distributable income and capital appreciation and, despite the significant upheaval in the global credit markets, we are pleased to report what we believe is success in that endeavor. Our investment strategy of identifying attractive asset classes and top-tier asset managers, and leveraging our structuring expertise and employing active micro and macro hedging strategies resulted in what we believe are solid operating results for 2007, characterized by continued default and loss outperformance of our collateralized loan obligation ("CLO") investments relative to observed market levels, and the generation of opportunities for the future development of our business.

2007 was also a year marked by unprecedented dislocations and volatility in the fixed income, credit and broader financial markets in both the U.S. and Europe. During the second half of the year, progressive deterioration in the U.S. housing sector forced the rating agencies to aggressively downgrade many mortgage securitizations and re-evaluate their rating methodologies. These actions, along with the accumulation of mortgage-related losses, triggered significant de-leveraging and liquidation pressures across many fixed income markets. The resulting tightening of credit extension by banks and liquidation pressures on investors led to material price declines across a spectrum of credit securities, including senior secured loans. Given that fundamental credit conditions remained relatively stable throughout 2007, we believe that a significant portion of the dramatic and broad-based loan spread widening with respect to performing loans was technical in nature, driven by supply/demand disequilibrium and liquidity constraints. We believe the remaining portion of the widening can be attributed to heightened future loss expectations, which we anticipate will begin to materialize in 2008 in selected industries and sectors. Investors financed with short-term and market-value based leverage (including hedge funds, SIVs, total return swaps, and other market value-based financing structures) felt the brunt of this credit squeeze as they faced reduced availability of capital, increased financing costs and a reduction in liquidity in the underlying fixed income markets.

The negative impact of the dislocation, volatility and losses experienced in the fixed income markets impacted share prices for many public financial institutions, including investment banks, commercial banks, business development corporations, finance companies and specialty finance companies. TFG's share price was also negatively affected.

The latter half of 2007 was characterized by a sharp reduction in new deal issuance volumes and our efforts were particularly focused on liquidity management (which included a reduction in the level of leverage in the business from 2006 year end levels), risk management and hedging (which contributed a $10 million net gain in 2007). These efforts were supported by our intensified interaction with the managers of our CLO transactions. We are pleased to report that despite these challenging conditions, we generated solid operating results for the year. During 2007, our investment portfolio grew from 44 investments with a fair value of approximately $785 million as of the end of 2006 to 67 investments with a fair value of approximately $1.45 billion as of December 31, 2007. Our notional exposure to leveraged loan and high yield assets increased from approximately $7.8 billion to over $17 billion year-over-year. Finally, net income increased approximately 170% from $36.8 million in 2006 to $99.2 million in 2007 as a consequence of growth in assets under management and the seasoning of our investment portfolio.

Since October 2007, following the write-down to zero of certain of our investments with exposure to residential mortgage-backed securities, our performing portfolio has been composed solely of investments in the subordinated, residual tranches ("Residual Tranches") of CLOs. Senior secured bank loans represent the substantial majority of assets underlying this CLO portfolio [(1)] and are financed via term, non-recourse, cash-flow based liabilities of the CLOs. The attractiveness of this financing format was highlighted during the latter half of 2007, as technical pressures in the credit markets resulted in what we would characterize as significant loan price volatility, causing many market-value based financing structures to face material de-leveraging pressures, despite a benign 2007 loan default environment.



Having invested substantially all of our IPO equity capital by mid-2007, we were able to lock in term, non-recourse financing for our loan investment portfolio at a weighted average cost of approximately LIBOR + 50 bps. (2) In addition, given the cash-flow nature of our financing vehicles, we were appropriately positioned to take some advantage of the credit market dislocation. As holdings in our underlying $17 billion loan portfolio were prepaid, our asset managers were able to selectively reinvest these proceeds into substantially discounted and/or wider-spread loans. Since the pricing of our liabilities is locked in, any turnover in our existing portfolio increases the amount of cash flow paid on our Residual Tranche investments and is accretive to earnings. We anticipate that such profitable reinvestment activities may continue into 2008 and would therefore enhance the long-term stability and profitability of our Residual Tranche investments. We also believe that the financing efficiency of our securitization vehicles and the inclusion of our enhanced structural features described below, supported by our market expertise and majority stake in such Residual Tranches, may prove valuable in 2008.

In each of the three quarters since the IPO, the Board of Directors of TFG has declared a dividend of $0.15 per share for a total dividend of $0.45 for the year, or an annualized dividend yield of approximately 8.6% (assuming a price of $6.98 as of December 31, 2007). The dividend for Q4 2007 of $0.15 per share was approved on February 27, 2008 and will be paid on March 27, 2008. Cash flow generation from the business is strong and should continue to improve as our deals season. Net asset value per share grew to $10.03 after dividend distributions.

In November 2007, we also initiated a share repurchase program of up to 5% of our outstanding shares. During 2007, the Company purchased approximately 310,000 TFG shares at an average price of approximately $6.95 per share. We continue to be confident in the long-term prospects of TFG and believe that the purchase of shares in the market may, at appropriate price levels below Net Asset Value (NAV), represent an attractive use of TFG's excess cash.

As we look toward 2008, we are positive about potential investment and strategic development opportunities. We believe that the spread widening witnessed during the last months of 2007 in both cash and synthetic assets may offer attractive risk/reward opportunities in certain senior secured loans. Although the financing cost increases and systemic securitization pressures we described earlier are likely to persist in 2008, we will look to selectively deploy TFG's resources in transactions that meet our investment criteria. We anticipate that the level of default losses across senior secured loans may increase in 2008 from the relatively low levels seen in 2006 and 2007, and we will remain focused on seeking to maintain below market-wide levels of default losses.

Finally, we expect that 2008 may bring significant CLO/CDO manager organizational changes and consolidation, potentially presenting us with strategic business opportunities in this sphere. We anticipate that our permanent capital base will permit us to explore such opportunities selectively.

With Regards,

Board of Directors

February 27, 2008

Notes

(1) The CLO asset characterizations referenced above reflect the primary asset focus of such vehicles. These transactions, however, may allow for limited exposure to other asset classes including unsecured loans, high yield bonds, emerging market loans or bonds, and structured finance securities with underlying exposure to CDO tranches, RMBS, commercial mortgage backed securities (CMBS), trust preferred securities and other types of securitizations.

(2) Reflects a liability notional-weighted CLO cost of funds and does not reflect the expected average life of each of the tranches.

Investment manager's report

Portfolio Overview

As of December 31, 2007, the fair value of the performing investment portfolio totaled approximately $1.45 billion and was 100% invested in CLO transactions. Our CLO portfolio continues to be diversified across underlying asset classes and geographies, with approximately 62.5% of risk capital invested in CLOs with primary exposure to U.S. broadly syndicated senior secured loans, 21.7% in CLOs with primary exposure to European broadly syndicated senior secured loans and 15.8% in CLOs with primary exposure to U.S. middle market senior secured loans at the end of 2007. (1) In general, senior secured loans found in CLO portfolios are typically rated below Baa/BBB by Moody's and S&P and may be less liquid and more likely to default than senior secured loans of higher credit quality.

In October 2007, following significant ratings downgrades by Moody's and S&P arising from their review of investment vehicles with exposure to U.S. residential mortgage-backed securities ("RMBS") and consultations with asset managers for the affected investment vehicles, we wrote down to zero the Company's investments with exposure to such assets. As a result, the Company's performing portfolio is now solely composed of CLO exposure consisting of 61 CLO investments managed by 32 CLO managers.

Weighted-average IRRs remained within our historical range in 2007, ending the year at approximately 16.6%, despite a drop in interest rates during the last quarter of the year. Three-month LIBOR, a commonly used loan coupon benchmark, fell from approximately 5.23% on September 30, 2007 to approximately 4.70% on December 31, 2007, and has since fallen to 3.09% as of February 25, 2008. Our investments in the Residual Tranches of CLOs generate LIBOR-plus returns and may therefore rise or fall due to interest rate levels and volatility. We believe the relative stability of our IRRs during 2007, despite declining interest rates, was partially attributable to the gradual improvement of effective yields in our underlying loan portfolio, which was made possible by reinvestment at wider spread levels and/or at lower prices, as well as incremental trading gains generated by our asset managers during the recent credit market dislocation.

In 2007, approximately 0.13% of TFG's corporate loan portfolio (*i.e.*, only assets underlying our CLOs) experienced payment or technical defaults, a level that is over 67% below the 0.40% U.S. speculative grade loan default rate, based on the total par amount outstanding, reported by Moody's for the 12-months ending in December 2007 (2) and over 95% below the historical average of 3.1%. (3)

In line with this investment performance, approximately $106 million of net excess losses have been factored into our IRR calculations to the end of December 2007, as the pace of realized losses continued to track below the long-term average historical levels used to project expected losses on our transactions. These net excess life-to-date losses are transaction-specific and the total figure cited above represents the aggregate sum of net excess losses experienced in the underlying loan portfolios of each of our CLOs. Such amount is calculated by subtracting the actual collateral loss for each transaction from the expected collateral loss, where the expected loss is a function of expected collateral size, TFG's loss assumptions and the length of time each investment has been held.

We were also satisfied with the performance of our hedging strategy, which generated net gains of approximately $10 million for the year, as our single-name and index hedges benefited from spread widening and increased volatility in the latter part of the year. We remain focused on selectively mitigating our single-name concentrations, exposure to higher risk obligors, and jump-to-default and tail-risk losses.

Portfolio Management Approach

We continue to actively manage our investment portfolio as we believe that systematic credit analysis can serve as an effective risk management tool. We seek to regularly evaluate our underlying credit exposures as well as CLO quality and coverage tests, as we believe this may more effectively position the portfolio against outsized losses. As part of that process, we monitor trends in credit quality of our underlying exposures and the effectiveness of our asset managers in proactively managing the credit risks inherent in our CLO transactions. In addition to monitoring quantifiable credit parameters, we supplement our analysis by maintaining regular dialogue with our asset managers, and typically combine their credit opinions with our own in order to create more robust hedging solutions.

Financing Sources and Initiatives

In addition to utilizing embedded leverage associated with CLO investments, the Master Fund currently employs, to a lesser extent, direct leverage through borrowings and other financing arrangements in order to achieve its investment objectives. As of December 31, 2007, overall corporate leverage of the Master Fund stood at approximately 1.1x. (4)

FINANCING SOURCES AND INITIATIVES (CONTINUED)

While we believe that this leverage level is currently appropriate for the Company given the risk profile of our portfolio and the nature of our financing terms, we believe that it is prudent for the Company to maintain significant cash balances in light of the recent turmoil in the financial markets. In evaluating our uses of excess cash for investment and financing purposes, we have thus sought to ensure the stability of our performance by taking what we believe is an appropriate approach to the preservation of liquidity.

Increasing the diversity and term structure of our financing sources is a priority for the Company and we are currently evaluating a number of financing alternatives, including those with characteristics that mitigate market volatility of our underlying assets. We believe that such diversification is important to ensure that the Company is able to take advantage of the dislocations currently seen in the market and to take advantage of other strategic opportunities that may be available going forward. As our financing terms and options change, and as the market continues to develop, we will continue to evaluate and adjust our current leverage levels.

INVESTMENT OUTLOOK AND STRATEGY

We expect that 2008 may offer attractive investment opportunities to disciplined and well-capitalized loan and CLO market investors. We believe that the spread widening witnessed by the loan market in the latter half of 2007 may continue in 2008, possibly rendering certain senior secured loan investments attractive on both an absolute and relative basis. Additionally, the increased breadth and liquidity of LCDS in the U.S. as well as the introduction of a standard synthetic loan index (LCDX) and index tranches may expand our universe of hedging tools and allow for more effective single name and bespoke portfolio hedges. We will continue to evaluate investment opportunities across cash and synthetic, new issue and secondary, and capital structure entry-point levels with a view to taking advantage of any short-term credit pricing dislocations.

Although we anticipate that 2008 CLO issuance may be materially lower than 2007 levels, we expect that core debt and equity investors will selectively return to the marketplace as spreads continue to provide sufficient compensation for the senior secured credit risk undertaken.

Despite the fact that the severity of defaults implied by current loan spreads is high, we believe that we have selected asset managers that will outperform the market. We anticipate, however, that defaults in our portfolios may increase in 2008, and we will seek to mitigate such default losses via our current loss assumptions, active hedging strategies, and pre-emptive structural adjustments, as appropriate. Given our buy-and-hold strategy, we will seek to limit total portfolio default losses to below the historical long-term average levels over the life of each transaction, although we expect that short-term fluctuations above and below such levels may occur. Each of our CLO investments represents a segregated portfolio with different credit risks, liability costs, and structural features. We expect that the fair value of each of our positions will continue to fluctuate in 2008 depending on its performance during the year.

Additionally, we believe that a number of general trends may mitigate the risk of a dramatic short-term increase in defaults. First, the distribution of debt maturities is substantially back-ended. Many loan issuers were able to issue debt with longer maturities and lower spreads during the past two years. Second, falling LIBOR is expected to be positive for floating rate borrowers, as lower rates reduce the cash interest owed on debt and increase free cash flows available to borrowers. Whilst this serves as a positive default mitigating factor, our investments in Residual Tranches of CLOs generate LIBOR-plus returns and may rise or fall due to interest rate levels and volatility. Third, the balance sheets of many companies appear to continue to be relatively strong allowing some headroom for earnings deterioration. Although we cannot predict future default rates and losses, we believe that all of these factors are positive and will moderate the risk of outsized short-term defaults and losses across our portfolio, as potentially tighter lending conditions, earnings deceleration, and growing recessionary pressures impact the economy.

Please refer to the section entitled "Risk Factors" herein and a more complete description of risks and uncertainties pertaining to an investment in TFG on the Company's website at: www.tetragoninv.com.

Notes:

(1) The CLO asset characterizations referenced above reflect the primary asset focus of such vehicles. These transactions, however, may allow for limited exposure to other asset classes including unsecured loans, high yield bonds, emerging market loans or bonds, and structured finance securities with underlying exposure to CDO tranches, RMBS, commercial mortgage backed securities (CMBS), trust preferred securities and other types of securitizations.

(2) Source: Moody's Investor Service: "Moody's Global Leveraged Finance Monthly Commentary" February 2008.

(3) Source: Barclays Capital: "US Credit Strategy" January 2008.

(4) Overall leverage represents the ratio of portfolio fair value and the Net Assets of the Company.

Financial Review 2007

Overview

The first half of 2007 saw a continuation of the growth in investments and net assets that began in 2006. As a result of the expansion of net assets (including as a result of our IPO), investment income grew strongly and net income increased by over 170%. The investment portfolio became increasingly cash generative with cash flows from operations increasing approximately 500% from 2006.

Consolidated Income Comparison 2007 vs. 2006

	2007				2006			
Statement of Operations	Master Fund (MM)	TFG (MM)	TFG LP (MM)	Consolidated (MM)	Master Fund (MM)	TFG (MM)	TFG LP (MM)	Consolidated (MM)
Interest Income from Investments	$201.6	$0.0	$0.0	**$201.6**	$52.6	$0.0	$0.0	**$52.6**
Interest Income from Cash	$12.4	$0.0	$0.0	**$12.4**	$3.6	$0.0	$0.0	**$3.6**
Investment Income	**$214.0**	**$0.0**	**$0.0**	**$214.0**	**$56.2**	**$0.0**	**$0.0**	**$56.2**
Management Fees	($12.9)	($4.0)	($1.1)	**($18.0)**	($1.1)	($3.3)	($0.9)	**($5.3)**
Administrative / Custody and Other Fees	($2.2)	($0.1)	($0.0)	**($2.3)**	($0.8)	($0.1)	($0.0)	**($0.9)**
Interest Expense	($21.5)	$0.0	$0.0	**($21.5)**	($7.0)	$0.0	$0.0	**($7.0)**
Total Operating Expenses	**($36.6)**	**($4.1)**	**($1.1)**	**($41.8)**	**($8.9)**	**($3.4)**	**($0.9)**	**($13.2)**
Net Investment Income	**$177.4**	**($4.1)**	**($1.1)**	**$172.2**	**$47.3**	**($3.4)**	**($0.9)**	**$43.0**
Realized / Unrealized Gains / (Losses) From Hedging	$10.0	$0.0	$0.0	**$10.0**	($0.1)	$0.0	$0.0	**($0.1)**
Net change in Unrealized Appreciation/(Depreciation) in Investments	$3.7	$0.0	$0.0	**$3.7**	($0.0)	$0.0	$0.0	**($0.0)**
Net Realized Gain / (Loss) on Investments	($69.1)	$0.0	$0.0	**($69.1)**	$0.0	$0.0	$0.0	**$0.0**
Realized/Unrealized Gains / (Losses) from Investments and FX	**($55.4)**	**$0.0**	**$0.0**	**($55.4)**	**($0.1)**	**$0.0**	**$0.0**	**($0.1)**
Net Income before Performance Fee	**$122.0**	**($4.1)**	**($1.1)**	**$116.8**	**$47.2**	**($3.4)**	**($0.9)**	**$42.9**
Performance Fees	$0.0	($16.1)	($1.5)	**($17.6)**	$0.0	($5.6)	($0.5)	**($6.1)**
Net Income	**$122.0**	**($20.2)**	**($2.6)**	**$99.2**	**$47.2**	**($9.0)**	**($1.4)**	**$36.8**

The table above illustrates how consolidated net income is derived by combining results across all of the group companies. Investment income nearly quadrupled from $56.2 million last year to $214 million in 2007. This growth is reflective of a significant increase in net assets and the number of investments in the portfolio as 35 investments were added during 2006 and 23 investments were added in 2007. Furthermore, expenses grew at a slower rate than investment income, increasing from $13.2 million in 2006 to $41.8 million in 2007. This was largely due to the reduction and simplification of the Investment Manager's management fee as a percentage of net assets post IPO. Additionally, interest expense increased from $7.0 million in 2006 to $21.5 million in 2007, a pace that was slower than the rate of investment income growth. Lower leverage in the portfolio and a small reduction in the average interest rate payable contributed to this slower rate of growth.

Realized / Unrealized Hedging Gains / Losses were positive on a year-over-year basis as hedging gains of approximately $10 million were recorded in 2007 compared to a loss of $0.1 million in 2006.

Realized / Unrealized Investment Gains / Losses were negative on a year-over-year basis as a realized loss of $69.1 million resulted from a $70 million write-down of the five investments that had exposure to RMBS. These investments now have a carrying value of zero although we continue to hold these assets.

CONSOLIDATED INCOME – 2007 QUARTER ON QUARTER COMPARISON

In many respects, a review of income on a quarter-by-quarter basis in 2007 offers greater insight into the income statement than by comparing results to 2006. The table below shows a quarterly net income comparison in 2007.

TFG Quarterly Statement of Operations					
Statement of Operations	**Q1 2007 (MM)**	**Q2 2007 (MM)**	**Q3 2007 (MM)**	**Q4 2007 (MM)**	**Total 2007 (MM)**
Interest Income from Investments	$38.0	$48.4	$58.5	$56.7	$201.6
Interest Income from Cash	$2.9	$3.4	$3.2	$2.9	$12.4
Investment Income	**$40.9**	**$51.8**	**$61.7**	**$59.6**	**$214.0**
Management Fees	($3.8)	($4.7)	($4.8)	($4.7)	($18.0)
Administrative / Custody and Other Fees	($0.3)	($0.3)	($0.7)	($1.0)	($2.3)
Interest Expense	($4.0)	($4.7)	($6.3)	($6.5)	($21.5)
Total Operating Expenses	**($8.1)**	**($9.7)**	**($11.8)**	**($12.2)**	**($41.8)**
Net Investment Income	**$32.8**	**$42.1**	**$49.9**	**$47.4**	**$172.2**
Realized / Unrealized Gains / (Losses) From Hedging	($1.0)	$2.0	$3.9	$5.1	$10.0
Net change in Unrealized Appreciation/(Depreciation) in Investments	$0.0	$1.0	($0.9)	$3.6	$3.7
Net Realized Gain / (Loss) on Investments	$0.8	$0.0	$0.0	($69.9)	($69.1)
Realized/Unrealized Gains / (Losses) from Investments and FX	**($0.2)**	**$3.0**	**$3.0**	**($61.2)**	**($55.4)**
Net Income before Performance Fee	**$32.6**	**$45.1**	**$52.9**	**($13.8)**	**$116.8**
Performance Fees	($4.9)	($5.9)	($6.8)	$0.0	($17.6)
Net Income	**$27.7**	**$39.2**	**$46.1**	**($13.8)**	**$99.2**

As with the 2007 and 2006 comparison, the main causes for the changes in net income throughout 2007 are the changes in investments and net assets.

By the start of Q3 2007, the portfolio was almost fully ramped (on a traded basis) and this is reflected in the stability of net investment income across Q3 $49.9 million and Q4 $47.4 million.

Performance Metrics and Drivers

The table below illustrates certain performance metrics and drivers that we believe could contribute to net income stability. By the middle of 2007, the rate of growth of investments had slowed, while net assets, leverage and weighted-average IRRs of completed transactions all remained within a narrow range.

The EPS of $0.94 for 2007 shown below includes an imputed calculation for the period prior to the settlement of the IPO on April 26, 2007. (1) The EPS of $0.48 shown in the Financial Statements of TFG covers the period from April 26, 2007 through year-end.

Performance Metrics and Drivers				
Performance Metrics	**Q1 2007**	**Q2 2007**	**Q3 2007**	**Q4 2007**
Pre IPO Return - Class C Shares	3.7%	N/A	N/A	N/A
Return on Average Equity for the Period	4.7%	3.5%	3.6%	(1.2%)
EPS ($)	$0.35	$0.33	$0.37	($0.11)
Dividend ($MM)	N/A	$18.80 (2)	$18.90 (3)	$18.91 (4)
DPS ($)	N/A	$0.15	$0.15	$0.15
Operating Cost - Income Ratio (5)	31.4%	29.6%	30.6%	19.2%
Performance Drivers	**Q1 2007**	**Q2 2007**	**Q3 2007**	**Q4 2007**
Number of Investments	56	65	67	67
Weighted Average IRR on Completed Transactions	16.30%	16.50%	16.39%	16.56%
Leverage at end of Period	1.12	1.08	1.13	1.11
Net Assets ($MM)	$989	$1,265	$1,294	$1,264
Number of Shares in Issue (million)	89.1	125.5	125.8	126.1
Net Excess Life-to-Date Loss Reserves ($MM) (6)	($38)	($61)	($89)	($106)

Notes:

(1) January 1, 2007 through April 26, 2007 EPS was derived from illustrative historical TFG Class C share performance, calculated as a change in Net Asset Value per Share during the period of January 1, 2007 through April 26, 2007. This reflects EPS based on the average shares in issue during the month, after translating pre-IPO shares into post-IPO equivalents.

(2) The dividend for Q2 2007 was declared in July 2007 and the dividend liability was recognized in the Net Assets at that point.

(3) The dividend for Q3 2007 was declared in October 2007 and the dividend liability was recognized in the Net Assets at that point..

(4) The dividend for Q4 2007 was declared in February 2008 and the dividend liability was recognized in Net Assets at that point.

(5) The Operating Cost-Income ratio for Q4 2007 excludes the October 2007 write-down of certain of our investments with exposure to residential mortgage-backed securities in the calculation.

(6) The net excess life-to-date loss reserve is transaction specific. It is calculated by subtracting the actual collateral loss for each transaction from the expected collateral loss, where the expected loss is a function of expected collateral size, TFG's loss assumptions and the length of time the investment has been held.

Cash Flow from Operations

The cash flow summary below reflects a 500% increase in cash inflows from operating activities since 2006. This can be attributed to the continued growth in cash flows from our portfolio as the 2005 and 2006-vintage CLO investments completed their ramp-up processes and began making regular distributions.

Cash Flow From Operations	2007	2006
	MM	MM
Net cash inflow from operating activities	$120	$20
Net cash outflows from investing activities	($692)	($606)
Net cash inflows from financing activities	$663	$668
Net increase in cash and short term deposits	$91	$82

Net Assets

The consolidated Balance Sheet combines assets and liabilities across the Company. In 2006, TFG and TFG LP had incentive fee liabilities which reduced the consolidated net assets below the level held at the Master Fund level. As of December 31, 2007 all assets and liabilities were held by the Master Fund.

The NAV per share was $10.03 as of the end of 2007. As a result of the change in the capital structure at the time of the IPO, a comparison with 2006 NAV per share is not considered meaningful.

Consolidated Balance Sheet Summary	2007	2006
	MM	MM
Cash and cash equivalents	$196	$118
Investments in CLOs (at fair value)	$1,447	$785
Debt	($419)	($267)
Other Assets / Liabilities	$40	($43)
Equity	$1,264	$593

Description of Business

On April 19, 2007 (the "Listing Date"), shares of TFG, a Guernsey investment company, were publicly offered and admitted to trading on the regulated market of Euronext Amsterdam by NYSE Euronext. TFG is registered in the public register of the Netherlands Authority for the Financial Markets ("AFM") under section 1:107 of the Netherlands Financial Markets Supervision Act ("FMSA") as a collective investment scheme from a designated country.

As described above, the Company's investment objective is to generate distributable income and capital appreciation. To achieve this investment objective, and to aim to provide stable returns to investors across various interest rate and credit cycles, the Investment Manager seeks to identify asset classes it believes to be attractive and asset managers it believes to be superior based on experience and expertise, and to use the market experience of the Investment Manager to negotiate favorable transaction terms for vehicles in which the Company invests. From inception through December 31, 2007, the Master Fund has acquired investments with a fair value of approximately $1.45 billion of investments (of which approximately $280 million has been funded since the IPO).

Senior secured bank loans represent the substantial majority of assets underlying the portfolio. The Company currently gains exposure to these assets primarily through investments in the Residual Tranches of CLO products and also has had exposure through previous investments in the Residual Tranches of collateralized debt obligation products, which are both securitized interests in underlying assets assembled by asset managers and divided into tranches based on their degree of credit risk ("Securitization Vehicles"). Since the October 2007 write-down, all of the Company's performing investments are through CLOs.

By taking substantial positions in the Residual Tranches of these Securitization Vehicles, the Company has been able to negotiate certain enhanced features of the vehicle during the origination process and obtain structural flexibility, as well as the ability to influence amendment to the terms, call option exercise and other decisions with respect to the investment. The Company currently invests in a broad range of CLO products, utilizing 32 asset managers, and its underlying assets are diversified on a geographic and industry sector basis. Interest rate and funding risk are mitigated through the long-term matched funding embedded in the CLO structure (*i.e.,* the assets acquired bear interest by reference to a floating rate similar to the funding source for those assets).

Management Team

The principals of the Investment Manager and founders of the Company are Jeffrey Herlyn, Michael Rosenberg, David Wishnow, Reade Griffith, Alexander Jackson and Paddy Dear (together, the "Principals"). Messrs. Herlyn and Rosenberg are responsible for managing the investment portfolio and Mr. Wishnow focuses on financing, liquidity and non-investment activities.

Approach to Investments

The Investment Manager currently sources investment opportunities through a variety of channels, including the Investment Manager's network of direct relationships with major commercial and investment banks and asset managers. The current performing portfolio is composed solely of substantial positions in the Residual Tranches of a broad range of CLO products. Residual Tranches will in most cases be unrated and represent the "equity" or "first loss" position of a CLO.

Typically, the Investment Manager has initiated discussions with an asset manager at an early stage of a transaction and has taken a proactive approach in recommending transaction terms or enhancements designed to provide structural flexibility for the holder of the Residual Tranches and to optimize the return of these tranches. By taking substantial positions in the Residual Tranches, the Company may influence various features within a CLO that allow it to modify CLO structures in response to changing market conditions and to effect decisions and changes to maximize the value of its investment.

Approach to Investments (continued)

The Company believes it has historically provided significant value to the securitization transactions in which it participates through the use of the Investment Manager's structuring expertise and the Company's size and position in the marketplace. In reviewing proposed structures the Investment Manager seeks to achieve:

- ***Superior economics,*** so that the structure maximizes the excess spread available to the Residual Tranche while achieving ratings stability (in particular, by targeting a high credit rating for the senior tranches relative to their interest payments). In addition, based on the size of a potential investment and the role of the Company in the CLO, the Investment Manager seeks to minimize the overall transaction fees paid in connection with the CLO issuance, thus improving the returns on the Company's investments;

- ***Credit cycle durability,*** through structural enhancements providing flexibility to withstand market dislocations and perform according to expectations across credit cycles as well as in changing market conditions;

- ***Tailored structure to minimize risk,*** so that the structures address the particular attributes of the underlying assets and allow the Company the flexibility to respond to certain risks associated with a particular asset class, as well as each individual asset manager's investment style; and

- ***Flexibility to adapt to change,*** including provisions that allow the Investment Manager to respond to short and long-term market changes that may affect the performance of the underlying assets.

Asset Class Selection

The Investment Manager currently employs a multiple asset class investment strategy. The Investment Manager selects the Company's target asset classes following an analysis of key factors affecting returns, including (i) credit spread risk premiums, (ii) economic and credit cycles and (iii) rating agency analyses. Among other things, the Investment Manager seeks exposure to those assets that have the largest portion of their credit spread attributable to risks that it believes can be hedged most effectively, such as default risk, concentration risk and currency risk, particularly through the use of structured finance vehicles such as CLOs.

As previously described, the asset class primarily represented in the Company's current portfolio consists of leveraged loans, comprised of (a) broadly syndicated senior secured loans of U.S. borrowers; (b) broadly syndicated senior secured loans of European borrowers; and (c) middle-market senior secured loans of U.S. borrowers.

The Company believes that these asset classes are generally characterized by low historical default rates and/or high recovery rates in the event of a default.

Asset Manager Selection

In selecting asset managers, the Investment Manager has sought to take advantage of the significant experience of the Company's principals in the securitization market. In conducting its preliminary assessment of an asset manager, the Investment Manager reviews certain aspects of such asset manager's business, which may include a review of the asset manager's credit research capabilities, financial strength, asset manager ratings, solvency, information systems, servicing procedures, strategy and core competencies, strengths, weaknesses, opportunities and threats analysis, the availability of backup asset managers, and, generally, its ability to administer the underlying asset portfolio and its prior dealings with the Company.

The Investment Manager has selected asset managers that it believes to be superior based on its assessment of reputation, asset class and investment track record, investment philosophy, resource commitment, personnel and infrastructure. Among other things, the Investment Manager has looked to select asset managers with a demonstrated strength in credit analysis and the management of credits on a long-term basis consistent with its buy-and-hold strategy.

The Company believes that, as a result of (among other things) the expected reduction in CLO issuance volumes in 2008, the CLO asset manager industry may face some consolidation pressures. The Company is currently selectively exploring strategic business opportunities related to this anticipated consolidation among CLO asset managers, as the Company may benefit from utilizing asset managers that would be affiliated with the Company.

Asset Diversification

The Investment Manager's current investment strategy is to diversify its exposures across underlying asset classes, industry sectors, geographies and asset managers. For risk management purposes, the Investment Manager analyzes risks and engages in hedging strategies on both a portfolio-wide basis as well as a single-name basis.

At any given time, certain geographic areas, asset types or industry sectors may provide more attractive investment opportunities than others and, as a result, the Company's investment portfolio may be concentrated in particular geographic areas, asset types or industry sectors. Due to the overlap of investments of different asset managers, there may be concentrations of individual credits from time to time.

Sensitivity Analysis and Pricing

A significant part of the process of investing in Residual Tranches is based on a detailed sensitivity analysis of expected cash flows that is carried out before investments are made. The Investment Manager conducts financial modeling prior to making an investment having regard to the fact that each of its investments is generally held until maturity or redemption and not for trading purposes.

In order to price a potential new investment, the Investment Manager undertakes sensitivity analyses and builds a financial model that attempts to simulate the performance of the underlying pool of financial assets and replicate the liability structure of the related securitization transaction, including the particular Residual Tranche in which the Master Fund is contemplating investing.

The Investment Manager also typically runs a Monte Carlo simulation in connection with an investment. Monte Carlo analysis is a simulation analysis where "random" numbers (in the case of the Investment Manager's simulation, numbers randomly sampled from historical data obtained from Moody's Investors Service) are substituted for uncertain variables in a large number of simulations, allowing the user to determine the probability of different possible outcomes. This allows the Investment Manager to determine a statistically based projected investment performance through a 10,000-path simulation capturing different historical market environments.

Typically, the price that the Master Fund is prepared to pay for an investment is that which, in the Investment Manager's opinion, results in the Investment Manager's target internal rate of return under its pricing case stress assumptions being met or exceeded. The price actually paid by the Master Fund for the expected cash flows is used to determine the expected yield on the investment, although actual performance may differ if the pricing case stress assumptions are not met.

Risk Management and Hedging

The Risk Committee of the Investment Manager, which consists of the Principals, is responsible for the risk management of the portfolio and the business. As noted above, the principal risks to which the Company is exposed are default risk, concentration risk, recovery risk, reinvestment risk and currency risk. Securitization Vehicles are primarily match-funded cash flow vehicles and thus are designed to hedge various risks such as interest rate, funding and asset price volatility. The Investment Manager engages in active and regular monitoring of the investments in the portfolio, the asset managers and the broader loan markets. The Investment Manager employs both portfolio-based and single-name hedging strategies. Every significant investment must be approved by the Investment Manager's Investment Committee. The Investment Committee, which consists of the Principals, is responsible for the investment management of the portfolio and the day-to-day operations of the business.

Buy-and-Hold Strategy

The emphasis of the Investment Manager's existing strategy for the Company has been on the rigorous selection and structuring of investment positions that are then intended to be held for returns based on cash flows to provide a stable stream of income. The Investment Manager believes a buy-and-hold strategy allows the Company to take a long-term view on the expected cash flows from a CLO or other Securitization Vehicle. Market volatility may, however, impact the fair value of a Securitization Vehicle and/ or its underlying assets. The fair value of our investments could be significantly affected by, among other things, changes in the financial rating ascribed to the underlying assets of a Securitization Vehicle by financial rating agencies (including of the kind we described in the fourth quarter of 2007 with respect to our RMBS exposure write-down). Additionally, the Investment Manager also may dispose of portfolio positions from time to time and may reallocate investments in the portfolio within and among asset classes on a discretionary basis. The Company believes the Investment Manager's strategy of taking substantial positions has made a buy-and-hold strategy more attractive, as the Investment Manager may in certain cases amend the CLO structure to adapt to changing market conditions or even call the CLO, with the goal of maximizing the returns on its investment.

Independent Valuation

The Company's administrator values the investments of the Master Fund on an ongoing basis. The NAV per Share is expected to fluctuate over time with the performance of TFG's investments. The NAV of TFG and the Master Fund and the NAV per Share are determined as at the close of business on the last business day of each fiscal quarter for purposes of calculating incentive fees. Please refer to the accompanying financial statements of TFG and the Master Fund for a detailed discussion of the Company's valuation approach.

Financing Strategy

As previously discussed, the Master Fund currently finances its positions through its prime brokerage relationship and by means of other financing arrangements. The Investment Manager determines whether, and to what extent, to leverage the Company's investments based on the leverage embedded in each Residual Tranche of a Securitization Vehicle, the cash flow profile of each investment, the diversification of the overall investment portfolio, the availability of financing on attractive terms and other factors which the Investment Manager may consider appropriate.

Dividend Policy and Share Repurchases

Subject to having sufficient profits available, TFG is currently targeting a dividend payout in the range of 30% to 50% per annum of the net increase in net assets resulting from operations in quarterly installments. These are targeted dividend levels and are not forecasts or binding commitments. The Board of Directors will have the authority to declare dividend payments, based upon the recommendation of the Investment Manager, and subject to the approval of the voting shares of TFG. TFG has and may continue to also pay scrip dividends currently conducted through an optional dividend reinvestment program. If the Board of Directors declares a cash dividend payable by TFG, they will also (in their capacity as directors of the Master Fund) declare an equal dividend per share payable concurrently by the Master Fund to TFG and TFGLP. TFG has and may also continue to engage in share repurchases in the market from time to time. Such purchases may at appropriate price levels below NAV represent an attractive use of TFG's excess cash and an efficient means to return cash to Shareholders. Any decision to engage in market purchases will be made by the Board of Directors upon consideration of the recommendation of the Investment Manager, as well as all other relevant factors, and will be subject to, among other things, the availability of distributable profits at the time.

Reporting

In accordance with applicable regulations under Dutch law, TFG publishes monthly statements on its website for the benefit of its investors containing the following information:

- the total value of the investments of the Master Fund;
- a general statement of the composition of the investments of the Master Fund; and
- the number of outstanding shares of TFG.

In addition, in accordance with the requirements of Euronext Amsterdam N.V. and applicable regulations under Dutch law, TFG provides annual and semi-annual reports to its Shareholders, including year-end financial statements, which in the case of the financial statements provided in its annual reports, will be reported in accordance with U.S. GAAP and audited in accordance with international auditing standards. On the basis of Section 4:51(5) of the FMSA, the AFM has granted TFG a dispensation from the requirement of Section 4:51(3) of the FMSA to prepare its financial reporting in accordance with accounting principles generally accepted in the Netherlands or IFRS. The NAV of TFG is available to investors on a monthly basis on the Company's website at www.tetragoninv.com.

Risk Factors

An investment in TFG involves substantial risks and uncertainties. Investors may review a more detailed description of these risks and uncertainties and others to which the Company is subject on the Company's website at www.tetragoninv.com. These risks and uncertainties include, among others, those listed below.

- Many of the Company's investments are in the form of highly subordinated securities, which are susceptible to losses of up to 100% of the initial investments, including losses resulting from changes in the financial rating ascribed to, or changes in the fair value of, the underlying assets of an investment. CLO vehicles generally invest in fixed income securities rated lower than Baa by Moody's or lower than BBB by S&P (or, if not rated, of comparable quality) and may be regarded as predominantly speculative with respect to the issuer's continuing ability to meet principal and interest payments. Moreover, ratings downgrades can have a significant adverse effect on the carrying value of our assets, as we experienced in October 2007.

- Defaults and resulting losses on underlying assets (including bank loans) may have a negative impact on the value of the Company's portfolio and cash flows received. In addition, bank loans may require substantial workout negotiations or restructuring in the event of a default or liquidation which could result in a substantial reduction in the interest rate and/or principal.

- Bank loans are generally subject to liquidity risks and, consequently, there may be limited liquidity if a Securitization Vehicle is required to sell or otherwise dispose of such bank loans.

- Many of the Company's investments in securitization vehicles are and will be illiquid and have values that are susceptible to changes in the ratings and market values of such vehicles' underlying assets, which may make it difficult for the Company to sell such holdings.

- In the event the Master Fund's interest expense were to increase relative to income, or sufficient financing was unavailable to the Master Fund, the Company's return on investments and cash available for distribution to TFG shareholders would be reduced.

- The Company's organizational, ownership and investment structure may create significant conflicts of interest that may be resolved in a manner which is not always in the best interests of the Company or the shareholders of TFG.

- Shares of TFG do not carry any voting rights other than limited voting rights in respect of variation of their class rights. The holder of the voting shares of TFG will be able to control the composition of the Board of Directors and exercise extensive influence over TFG's and the Master Fund's business and affairs.

Risk Factors (continued)

- The performance of many of the Company's investments may depend to a significant extent upon the performance of its asset managers.

- The Company is subject to concentration risk in its investment portfolio, which may increase the risk of an investment in TFG.

- TFG's principal source of cash will be the investments that it makes through the Master Fund. TFG's ability to pay dividends will depend on it receiving distributions from the Master Fund.

- The ability of Securitization Vehicles in which the Company invests to sell assets and reinvest the proceeds may be restricted, which may reduce the yield from the Company's investment in those Securitization Vehicles.

- The shares of TFG may continue to trade below NAV.

- TFG and the Master Fund have approved a very broad investment objective and the Investment Manager will have substantial discretion when making investment decisions. In addition, the Investment Manager's strategies may not achieve the Company's investment objective.

- Shareholders will not be able to terminate the Company's investment management agreement.

- The Company will be reliant on the skill and judgment of the Investment Manager in valuing and determining an appropriate purchase price for its investments.

- If the Company's relationship with the Investment Manager and its principals were to end or such principals or other key professionals were to depart, it could have a material adverse effect on the Company.

- The Investment Manager's compensation structure may encourage the Investment Manager to invest in high risk investments.

- The liability of the Investment Manager to the Company is limited and the Company's indemnity of the Investment Manager may lead the Investment Manager to assume greater risks when making investment related decisions than it otherwise would.

The foregoing is not a comprehensive list of the risks and uncertainties to which the Company is subject.

Board of Directors

Paddy Dear	**Reade Griffith**	**Byron Knief***	**David Wishnow**
Rupert Dorey*	**David Jeffreys***	**Lee Olesky***	

*Independent Director

Shareholder Information

Registered Office of TFG and the Master Fund
Tetragon Financial Group Limited
Tetragon Financial Group Master Fund Limited
Dorey Court
Admiral Park
St. Peter Port, Guernsey
Channel Islands GY1 3BG

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United States of America

Investor Relations
Heather Lockhart/Yuko Thomas
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St. Peter Port
Guernsey, Channel Islands
GY1 4AN

Reporting Accountants
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London
EC4Y 8BB
United Kingdom

Administrator and Registrar
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Guernsey, Channel Islands

Sub-Registrar and Transfer Agent
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One Wall Street
New York, NY 10286
United States of America

Issuing Agent, Dutch Paying and Transfer Agent
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Stock Listing
EuroNext Amsterdam

TETRAGON

WWW.TETRAGONINV.COM

AUDITED FINANCIAL STATEMENTS

<u>TETRAGON FINANCIAL GROUP LIMITED</u>

(FORMERLY KNOWN AS TETRAGON CREDIT INCOME FUND LIMITED)

FOR THE YEAR ENDED 31 DECEMBER 2007

TETRAGON FINANCIAL GROUP LIMITED

AUDITED FINANCIAL STATEMENTS
For the year ended 31 December 2007

CONTENTS

	PAGE
DIRECTORS' REPORT	2
INDEPENDENT AUDITORS' REPORT	5
STATEMENTS OF ASSETS AND LIABILITIES	7
STATEMENTS OF OPERATIONS	8
STATEMENTS OF CHANGES IN NET ASSETS	10
STATEMENTS OF CASH FLOWS	11
NOTES TO THE FINANCIAL STATEMENTS	12
FINANCIAL HIGHLIGHTS	23
SCHEDULE OF INVESTMENTS	25

TETRAGON FINANCIAL GROUP LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2007

The Directors present to the shareholders their report together with the audited financial statements for the year ended 31 December 2007.

THE COMPANY

Tetragon Financial Group Limited (the "Company") was registered in Guernsey on 23 June 2005 under the provisions of The Companies (Guernsey) Law, 1994, as amended, as a company limited by shares, with registered number 43321. All voting shares of the Company are held by Polygon Credit Holdings II Limited (the "Voting Shareholder"). The Company changed its name from Tetragon Credit Income Fund Limited to Tetragon Financial Group Limited on March 30, 2007. In addition, on 22 March 2007 the shareholders of the Fund passed a resolution, amending its articles of association to modify, among other things, its capital structure. Such amendment to the Company's articles of association converted the Company into a closed-ended fund by eliminating redemption rights of investors. The Company continues to be registered and domiciled in Guernsey.

INVESTMENT OBJECTIVE

The Company's investment objective is to generate distributable income and capital appreciation by investing substantially all of its assets in Tetragon Financial Group Master Fund Limited (the "Master Fund"). To achieve this investment objective, and to aim to provide stable returns to investors across various interest rate and credit cycles, the Master Fund's Investment Manager seeks to identify asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favourable transaction terms for vehicles in which the Master Fund invests. As part of this current investment strategy, the Master Fund employs hedging strategies and moderate leverage in seeking to provide attractive returns from the portfolio while managing risk.

RESULTS, ACTIVITIES AND FUTURE DEVELOPMENTS

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

DIRECTORS

The Directors who held office during the year were:

Patrick Dear
Rupert Dorey*
Reade Griffith (appointed 26 April 2007)
David Jeffreys*
Byron Knief*
Lee Olesky *
David Wishnow

* independent non-executive directors

TETRAGON FINANCIAL GROUP LIMITED

DIRECTORS' REPORT (continued)
For the year ended 31 December 2007

DIRECTORS (continued)

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. Initially, the Directors' annual fee shall be $50,000, in compensation for service on the Boards of Directors of both the Company and the Master Fund. The Master Fund will pay the Directors' fees. The Polygon Directors have waived their entitlement to a fee.

The Directors are entitled to be repaid by the Company for all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Company or the Master Fund providing for benefits upon termination of employment.

SECRETARY

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

DIVIDENDS

The Directors currently target a dividend payout in the range of 30% to 50% per annum of net increase in net assets resulting from operations in quarterly instalments. These are target dividend levels and are not forecasts or binding commitments. The Company is not obligated to pay dividends at this level or at all. The Board of Directors will have the authority to declare dividend payments, based upon the recommendation of the Investment Manager and subject to the approval of the Voting Shares. The Directors recommended the payment of a dividend amounting to US$0.15 per share for the quarter ended 30 June 2007 and of US$0.15 for the quarter ended 30 September 2007. The Directors have proposed a dividend of US$0.15 for the quarter ended 31 December 2007. No dividends were paid during the year ended 31 December 2006.

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 Company and of the net increase or decrease in net assets from operations of the Company for that year 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 Company will continue in business.

DIRECTORS' RESPONSIBILITIES (continued)

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 Company and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 1994, as amended, the requirements of NYSE Euronext and the applicable regulations under Dutch law. They are also responsible for safeguarding the assets of the Company 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 Company 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.

Signed on behalf of the Board of Directors by:

Rupert Dorey, *Director*
David Jeffreys, *Director*

Date: 27 February 2008

TETRAGON FINANCIAL GROUP LIMITED

INDEPENDENT AUDITORS' REPORT
For the year ended 31 December 2007

Independent auditors' report to the members of Tetragon Financial Group Limited (formerly Tetragon Credit Income Fund Limited)

We have audited the company's financial statements (the "financial statements") of Tetragon Financial Group Limited (formerly Tetragon Credit Income Fund Limited) for the year ended 31 December 2007 which comprise the Statements of Assets and Liabilities, The Statements of Operations, the Statements of Changes in Net Assets, the Statements of Cash Flows and the related notes on pages 12 to 22. 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, as amended. 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 pages 3 to 4.

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, as amended, 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 FINANCIAL GROUP LIMITED

INDEPENDENT AUDITORS' REPORT (continued)
For the year ended 31 December 2007

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 2007 and of its result for the year ended 31 December 2007; and

- have been properly prepared in accordance with The Companies (Guernsey) Law, 1994, as amended, and the principal documents

KPMG Channel Islands Limited
Chartered Accountants

Guernsey

Date: 27 February 2008

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF ASSETS AND LIABILITIES
as at 31 December 2007

	Note	31 Dec 2007	31 Dec 2006
		US$	US$
Assets			
Cash and cash equivalents		-	269
Investment in Master Fund	3	1,188,220,992	490,175,214
Amounts receivable from Master Fund		416,429	-
Total assets		1,188,637,421	490,175,483
Liabilities			
Accrued audit fees		-	12,600
Accrued directors' fees		-	14,701
Accrued custodian fees		-	8,463
Accrued incentive fee	4	-	5,600,924
Equalization credit	6	-	7,579,271
Amounts payable on treasury shares	7	416,429	-
Total liabilities		416,429	13,215,959
Net assets		1,188,220,992	476,959,524
Equity			
Share capital	7	118,455	4,035
Share premium	8	1,104,465,395	452,612,694
Capital reserve in respect of share options	9	11,789,336	-
Earnings	12	71,847,806	24,342,795
		1,188,220,992	476,959,524
Shares outstanding		Number	Number
Class A	7	-	3,501,654
Class B	7	-	10,473
Class C	7	-	522,374
Participating shares	7	118,455,430	-
Net asset value per share			
Class A		-	US$117.84
Class B		-	US$122.53
Class C		-	US$120.67
Participating shares		US$10.03	-

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

Signed on behalf of the Board of Directors by:
Rupert Dorey, *Director*
David Jeffreys, *Director*

27 February 2008

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF OPERATIONS
For the year ended 31 December 2007

	Note	Year ended 31 Dec 2007 US$	Year ended 31 Dec 2006 US$
Direct investment income			
Interest income		1,366	5,641
Direct investment income		1,366	5,641
Investment income allocated from the Master			
Interest income		177,472,739	39,196,748
Investment income allocated from the Master		177,472,739	39,196,748
Total investment income		177,474,105	39,202,389
Direct expenses			
Management fees	9	(4,046,952)	(3,272,863)
Incentive fee	4	(16,141,014)	(5,600,924)
Custodian fees		(38,878)	(45,134)
Audit fees		(7,093)	(12,600)
Directors' fees	9	(19,552)	(56,213)
Other operating expenses	5	(7,201)	(3,322)
Direct expenses		(20,260,690)	(8,991,056)
Operating expenses allocated from the Master			
Management fees		(10,670,903)	(796,943)
Administration fees		(512,723)	(301,802)
Custodian fees		(1,863)	-
Legal and professional fees		(420,895)	(117,089)
Audit fees		(233,706)	(86,374)
Directors' fees	9	(134,040)	(39,609)
Transfer agent fees		(97,587)	-
Other operating expenses	5	(404,245)	(32,806)
Interest expense		(17,822,315)	(4,896,718)
Operating expenses allocated from the Master		(30,298,277)	(6,271,341)
Total operating expenses		(50,558,967)	(15,262,397)
Net investment income		126,915,138	23,939,992

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF OPERATIONS (continued)
For the year ended 31 December 2007

	Note	Year ended 31 Dec 2007	Year ended 31 Dec 2006
Net realized and unrealized gain / (loss) from investments and foreign currencies allocated from the Master Fund		**US$**	**US$**
Net realized gain / (loss) from:			
Investments		(57,346,711)	-
Foreign currency transactions		(19,936,557)	(865,113)
Credit default swaps		(4,855,858)	(262,318)
		(82,139,126)	(1,127,431)
Net increase / (decrease) in unrealized appreciation / (depreciation) on:			
Investments		3,073,038	(15,057)
Forward foreign exchange contracts		464,270	(1,730,924)
Credit default swaps		9,351,191	(1,036,477)
Translation of assets and liabilities in foreign currencies		23,263,449	3,774,233
		36,151,948	991,775
Net realized and unrealized gain / (loss) from investments and foreign currencies allocated from the Master Fund		(45,987,178)	(135,656)
Net increase in net assets resulting from operations		80,927,960	23,804,336
Earnings per Share			
Basic	11	0.48	-
Diluted	11	0.48	-
Weighted average Shares outstanding		**Number**	**Number**
Basic	11	112,945,594	-
Diluted	11	112,945,594	-

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

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF CHANGES IN NET ASSETS
For the year ended 31 December 2007

	Year ended 31 Dec 2007 US$	Year ended 31 Dec 2006 US$
Total investment income	177,474,105	39,202,389
Total operating expenses	(50,558,967)	(15,262,397)
Net realized gain / (loss) from investments and foreign currencies allocated from the Master Fund	(82,139,126)	(1,127,431)
Net unrealized gain / (loss) from investments and foreign currencies allocated from the Master Fund	36,151,948	991,775
Net increase in net assets resulting from operations	80,927,960	23,804,336
Dividends paid to shareholders	(33,422,949)	-
Issue of redeemable preference shares during the period	331,904,271	422,397,027
Issue of shares through global offering	300,000,000	-
Issue of shares*	140,715,240	-
Redemptions of redeemable preference shares	(90,204,825)	-
Treasury shares	(2,167,664)	-
Global offering costs	(16,490,565)	-
Increase in net assets resulting from net share transactions	663,756,457	422,397,027
Total increase / (decrease) in net assets	711,261,468	446,201,363
Net assets at start of year	476,959,524	30,758,161
Net assets at end of year	1,188,220,992	476,959,524

*Issue of shares include Shares issued under the Exchange Agreement and the Dividend Reinvestment Plan as detailed in Note 7.

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

TETRAGON FINANCIAL GROUP LIMITED

STATEMENTS OF CASH FLOWS
For the year ended 31 December 2007

	Year ended 31 Dec 2007	Year ended 31 Dec 2006
	US$	US$
Operating and investing activities		
Net increase in net assets resulting from operations	80,927,960	23,804,336
Adjustments for:		
Net unrealized appreciation on investments in Master Fund	(41,192,198)	(32,789,751)
Operating cash flows before movements in working capital	39,735,762	(8,985,415)
Increase in receivables	(416,429)	-
(Decrease) / Increase in accrued expenses	(5,636,688)	5,400,625
Cash flows from operations	33,682,645	(3,584,790)
Net purchase of investments	(656,853,580)	(426,360,941)
Cash outflows from operating and investing activities	(623,170,935)	(429,945,731)
Financing activities		
Issue of redeemable preference shares during the period	331,904,271	422,397,027
Issue of shares through global offering	300,000,000	-
Issue of shares	133,252,892	-
Redemptions of redeemable preference shares	(90,204,825)	-
Treasury shares	(1,751,235)	-
(Decrease) / Increase in equalization credit payable	(7,579,271)	7,548,973
Global offering costs	(16,490,565)	-
Dividends paid to shareholders	(25,960,601)	-
Cash inflows from financing activities	623,170,666	429,946,000
Net (decrease) / increase in cash and cash equivalents	(269)	269
Cash and cash equivalents at beginning of year	269	-
Cash and cash equivalents at end of year	-	269

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

TETRAGON FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2007

Note 1 General Information

Tetragon Financial Group Limited (the "Company") was registered in Guernsey on 23 June 2005 as a company limited by shares under the provisions of The Companies (Guernsey) Law, 1994, as amended, with registered number 43321. All voting shares of the Company are held by Polygon Credit Holdings II Limited (the "Voting Shareholder").

The registered office of the Company is Dorey Court, Admiral Park, St. Peter Port, Guernsey, Channel Islands, GY1 3BG.

On 30 March 2007 the Company changed its name from Tetragon Credit Income Fund Limited to Tetragon Financial Group Limited.

Following the global offering, the Company's shares were listed on the Euronext Amsterdam stock exchange on 19 April 2007, with shares being paid for and delivered on 26 April 2007. In all cases the post global offering structure is assumed to commence on settlement date.

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

The Company's investment objective is to generate distributable income and capital appreciation by investing substantially all of its assets in the Master Fund. To achieve this investment objective, and to aim to provide stable returns to investors across various interest rate and credit cycles, the Master Fund's Investment Manager seeks to identify asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favourable transaction terms for vehicles in which the Master Fund invests. As part of this current investment strategy, the Master Fund employs hedging strategies and moderate leverage in seeking to provide attractive returns from the portfolio while managing risk.

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 ("US GAAP").

The Company's investment in the Master Fund is valued based on the accounting net asset value per share obtained from the Master Fund's administrator, which is the Company's proportionate interest in the net assets of the Master Fund. The performance of the Company is directly affected by the performance of the Master Fund. The Company's Statements of Operations includes its pro-rata share of each type of gain, loss, income and expense of the Master Fund's Statements 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 2007, the Company had 94% (2006: 81%) ownership interest in the Master Fund.

Note 2 Significant Accounting Policies (continued)

Basis of Presentation (continued)

For financial statement reporting purposes, Tetragon Financial Group Fund Limited is an investment company and follows the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies (the "Guide").

The accounting policies have been consistently applied by the Company during the year ended 31 December 2007 and are consistent with those used in the previous period. The financial statements are presented in United States Dollars.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes, including the valuation of investments. The Company's management believes that the estimates utilized in preparing the financial statements are reasonable and prudent; however, actual results could differ materially from these estimates.

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 Statements of Operations on an accrual basis.

Taxation

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

The Company adopted FIN 48 as issued by the Financial Accounting Standards Board ("FASB"). 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. The adoption of FIN 48 did not have an impact on the Fund's financial statements.

Capital expenses

The preliminary expenses of the Company directly attributable to the global offering are charged to the share premium account and include payments made to regulatory bodies and exchanges.

Note 2 Significant Accounting Policies (continued)

Capital expenses (continued)

Share options granted to the Investment Manager are treated as a capital expense on the basis that they are granted by the Company as a fee for the Investment Manager's work in successfully arranging the global offering and the associated issuance of new capital for the Company. The fair value of such options is charged to the share premium account. The share premium account is credited with the fair value of such options at the time that such options are vested.

Share Options

The fair value of options granted to the investment manager is recognised as a charge to the share premium account, with a corresponding increase in equity, over the period in which the investment manager becomes unconditionally entitled to the options. The options were fully vested and immediately exercisable from the date of the grant and will remain exercisable until the tenth anniversary of admission and listing.

Dividends payable

Dividends payable on shares are recognised in the Statements of Changes in Net Assets.

Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

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 2007 the Company had an investment of US$1,188,220,992 (2006: US$490,175,214) in the Master Fund with a cost of US$1,113,464,521 (2006: US$456,610,941).

Note 4 Incentive fee

Following the global offering, the Company pays the Investment Manager an incentive fee for each Calculation Period (a period of three months ending on 31 March, 30 June, 30 September and 31 December in each year) equal to 25% of the increase in the Net Asset Value of the Company during the Calculation Period (before deduction of any dividend paid during such Calculation Period) above the Reference Net Asset Value (as defined below) plus a Hurdle.

The Hurdle for current calculation periods ending prior to 25 April 2008 will equal (i) the Reference NAV multiplied by (ii) the Hurdle Rate, where the Hurdle Rate is equal to 8% per annum multiplied by the actual number of days in the calculation period divided by 365. For calculation periods ending after 26 April 2008 the Hurdle Rate will be determined by 3-month USD LIBOR determined as of 11:00 a.m. London time on the first London business day of the then current Calculation Period, plus the Hurdle Spread of 2.647858%.

The “Reference NAV” is the greater of (i) NAV at the end of the Calculation Period immediately preceding the current Calculation Period and (ii) the NAV as of the end of the Calculation Period immediately preceding the Calculation Period referred to in clause (i). For the purpose of determining Reference NAV at the end of a Calculation Period, NAV shall be adjusted by amount of accrued dividends, incentive fees to be paid and other relevant capital adjustments with respect to that calculation period.

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.

If the Investment Management Agreement is terminated other than at the end of a Calculation Period, the date of termination will be deemed to be the end of the Calculation Period.

The Incentive Fee for the year ended 31 December 2007 was US$16,141,014 (31 December 2006: US$5,600,924). As at 31 December 2007 US$nil was outstanding (31 December 2006: US$5,600,924).

Note 5 Other operating expenses

Other operating expenses include certain regulatory and marketing payments.

Note 6 Equalization credit

Prior to the global offering, Equalization Credits were generated on share purchases when the net asset value per share was greater than the High Watermark. Immediately following the end of each fiscal year, and at the time of the global offering, the remaining Equalization Credits were applied to purchase additional shares for the respective shareholder. After the closing of the global offering, Equalization is no longer generated on share purchases or issuance. As of 31 December 2007, the Equalization Credit payable was US$nil (31 December 2006: US$7,579,271).

Note 7 Share Capital

During the period the shareholders of the Company passed a resolution amending its articles of association to modify, among other things, its capital structure. Prior to this resolution the Fund had an authorized share capital of 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 were available for issue either as Class A, Class B, Class C or Nominal Shares.

10 Founder Shares in issue were issued at par and were beneficially owned by the Principal Manager. The issued Class A, Class B and Class C (redeemable preference shares) shares were equal to the net assets of the Company, when it was an open ended investment company.

Authorized

After the change in the capital structure the Company has an authorized share capital of $1,000,000 divided into 10 Voting Shares, having a par value of $0.001 each and 999,999,990 non-voting shares (which are the "Shares" referred to herein), having a par value of $0.001 each. Shares are issuable either as certificated shares or uncertificated shares, and in both cases as registered shares. Shares are only transferable pursuant to regulations that the Directors may adopt in their discretion.

Voting Shares

The 10 Voting Shares in issue were issued at par and are owned by Polygon Credit Holdings II Limited (the "Voting Shareholder"), which is a non-U.S. affiliate of the Investment Manager. The Voting Shares are the only shares of the Company entitled to vote for the election of Directors and on all other matters put to a vote of Shareholders, subject to the limited rights of the Shares described below. The Voting Shares are not entitled to receive dividends.

Shares

The Shares are not entitled to vote on any matter. The Shares carry a right to any dividends or other distributions declared by the Company.

The Directors, upon the recommendation of the Investment Manager and with prior approval of a resolution of Voting Shares, may allot, issue or otherwise dispose of Shares to such persons, at such times, for such consideration and on such terms and conditions as they deem necessary or desirable. There are no pre-emption rights attaching to any Shares. The Directors, upon the recommendation of the Investment Manager, may grant options over the Shares. The Company may repurchase Shares and hold Shares as Treasury Shares.

Note 7 Share Capital (continued)

Share transactions

	Voting Shares No.
At start or period	-
Issued	10
Redeemed	-
Shares in issue at 31 December 2007	10

	Class A No.	Class B No.	Class C No.	Shares No.	Shares US$
Shares in issue at 31 December 2005	298,485	2,500	-	-	-
Issued	3,203,169	7,973	522,374	-	-
Redeemed	-	-	-	-	-
Shares in issue at 31 December 2006	3,501,654	10,473	522,374	-	-
Issued	1,905,763	21,873	628,582	44,126,080	44,126
Redeemed	(551,737)	-	-	-	
Treasury shares	-	-	-	(311,895)	(312)
Converted	(4,855,680)	(32,346)	(1,150,956)	74,641,245	74,641
Shares in issue at 31 December 2007	-	-	-	118,455,430	118,455

Exchange Agreement

On 26 April 2007 the Company entered into an irrevocable Exchange Agreement with Tetragon Financial Group LP (the "US Feeder"). The Exchange Agreement provides that at the request of a holder of interests in the US Feeder ("Partner"), the Company will acquire the US Feeder's associated holding of Master Fund units in exchange for its non-voting shares or cash equal to the fair value on the date of request. A Partner may request to make an exchange at any time. Exchanges are not subject to any conditions other than delivery of appropriate requested documentation. A total of US$133,252,892 has been exchanged under this agreement. As at December 31 2007 there were 7,598,177 conversion rights outstanding. Conversion does not have a dilutive impact on existing shareholders.

Note 7 Share Capital (continued)

Dividend Reinvestment

The Company has a dividend reinvestment plan which offers investors an opportunity to purchase additional shares at a reference price determined by calculating the five-day weighted average price post ex-div date.

A total dividend of US $33,422,949 was declared, of which US$25,960,601 was paid out as a cash dividend, and the remaining US $7,462,348 reinvested under the Company Dividend Reinvestment Plan.

Treasury Shares

On 30 November 2007, the Company announced the implementation of a share repurchase program of up to 5% of its outstanding non-voting shares over the following 12 months. The Company will purchase its shares in the open market which will then be held in a Treasury Account allowing them to be resold in the market at a later date. Whilst they are held in the Treasury Account the shares are neither eligible to receive dividends nor are they included in the shares outstanding on the Statements of Assets and Liabilities.

Note 8 Share Premium

	31 Dec 2007 US$	31 Dec 2006 US$
Balance at start of year	452,612,694	30,219,404
Premium arising from net issue of Shares	668,343,266	422,393,290
Expenses of issue of Shares	(16,490,565)	-
Balance at end of year	1,104,465,395	452,612,694

Note 9 Related party transactions

The Company has appointed Polygon Credit Management LP, a Delaware limited partnership (the "Investment Manager"), to manage the Company's investment programmes. The investment activities of the Investment Manager are subject to the overall supervision, control and policies of the Directors.

For the period to 25 April 2007 the management fee was charged directly to the Company. The Principal Manager was 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. After the closing of the global offering on 25 April 2007, the Investment Manager is entitled to receive management fees equal to 1.5% per annum of the Net Asset Value of the Company. The expense for this period was US$4,046,952 (year ended 31 December 2006: US$3,272,863).

Note 9 Related party transactions (continued)

The management fee is charged to the Master Fund and allocated pro rata between the Company and Tetragon Financial Group LP (the "U.S. Feeder"), based on the Company's and the U.S. Feeder's ownership of the Master Fund.

From 1 January 2006 to 25 April 2007 expenses which relate wholly and specifically to the individual Feeders were charged to the Feeder to which they relate. These include custodian, directors', audit, and other legal and regulatory fees.

After the closing of the global offering, all fees and expenses of the Company, except for the incentive fees for the Investment Manager, are paid by the Master Fund and allocated pro rata between the Company and the U.S. Feeder, based on the Company's and the U.S. Feeder's percentage ownership of the Master Fund, including management fees and administration fees of each of the Company and the U.S. Feeder. An incentive fee may be paid to the Investment Manager as disclosed in Note 4.

The Company invests substantially all of its assets in Tetragon Financial Group Master Fund Limited, a Guernsey based closed-ended investment company which has the same Investment Manager as the Company.

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. Initially, the Directors' annual fee shall be $50,000, in compensation for service on the Boards of Directors of both the Company and the Master Fund. The Master Fund will pay the Directors' fees. The Polygon Directors have waived their entitlement to a fee. The Directors are entitled to be repaid by the Company all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Company or the Master Fund providing for benefits upon termination of employment. The expense for the year was US$153,592 (2006: US$95,822)

Polygon Credit Holdings II Limited (the "Voting Shareholder") is an affiliate of Polygon and the Investment Manager and holds all of the Voting Shares. As a result of its ownership and the degree of control that it exercises, the Voting Shareholder will be able to control the appointment and removal of the Company's Directors. Affiliates of Polygon also control the Investment Manager and, accordingly, control the Company's business and affairs.

In recognition of the work performed by the Investment Manager in successfully arranging the global offering and the associated raising of new capital for the Company, the Company granted to Polygon Credit Management L.P. options to purchase 12,545,330 of the Company's non-voting shares at an exercise price per share equal to the Offer Price (US$10). The Investment Management Options are fully vested and immediately exercisable on the date of admission to the Euronext Amsterdam stock exchange and will remain exercisable until the 10th anniversary of that date. The aggregate fair value of the options granted at the time of the global offering was US$11,789,336. The fair value of each options granted during 2007 was US$0.94 on the date of grant using the Binomial-pricing model with the following average assumptions: expected dividend yield 8%, risk-free interest rate of 5.306%, an expected life of 5 years and a volatility of 17.5%.

Note 9 Related party transactions (continued)

David Wishnow, Lee Olesky, Byron Knief, and Paddy Dear, all Directors of the Company and Master Fund, were shareholders in the Company as at 31 December 2007, with holding of 31,331, 52,067, 76,700, and 269,325 shares, respectively. Paddy Dear was also a shareholder in the Company as at 31 December 2006.

The Company has entered into an irrevocable Exchange Agreement with the US Feeder as detailed in Note 7.

Note 10 Dividends

	31 Dec 2007 **US$**
Dividend for the period ended 30 June 2007 of US$0.15 per share	15,696,187
Dividend for the quarter ended 30 September 2007 of US$0.15 per share	17,726,762
	33,422,949
Proposed dividend for the quarter ended 31 December 2007 of US$0.15 per share	17,768,315

The fourth quarter dividend was proposed by directors on 27 February 2008 and has not been included as a liability in these financial statements.

Note 11 Earnings per share

	31 Dec 2007 **US$**
The calculation of the basic and diluted earnings per share is based on the following data:	
Earnings for the purposes of basic earnings per share being net profit attributable to shareholders shareholders for the period from the closing of the global offering on 25 April 2007	54,059,046
Weighted average number of Shares for the purposes of basic earnings per share	112,945,594
Effect of dilutive potential Shares:	
Share options	-
Weighted average number of Shares for the purposes of diluted earnings per share	112,945,594

Note 12 Earnings

	31 Dec 2007 US$	31 Dec 2006 US$
Balance at start of year	24,342,795	538,459
Net increase in net assets resulting from operations for the period	80,927,960	23,804,336
Dividends paid	(33,422,949)	-
Balance at end of year	71,847,806	24,342,795

Note 13 Change of Name

On 30 March 2007 the Company changed its name from Tetragon Credit Income Fund Limited to Tetragon Financial Group Limited.

Note 14 Recent changes to US GAAP

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115* (Statement 159). Statement 159 gives the Company the irrevocable option to carry most financial assets and liabilities at fair value that are not currently required to be measured at fair value. If the fair value option is elected, changes in fair value would be recorded in earnings at each subsequent reporting date. SFAS 159 is effective for the Company's 2008 fiscal year.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurement* (Statement 157). Statement 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The Statement does not require any new fair value measures. The Statement is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. The Company is required to adopt Statement 157 beginning on January 1, 2008. Statement 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening retained earnings in the year of adoption. In November 2007, the FASB proposed a one-year deferral of Statement 157's fair-value measurement requirements for non financial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. Disclosures required for the financial statements are currently under review by the Investment Manager.

Note 14 Recent changes to US GAAP (continued)

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.

In February 2008, the FASB Staff Position indefinitely delayed the effective date of SOP 71, which defines "Investment Company" for purposes of applying the industry-specific accounting in an AICPA guide. Companies that adopted SOP 71 prior to its effective date (December 15, 2007) may continue to apply it or rescind their adoption. Companies that did not adopt SOP 71 before December 15, 2007 may not do so. However, a subsidiary formed or acquired after the parent's adoption of the SOP must apply the SOP in its standalone financial statements if the parent company chooses not to rescind its early adoption. Companies that choose to rescind their adoption of the SOP must account for the change retrospectively in accordance with Statement 154. The Company did not early adopt SOP 71 so their will be no impact to the Company's financial statements.

Note 15 Approval of financial statements

The Directors approved the financial statements on 27 February 2008.

TETRAGON FINANCIAL GROUP LIMITED

FINANCIAL HIGHLIGHTS
For the year ended 31 December 2007

The following represents selected per share operating performance of the Company, ratios to average net assets and total return information for the year ended 31 December 2007.

31 December 2007	Shares*	Class A**	Class B**	Class C**
	US$	US$	US$	US$
Per share operating performance				
Net asset value at start of year / initial issue date	9.84	117.84	122.53	120.67
Net investment income (excl performance fee)	1.00	6.23	6.53	6.81
Performance fee	(0.09)	(1.17)	-	(1.00)
Net realized and unrealized gain / (loss) from investments and foreign	(0.41)	(0.18)	(0.22)	(0.22)
Dividends paid to shareholders	(0.31)	-	-	-
Net asset value at the end of the period	10.03	122.72	128.84	126.26
Return (NAV change excluding dividends) before performance fee	2.88%	5.12%	5.15%	5.46%
Performance fee	(0.94%)	(0.98%)	-	(0.83%)
Return (NAV change excluding dividends) after performance fee	1.94%	4.14%	5.15%	4.63%
Ratios and supplemental data				
Ratio to average net assets:				
Direct operating expenses (see Note 9)	-	(0.64%)	(0.64%)	(0.48%)
Operating expenses allocated from the Master Fund (see Note 9)	(2.27%)	(0.66%)	(0.58%)	(0.55%)
Total operating expenses	(2.27%)	(1.30%)	(1.22%)	(1.03%)
Performance fee	(0.88%)	(0.97%)	-	(0.64%)
Net investment income	8.70%	4.26%	4.52%	3.73%

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

* This share class came into existence as a result of the public offering. The performance shown is for the period from 26 April 2007 to 31 December 2007.

** Class A, Class B and Class C shares were converted into Shares at the date of the global offering. The performance shown is for the period from 1 January 2007 to 25 April 2007.

TETRAGON FINANCIAL GROUP LIMITED

FINANCIAL HIGHLIGHTS (continued)
For the year ended 31 December 2006

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.

31 December 2006	**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 (excl performance fee)	19.68	19.54	8.79
Performance fee	(3.93)	-	(1.10)
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 9)	(1.82%)	(1.28%)	(0.77%)
Operating expenses allocated from the Master Fund (see Note 9)	(3.32%)	(3.32%)	(1.58%)
Total operating expenses	(5.14%)	(4.6%)	(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 FINANCIAL GROUP LIMITED

SCHEDULE OF INVESTMENTS
For the year ended 31 December 2007

Security Description	Nominal /Shares	Cost	Fair Value	% of Net Assets
		US$	US$	
Investment Funds - Guernsey				
Tetragon Financial Group Master Fund Limited – shares	118,455,430	1,113,464,521	1,188,220,992	100.00%
Total Investments			1,188,220,992	100.00%
Other Assets and Liabilities			-	-
Net Assets			1,188,220,992	100.00%

TETRAGON FINANCIAL GROUP LIMITED

SCHEDULE OF INVESTMENTS (continued)
For the year ended 31 December 2006

Security Description	Nominal /Shares	Cost US$	Fair Value US$	% of Net Assets
Investment Funds - Guernsey				
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%

AUDITED FINANCIAL STATEMENTS

<u>TETRAGON FINANCIAL GROUP MASTER FUND LIMITED</u>

(FORMERLY KNOWN AS TETRAGON CREDIT INCOME MASTER FUND LIMITED)

FOR THE YEAR ENDED 31 DECEMBER 2007

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

AUDITED FINANCIAL STATEMENTS
For the year ended 31 December 2007

CONTENTS

	PAGE
DIRECTORS' REPORT	2
INDEPENDENT AUDITORS' REPORT	5
STATEMENTS OF ASSETS AND LIABILITIES	7
STATEMENTS OF OPERATIONS	8
STATEMENTS OF CHANGES IN NET ASSETS	9
STATEMENTS OF CASH FLOWS	10
NOTES TO THE FINANCIAL STATEMENTS	11
FINANCIAL HIGHLIGHTS	27
SCHEDULE OF INVESTMENTS	28

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

DIRECTORS' REPORT
For the year ended 31 December 2007

The Directors present to the shareholders their report together with the audited financial statements for the year ended 31 December 2007.

THE FUND

Tetragon Financial Group Master Fund Limited (the "Fund") was registered in Guernsey on 23 June 2005 under the provisions of The Companies (Guernsey) Law, 1994, as amended, as a company limited by shares, with registered number 43322. All voting shares of the Fund are held by Polygon Credit Holdings II Limited (the "Voting Shareholder"). The Fund changed its name from Tetragon Credit Income Master Fund Limited to Tetragon Financial Group Master Fund Limited on 30 March 2007. In addition, on 22 March 2007 the shareholders of the Fund passed a resolution, amending its articles of association to modify, among other things, its capital structure. Such amendment to the Fund's articles of association converted the Fund into a closed-ended fund by eliminating redemption rights of investors. The Fund continues to be registered and domiciled in Guernsey.

INVESTMENT OBJECTIVE

The Fund's investment objective is to generate distributable income and capital appreciation. To achieve this investment objective, and to aim to provide stable returns to investors across various interest rate and credit cycles, the Fund's Investment Manager seeks to identify asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favourable transaction terms for vehicles in which the Fund invests. As part of this current investment strategy, the Fund employs hedging strategies and moderate leverage in seeking to provide attractive returns from the portfolio while managing risk.

RESULTS, ACTIVITIES AND FUTURE DEVELOPMENTS

The results of operations are set out on page 8. A detailed review of activities and future developments is contained in the Investment Manager's Report in the Annual Report to the Shareholders of Tetragon Financial Group Limited.

DIRECTORS

The Directors who held office during the year were:

Patrick Dear
Rupert Dorey*
Reade Griffith (appointed 26 April 2007)
David Jeffreys*
Byron Knief*
Lee Olesky *
David Wishnow

* independent non-executive directors

DIRECTORS (continued)

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. Initially, the Directors' annual fee shall be $50,000, in compensation for service on the Boards of Directors of both the Fund and the Guernsey Feeder. The Fund will pay the Directors' fees. The Polygon Directors have waived their entitlement to a fee.

The Directors are entitled to be repaid by the Fund for all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Fund or the Guernsey Feeder providing for benefits upon termination of employment.

SECRETARY

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

DIVIDENDS

The Directors currently target a dividend payout in the range of 30% to 50% per annum of net increase in net assets resulting from operations in quarterly instalments. These are target dividend levels and are not forecasts or binding commitments. The Fund is not obligated to pay dividends at this level or at all. The Board of Directors will have the authority to declare dividend payments, based upon the recommendation of the Investment Manager and subject to the approval of the Voting Shares. The Directors recommended the payment of a dividend amounting to $0.18 per share for the quarter ended 30 June 2007 and of US$0.20 for the quarter ended 30 September 2007. The Directors have proposed a dividend of US$0.15 for the quarter ended 31 December 2007. No dividends were paid during the year ended 31 December 2006.

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 enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 1994, as amended. 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.

Signed on behalf of the Board of Directors by:

Rupert Dorey, *Director*
David Jeffreys, *Director*

Date: 27 February 2008

INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the members of Tetragon Financial Group Master Fund Limited (formerly Tetragon Credit Income Master Fund Limited)

We have audited the Fund's financial statements (the "financial statements") of Tetragon Financial Group Master Fund Limited (formerly Tetragon Credit Income Master Fund Limited) for the year ended 31 December 2007 which comprise of the Statements of Assets and Liabilities, the Statements of Operations, the Statements of Changes in Net Assets, the Statements of Cash Flows and the related notes on pages 11 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Fund's members, as a body, in accordance with section 64 of The Companies (Guernsey) Law, 1994, as amended. Our audit work has been undertaken so that we might state to the Fund'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 Fund and the Fund'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 3.

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, as amended, and the principal documents. We also report to you if, in our opinion, the Fund 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 FINANCIAL GROUP MASTER FUND LIMITED

INDEPENDENT AUDITOR'S REPORT (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 Fund'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 Fund's affairs as at 31 December 2007 and of its result for the year ended 31 December 2007; and
- have been properly prepared in accordance with The Companies (Guernsey) Law, 1994, as amended, and the principal documents

KPMG Channel Islands Limited
Chartered Accountants

Guernsey

Date: 27 February 2008

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

STATEMENTS OF ASSETS AND LIABILITIES
as at 31 December 2007

	Note	31 Dec 2007 US$	31 Dec 2006 US$
Assets			
Investments in securities, at fair value* (cost US$1,416,516,946 (2006: US$747,360,668)		1,446,544,122	785,260,048
Cash and cash equivalents	3	209,237,922	117,859,435
Amounts due from brokers	5	36,860,768	-
Unrealised gain on forward contracts	4	317,732	-
Derivative financial assets - credit default swaps	4	11,267,718	-
Other receivables	6	935,562	543,791
Total assets		1,705,163,824	903,663,274
Liabilities			
Payables under repurchase and swap agreements	7 & 8	419,005,128	266,966,810
Unrealized loss on forward contracts	4	2,317,971	2,559,966
Derivative financial liabilities - credit default swaps	4	1,481,131	1,487,269
Bank overdraft	3	13,092,191	-
Amounts payable to feeder fund		416,429	-
Amounts payable for purchase of investments		-	23,904,647
Interest payable		3,878,818	2,422,084
Other payables and accrued expenses	10	534,200	199,258
Total liabilities		440,725,868	297,540,034
Net assets		1,264,437,956	606,123,240
Equity			
Share capital	11	126,054	4,894
Share premium	12	1,141,737,834	556,669,989
Earnings	14	122,574,068	49,448,357
		1,264,437,956	606,123,240
Shares outstanding		**Number**	**Number**
Shares	11	126,053,607	4,893,542
Net asset value per share			
Shares		US$10.03	US$123.86

* US$812,296,967 (2006: US$464,360,008) 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, *Director*
David Jeffreys, *Director*

27 February 2008

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

STATEMENTS OF OPERATIONS
For the year ended 31 December 2007

	Note	Dec 31 2007	Dec 31 2006
		US$	US$
Interest income	15	213,962,305	56,244,498
Investment income		213,962,305	56,244,498
Management fees	16	(12,864,911)	(1,143,555)
Administration fees		(618,142)	(433,064)
Custodian fees		(2,246)	-
Legal and professional fees		(507,434)	(168,014)
Audit fees		(281,758)	(123,941)
Directors' fees	16	(161,599)	(56,836)
Transfer agent fees		(117,652)	-
Other operating expenses		(487,360)	(47,075)
Interest expense		(21,486,701)	(7,026,436)
Operating expenses		(36,527,803)	(8,998,921)
Net investment income		177,434,502	47,245,577
Realized and unrealized gain / (loss) from investments and foreign currency			
Net realized gain / (loss) from:			
Investments		(69,137,573)	-
Foreign currency transactions		(24,035,644)	(1,241,375)
Credit default swaps		(5,854,253)	(376,407)
		(99,027,470)	(1,617,782)
Net increase / (decrease) in unrealized appreciation / (depreciation) on:			
Investments		3,704,875	(21,605)
Forward foreign exchange contracts		559,727	(2,483,750)
Credit default swaps		11,273,856	(1,487,269)
Translation of assets and liabilities in foreign currencies		28,046,568	5,415,750
		43,585,026	1,423,126
Net realized and unrealized gain / (loss) from investments and foreign currencies		(55,442,444)	(194,656)
Net increase in net assets resulting from operations		121,992,058	47,050,921

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

STATEMENTS OF CHANGES IN NET ASSETS
For the year ended 31 December 2007

	31 Dec 2007 US$	31 Dec 2006 US$
Investment income	213,962,305	56,244,498
Operating expenses	(36,527,803)	(8,998,921)
Net realized gain / (loss) from investments and foreign currency	(99,027,470)	(1,617,782)
Net unrealized appreciation / (depreciation) on investments and translation of assets and liabilities in foreign currencies	43,585,026	1,423,126
Net increase in net assets resulting from operations	121,992,058	47,050,921
Dividends paid to shareholders	(48,866,347)	-
Issue of shares	716,272,081	478,285,135
Redemption of shares	(109,034,278)	(4,610,252)
Treasury shares	(2,167,664)	-
Global offering costs	(19,881,134)	-
Increase in net assets resulting from net share transactions	585,189,005	473,674,883
Total increase in net assets	658,314,716	520,725,804
Net assets at start of year	606,123,240	85,397,436
Net assets at end of year	1,264,437,956	606,123,240

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

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

STATEMENTS OF CASH FLOWS
For the year ended 31 December 2007

	31 Dec 2007 US$	31 Dec 2006 US$
Operating and investing activities		
Net increase in net assets resulting from operations	121,992,058	47,050,921
Adjustments for:		
Realized gain on investments	69,137,573	-
Non cash interest income on investments	(28,499,321)	(26,650,204)
Unrealized (gains) / losses	(43,585,026)	(1,423,126)
Operating cash flows before movements in working capital	119,045,284	18,977,591
Increase in receivables	(391,771)	(415,721)
Increase in payables	1,791,676	1,680,051
Cash flows from operations	120,445,189	20,241,921
Proceeds from repayments on investments	91,730,545	59,760,818
Purchase of investments	(784,200,793)	(665,647,638)
Cash outflows from operating and investing activities	(572,025,059)	(585,644,899)
Financing activities		
Amounts due from brokers	(36,860,768)	-
Proceeds from issue of shares	708,809,733	478,285,135
Payments on redemption of shares	(109,034,278)	(4,610,252)
Treasury shares	(1,751,235)	-
Global offering costs	(19,881,134)	-
Dividends paid to shareholders	(41,403,999)	-
Receipts from repurchase and swap agreements	150,482,335	194,118,711
Bank overdraft	13,092,191	-
Cash inflows from financing activities	663,452,845	667,793,594
Net increase in cash and cash equivalents	91,427,786	82,148,695
Cash and cash equivalents at beginning of year	117,859,435	35,686,369
Effect of exchange rate fluctuations on cash and cash equivalents	(49,299)	24,371
Cash and cash equivalents at end of year	209,237,922	117,859,435

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

Note 1 General Information

Tetragon Financial Group Master Fund Limited (the "Fund") was registered in Guernsey on 23 June 2005 under the provisions of The Companies (Guernsey) Law, 1994, as amended, as a company limited by shares, with registered number 43322. All voting shares of the Fund are held by Polygon Credit Holdings II Limited (the "Voting Shareholder"). The Fund changed its name from Tetragon Credit Income Master Fund Limited to Tetragon Financial Group Master Fund Limited on 30 March 2007. In addition, on 22 March 2007 the shareholders of the Fund passed a resolution, amending its articles of association to modify, among other things, its capital structure. Such amendment to the Fund's articles of association converted the Fund into a closed-ended fund by eliminating redemption rights of investors. The Fund continues to be registered and domiciled in Guernsey.

The registered office of the Fund is Dorey Court, Admiral Park, St. Peter Port, Guernsey, Channel Islands GY1 3BG.

The Fund's investment objective is to generate distributable income and capital appreciation. To achieve this investment objective, and to aim to provide stable returns to investors across various interest rate and credit cycles, the Fund's Investment Manager seeks to identify asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favourable transaction terms for vehicles in which the Fund invests. As part of this current investment strategy, the Fund employs hedging strategies and moderate leverage in seeking to provide attractive returns from the portfolio while managing risk.

Note 2 Significant Accounting Policies

Basis of Presentation

The financial statements are prepared in conformity with United States generally accepted accounting principles ("US GAAP").

For financial statement reporting purposes, the Fund is an investment company and follows the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies (the "Guide").

The accounting policies have been consistently applied by the Fund during the year ended 31 December 2007 and are consistent with those used in the previous period.

The financial statements are presented in United States dollars.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes, including the valuation of investments. The Fund's management believes that the estimates utilized in preparing the financial statements are reasonable and prudent; however, actual results could differ materially from these estimates.

Note 2 Significant Accounting Policies (continued)

Foreign Currency Translation

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transaction. All assets and liabilities denominated in foreign currencies are translated to US Dollars at the foreign currency closing exchange rate ruling at the balance sheet date. Foreign currency exchange differences arising on translation and realized gains and losses on disposals or settlements of monetary assets and liabilities are recognized in the Statements of Operations.

Foreign currency exchange differences relating to derivative financial instruments are included in foreign currency transactions and translation of assets and liabilities in foreign currencies in the Statements of Operations. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents and investments, are included in the foreign currency transactions and translation of assets and liabilities in foreign currencies in the Statements of Operations.

Investment Transactions and Investment Income

Investment transactions are recorded on a trade date basis (the trade date is the date that an entity commits to purchase or sell an asset). Realized gains and losses from equity “tranche” investments, forwards, credit default swaps and repurchase agreements are calculated on the identified cost basis. Interest income and expense is recognized in the Statements of Operations as it accrues. Interest income is recognized on an effective interest rate basis.

Financial Instruments

Investments in securities, at fair value

In the absence of an active market for the equity tranche investments in securitization vehicles, a mark to model approach has been adopted to determine their valuation. A third party valuation model that is used by the Investment Manager and the Administrator has been selected for this purpose. The model contains characteristics of the securitization vehicle structure, including current assets and liabilities and inception to date performance, based upon information derived by a specialist firm, from data sources such as the trustee reports. Key model inputs include asset spreads, expected defaults and expected recovery rates for the relevant category of underlying collateral held in the securitization vehicle. These inputs are derived by reference to a variety of market sources, which are used by both the Investment Manager and the Administrator. The model is used to project performance (“Expected IRR”) for each investment, based on performance to date and expected future flows. As income is received from the securitization vehicle, only the Expected IRR is recognized as income and any difference is treated as an adjustment of principal.

Note 2 Significant Accounting Policies (continued)

Financial Instruments (continued)

Investments in securities, at fair value (continued)

The fair value calculations for the equity tranches that are held are sensitive to the key model inputs, in particular to defaults and recovery rates. The default and recovery rates assumptions are derived directly from the extensive data provided by rating agencies such as Moodys and Standard & Poors, and applied according to the quality and asset class mix of the underlying collateral.

The initial model assumptions are reviewed on a regular basis with reference to both current and projected data from the ratings agencies and the main brokers operating in this market. In the case of a material shift in the actual rates away from historical levels then the model assumptions will be adjusted accordingly.

If, over the lifetime of an individual deal, defaults and recoveries diverge from their long term historical norms, then the actual returns may differ from the current levels projected by the model, which would impact the net asset value of the Fund.

The Fund recognizes interest income and any impairment pursuant to Emerging Issues Task Force Issue No. 99-20 ("EITF 99-20"), "*Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets*". EITF 99-20 sets forth rules for recognizing interest income and determining when an investment's amortized cost must be written down to fair value because of other than temporary impairments.

The Fund determines periodic interest income based on the principles of EITF 99-20. The excess of the estimated future cash flows over the initial investment is the accretable yield which is recognized as interest income over the life of the investment using the effective yield method. Cash distributions received from investments under EITF 99-20 may not necessarily equal the income earned during any given year or period.

The amortized cost of each investment is equal to the initial investment plus the yield accrued to date less all cash received to date less any write downs for impairment.

Investments are evaluated for impairment as of each month end or more frequently if the Fund becomes aware of any material information that would lead it to believe an investment may be impaired. Unrealized gains and losses occur when actual cash receipts differ from the amounts initially estimated, discount rates and/or assumptions included in the fair valuation models (such as estimated default rates, prepayment or recovery rates) have changed. Any unrealized loss is tested for permanent impairment as required by EITF 99-20.

Note 2 Significant Accounting Policies (continued)

Investments in securities, at fair value (continued)

In determining permanent impairment, the present value of the future estimated remaining cash flows discounted at the last rate used to recognize the accretable yield on the investment is compared with the present value of the previously estimated remaining cash flows discounted at the last rate used to recognize accretable yield on the investment adjusted for the cash received during the intervening period. If the present value of the newly estimated cash flows has decreased then an adverse change and a temporary impairment has occurred. When an impairment is other than temporary, the investment is written down to fair value as of the reporting date and any previously unrealized loss is realized in the period such a determination is made. The Fund evaluates its impairment for investments on an investment by investment basis, not on an overall portfolio basis.

Credit default swaps

Credit default swaps are contracts in which the Fund pays or receives premium flows in return for the counterparty accepting or selling all or part of the risk of default or failure to pay of a reference entity on which the swap is written. Where the Fund has bought protection the maximum potential loss is the value of the premium flows the Fund is contracted to pay until maturity of the contract. Where the Fund has sold protection the maximum potential loss is the nominal value of the protection sold.

Credit default swaps are stated at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models, as appropriate. The net income or expense on the swap agreements entered into by the Fund is reflected in the Statements of Operations. Unrealized gains are reported as an asset and unrealized losses are reported as a liability in the Statements of Assets and Liabilities. Changes in the fair value are reflected in the Statements of Operations in the period in which they occur.

Forward currency contracts

Forward currency contracts are recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of fair value of a forward contract at initial recognition is the transaction price. Subsequent changes in the fair value of any forward contract are recognized immediately in the Statements of Operations.

Repurchase agreements, reverse repurchase agreements and swap agreements

Securities sold subject to a simultaneous agreement to repurchase those securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and are measured in accordance with their original measurement principles. The proceeds of the sale are reported as liabilities and are carried at amortized cost.

Note 2 Significant Accounting Policies (continued)

Repurchase agreements, reverse repurchase agreements and swap agreements (continued)

Interest earned on reverse repurchase agreements and swap agreements and interest incurred on repurchase agreements and swap agreements is recognized as interest income or interest expense, over the life of each agreement using the effective interest method.

Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents, short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Expenses

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

Taxation

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

Interest income received by the Fund may be subject to withholding tax imposed in the country of origin. Interest income is recorded gross of such taxes and the withholding tax is disclosed separately.

The Fund adopted FIN 48 as issued by the Financial Accounting Standards Board ("FASB"). 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. The adoption of FIN 48 did not have an impact on the Fund's financial statements.

Capital expenses

The preliminary expenses of the Fund directly attributable to the global offering are charged to the share premium account.

Deposits in CLO Warehouses

As at 31 December 2007 the Master Fund does not have any deposits in CLO Warehouses. At 31 December 2006 the Fund had deposits in CLO warehouses. The Fund accounted for these at fair value on its Statements of Assets and Liabilities with any changes to the fair value reflected as unrealized gains or losses in its Statements of Operations.

Note 2 Significant Accounting Policies (continued)

Dividends payable

Dividends payable on shares are recognised in the Statements of Changes in Net Assets.

Principles of Consolidation

The Fund has determined that it does not have control over the significant operating, financial and investing decisions of the underlying CLO entities, or over the investment managers of the underlying CLO entities.

The Fund is the primary beneficiary of some CLO entities which are considered variable interest entities ("VIE"). As the Fund is accounting for its investments at fair value in accordance with the accounting guidance in the AICPA Audit and Accounting Guide: Investment Companies, consolidation of these entities is not required. The Fund does not consolidate any of the underlying CLO entities.

Note 3 Cash and Cash Equivalents

	31 Dec 2007 US$	31 Dec 2006 US$
Cash and current deposits with banks*	209,237,922	103,287,148
Foreign currency cash (cost: US$(13,067,264) (2006: US$14,547,915))	(13,092,191)	14,572,287
	196,145,731	117,859,435

*US$159,096,991 of the deposits with banks is held in a two week fixed term account with the purpose of earning a higher interest return. Cash balances in this account can be accessed without notice to settle the purchase of securities and other "permitted purposes."

Note 4 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk

The Fund's investment objective is to generate distributable income and capital appreciation. To achieve this investment objective, and to provide stable returns to investors across various interest rate and credit cycles, the Fund's Investment Manager seeks to identify asset classes it believes to be attractive and asset managers it believes to be superior based on experience and expertise, and to use its market experience to negotiate favourable transaction terms for vehicles in which the Fund invests. As part of this current investment strategy, the Fund employs hedging strategies and moderate leverage in seeking to provide attractive returns from the portfolio while managing risk.

To the extent prices may be obtained on some or all of the Fund's assets, those prices may be extremely volatile, and will generally fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic and international economic or political events, developments or trends in any particular industry, and the financial condition of the obligors of the Fund's assets.

The Fund's assets include securities or other financial instruments or obligations which are very thinly traded or for which no market exists or which are restricted as to their transferability under applicable securities laws. The valuation of equity tranche investments in securitization vehicles is determined utilizing a financial model that reflects numerous variables including, among other things, the Investment Manager's assessment of the nature of the investment and the relevant collateral, security position, risk profile, expected default rates and the originator and servicer of the position. As each of these factors involves subjective judgments and forward-looking determinations by the Investment Manager, the Investment Manager's experience and knowledge is instrumental in the valuation process. Further, because of overall size or concentration in particular markets of positions held by the Fund, the value at which its investments can be liquidated may differ, sometimes significantly, from the interim valuations arrived at.

The majority of the Fund's investments consist of interests in and/or economic exposures to limited recourse securities that are subordinated in right of payment and ranked junior to other securities that are secured by the same pool of assets. In the event of default by an issuer in relation to such investments holders of the issuer's more senior securities will be entitled to payments in priority to the Fund. Some of the Fund's investments may also have structural features that divert payments of interest and/or principal to more senior classes secured by the same pool of assets when the delinquency or loss experience of the pool exceeds certain levels.

This may lead to interruptions in the income stream that the Fund anticipates receiving from its investment portfolio.

To the extent that actual defaults and losses on the underlying collateral exceed the level of defaults and losses used to determine the fair value of the investment, the value of the investment may be reduced.

Note 4 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk (continued)

The Fund's assets are held at the prime broker and the Fund is exposed to the credit risk of this counterparty.

The Fund's repurchase and swap agreements result in exposure to counterparty credit risk. The counterparties to the Fund's repurchase and swap agreements are major financial institutions.

Details of the Fund's investment portfolio at the balance sheet date are disclosed in the Schedule of Investments on pages 28 to 29.

Forward contracts

The following foreign exchange forward contracts were unsettled at 31 December 2007.

Maturity Date	Counterparty	Amount Bought	Amount Sold	Unrealized Gain US$
03 January 2008	Morgan Stanley	EUR12,929,603	US$8,865,000	31,471
14 March 2008	Morgan Stanley	US$69,053,340	EUR47,000,000	286,261
				317,732

Maturity Date	Counterparty	Amount Bought	Amount Sold	Unrealized Loss US$
18 January 2008	Morgan Stanley	US$70,967,500	EUR50,000,000	(2,154,455)
04 February 2008	Morgan Stanley	US$16,730,829	EUR11,465,000	(41,091)
31 March 2008	Morgan Stanley	US$33,529,170	EUR23,000,000	(122,425)
				(2,317,971)

The following foreign exchange forward contracts were unsettled at 31 December 2006.

Maturity Date	Counterparty	Amount Bought	Amount Sold	Unrealized Loss US$
13-Feb-07	Morgan Stanley	US$59,171,576	EUR46,119,701	(1,555,946)
18-Apr-07	Morgan Stanley	US$14,861,388	EUR12,016,000	(1,004,020)
				(2,559,966)

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

Note 4 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk (continued)

Credit default swaps

The Fund has entered into credit default swap agreements, where the Fund purchases net credit protection as follows:

As at 31 December 2007:

Maturity Date Range	Description	Notional US$	Fair Value US$
Buy			
December 2011 – December 2012	CDS Index	280,000,000	9,088,810
December 2011 - December 2012	CDS Single Name	44,386,150	2,108,824
Sell			
December 2012	CDS Index	(50,000,000)*	70,084
			11,267,718
Sell			
December 2012	CDS Index	(175,000,000)*	(1,481,131)
			(1,481,131)

As at 31 December 2006:

Maturity Date	Description	Notional US$	Fair Value US$
Buy			
June 2011	CDS Index	16,870,000	(958,074)
December 2011	CDS Single Name	15,500,000	(529,195)
			(1,487,269)

*As at 31 December 2007 TFG was long $280 million of protection on the HY and LCDX indices and short $225m of protection on the super-senior tranches of these indices. This structure was used to access equity and mezzanine loss protection efficiently.

Note 5 Balance Due From Brokers

The balance due from brokers is made up of cash pledged as collateral on the repurchase agreements and coupons not yet received from repurchase agreement counterparties. At 31 December 2007 the collateral cash balance with Lehman Brothers was $6,316,373 (2006: US$nil) and the collateral cash balance with Deutsche Bank AG was US$28,281,347 (2006: US$nil). US$2,263,048 is due to coupons not yet received as at 31 December 2007 (2006: US$nil).

Note 6 Other Receivables

	31 Dec 2007	31 Dec 2006
	US$	US$
Bank interest receivable	887,031	543,791
Prepaid insurance	48,531	-
	935,562	543,791

Note 7 Payables under Repurchase Agreements

	31 Dec 2007	31 Dec 2006
	US$	US$
Payable under repurchase agreement – Morgan Stanley	160,342,579	121,430,976
Payable under repurchase agreement – Lehman	73,021,197	28,247,754
Payable under repurchase agreement – Bear Sterns	65,537,316	-
Payable under swap agreement – Deutsche Bank	120,104,036	117,288,080
	419,005,128	266,966,810

The average interest rate payable during the year was 5.95% (2006: 6.00%). The average amount of borrowings under repurchase and swap agreements during the year was US$368,659,892 (2006: US$137,778,484). Securities sold under repurchase agreements are included in investments in securities, at fair value. The fair value of these securities held under repurchase agreements at 31 December 2007 was US$609,397,534 (2006: US$264,060,867). The fair value of these securities held under the swap agreements at 31 December 2007 was US$202,899,433 (2006: US$200,299,741).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

Note 8 Payables under Swap Agreements

The Fund has entered into a Structured Total Return Swap agreement with Deutsche Bank AG. By year end the Fund delivered to Deutsche Bank AG bonds with a face value of US$209,597,650 (2006: US$204,299,741) in exchange for US$120,104,036 (2006: US$117,288,080). At the conclusion of the Contract the same bonds will be delivered back to the Fund and the outstanding loan will be repaid. During the term of the Contract interest will be paid to Deutsche Bank AG on the amount borrowed at a floating rate of the 3 month USD-LIBOR-BBA plus a spread of 0.85% on a quarterly basis and the Fund will receive all cash payments received by Deutsche Bank AG from the underlying bonds. In addition, the Fund maintains the voting rights on the bonds. Both the Fund and Deutsche Bank AG can terminate the swap by giving the required one year's notice.

Note 9 Warehouse Agreements

Previously the Fund had entered into Warehouse Agreements, whereby it agreed to fund a portion of a warehouse loan facility used by an asset originator or manager to assemble assets in anticipation of a CLO transaction. The Fund assumed a share of the risk relating to the warehoused portfolio of underlying assets for which it received its corresponding share of excess spread on the portfolio as well as any gains or losses that arose in the event that the proposed CLO transaction did not close and the warehoused assets were liquidated. These short-dated transactions typically lasted for a few months prior to the closing of the CLO transaction in which the Fund would subsequently purchase part of the Equity. As at 31 December 2007, the Fund had no potential additional commitments (31 December 2006: US$17,894,984) under warehouse agreements.

Note 10 Other Payables and Accrued Expenses

	31 Dec 2007 US$	31 Dec 2006 US$
Audit fee accrual	264,315	139,139
Legal and professional fees accrual	30,000	10,023
Directors' fee accrual	49,995	14,700
Transfer agent fee accrual	17,890	-
Administration fee accrual	-	35,396
Public relations fee accrual	112,000	-
Technology expense accrual	60,000	-
	534,200	199,258

Note 11 Share Capital

During the year the shareholders of the Fund passed a resolution amending its articles of association to modify, among other things, its capital structure. Prior to this resolution the Fund had an authorized share capital of US$100,000 divided into 10 Founder Shares, par value US$0.001 per share and 99,999,990 unclassified shares, par value US$0.001 per share. Unclassified shares were each available for issue as a Redeemable Preference Share, a Growth Share or a Nominal Share.

10 Founder Shares had been issued at par and were beneficially owned by the Principal Manager. The issued Redeemable Preference Shares were equal to the net assets of the Fund, when the Fund was an open ended investment company. These Redeemable Preference Shares were converted to non-voting shares (as described below) as result of this resolution.

No nominal shares were issued. Six Growth Shares were issued when the Fund was launched in 2005. Following the listing of the Guernsey Feeder on the Euronext Amsterdam stock exchange the Growth Shares ceased to be outstanding.

Authorized

After the change in the capital structure the Fund has an authorized share capital of $1,000,000 divided into 10 voting shares, having a par value of $0.001 each and 999,999,990 non-voting shares, having a par value of $0.001 each.

Voting shares and non-voting shares

All of the Funds voting shares are issued at par and are beneficially owned by the Voting Shareholder, a non-U.S. affiliate of the Investment Manager. The Fund's non-voting shares are beneficially owned by the Tetragon Financial Group Limited (the "Guernsey Feeder") and Tetragon Financial Group LP (the "U.S. Feeder") in proportion to their relative capital. All shares are in registered form and no share certificates will be issued. The Voting Shares will be the only shares entitled to vote for the election of Directors and on all other matters put to a vote of Shareholders.

Dividend Rights

Dividends may be paid to the holders of Non-Voting Shares at the sole and at the absolute discretion of the Directors. The Voting Shares carry no rights to dividends. Non-Voting shareholders can elect to receive dividends in the form of new Non-Voting shares in the Fund instead of cash dividends. The new shares are of the same class and type and will rank equally with the existing issued Non-Voting shares in all respects.

Share transactions

	Founder Shares	Growth Shares	Participating Shares
	No.	No.	No.
Shares in issue at 31 December 2005	10	6	828,485
Issued	-	-	4,104,238
Redeemed	-	-	(39,181)
Shares in issue at 31 December 2006	10	6	4,893,542
Issued	-	-	3,221,142
Redeemed	-	-	(451,950)
Ceased to be outstanding	(10)	(6)	-
Converted	-	-	(7,662,734)
Shares in issue at 31 December 2007	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2007

Note 11 Share Capital (continued)

Share transactions (continued)

	Voting Shares No.	Non-Voting Shares No.	Non-Voting Shares US$
Shares in issue at 31 December 2006	-	-	-
Issued	10	30,912,197	30,912
Treasury shares	-	(311,895)	(311)
Converted	-	95,453,305	95,453
Shares in issue at 31 December 2007	10	126,053,607	126,054

Treasury shares

On 30 November 2007, Tetragon Financial Group Limited ("the Guernsey Feeder"), an investor in the Fund, announced the implementation of a share repurchase program of up to 5% of their outstanding non-voting shares over the following 12 months. In conjunction with this the Fund has undertaken to repurchase an identical number of its own shares from the Guernsey Feeder as and when it makes these repurchases in the open market. The Fund will match the price per share paid by the Guernsey Feeder. The shares are held in a Treasury Account which allows them to be resold back to the Guernsey Feeder if it resells its own shares back into the market at a later date. Whilst they are held in the Treasury Account the shares are neither eligible to receive dividends nor are they included in the shares outstanding on the Statements of Assets and Liabilities.

Note 12 Share Premium

	31 Dec 2007 US$	31 Dec 2006 US$
Balance at start of year	556,669,989	82,999,171
Premium arising from net issue of Ordinary Shares	604,948,979	473,670,818
Global offering expenses	(19,881,134)	-
Balance at end of year	1,141,737,834	556,669,989

Note 13 Dividends

	31 Dec 2007 US$
Dividend paid for the quarter ended 30 June 2007 of US$0.18 per share	23,190,989
Dividend paid for the quarter ended 30 September 2007 of US$0.20 per share	25,675,358
	48,866,347
Proposed dividend for the quarter ended 31 December 2007 of US$0.15 per share	18,908,041

The fourth quarter dividend was proposed by directors on 27 February 2008 and has not been included as a liability in these financial statements.

The Fund pays a dividend to the Guernsey Feeder and the US Feeder that is sufficient to pay their incentive fee liability and also to cover their dividend liability.

Note 14 Earnings

	31 Dec 2007 US$	31 Dec 2006 US$
Balance at start of year	49,448,357	2,397,436
Net increase in net assets resulting from operations for the period	121,992,058	47,050,921
Dividends paid	(48,866,347)	-
Balance at end of year	122,574,068	49,448,357

Note 15 Interest Income

	31 Dec 2007 US$	31 Dec 2006 US$
Cash and short-term funds	12,432,671	3,629,206
Debt securities	201,529,634	52,615,292
	213,962,305	56,244,498

Note 16 Related Party Transactions

Polygon Credit Management LP, a Delaware limited partnership (the "Investment Manager") has been appointed to manage the Fund's investment programs. The investment activities of the Investment Manager are subject to the overall supervision, control and policies of the Directors.

Tetragon Financial Group Limited (the "Guernsey Feeder"), a Guernsey based closed-ended investment company which has been formed primarily for the benefit of non-U.S. persons and U.S. tax-exempt investors, invests substantially all of its assets in the Fund. The Guernsey Feeder has the same Investment Manager as the Fund.

Tetragon Financial Group Fund LP (the "U.S. Feeder"), a Delaware limited partnership which has been formed primarily for the benefit of U.S. taxable investors, invests substantially all of its assets in the Fund. The U.S. Feeder has the same Investment Manager as the Fund.

For the period from inception to 30 June 2006 the management fee was charged to the Fund, and the Guernsey Feeder and U.S. Feeder (together the "Feeders") as shareholders in the Fund, bore their proportionate shares of management fees payable by the Fund. As a result of the creation of a new Feeder share class with a different fee structure the management fee was then calculated at the Feeder level. With effect from 1 July 2006 the management fees were charged directly to the Guernsey Feeder and U.S. Feeder. After the closing of the global offering of the Guernsey Feeder on 26 April 2007 the management fees are paid by the Fund and allocated pro rata between the Guernsey Feeder and the U.S. Feeder, based on the respective Feeder's percentage ownership of the Fund. The management fee for the year ended 31 December 2007 amounted to US$12,864,911 (2006: US$1,143,555)

For the period from 1 January 2006 to 25 April 2007, expenses which related wholly and specifically to the individual Feeders were charged to the Feeder to which they relate. After 26 April 2007 all fees and expenses of the Guernsey Feeder, the U.S. Feeder and the Fund, except for the incentive fees for the Investment Manager, are paid by the Fund and allocated pro rata between the Guernsey Feeder and the U.S. Feeder, based on the respective Feeder's percentage ownership of the Fund. An incentive fee may be paid to the Investment Manager by each of the Guernsey Feeder and the U.S. Feeder. The incentive fee for the year ended 31 December 2007 amounted to US$17,683,571 (2006: US$6,051,786)

The global offering of the Guernsey Feeder closed on 26 April 2007. 30 million non-voting shares in the Guernsey Feeder were offered at a price of US$10 per share. The shares of the Guernsey feeder are listed on the Euronext Amsterdam stock exchange in the Netherlands.

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. Initially, the Directors' annual fee shall be $50,000, in compensation for service on the Boards of Directors of both the Guernsey Feeder and the Fund. The Fund will pay the Directors' fees. The Polygon Directors have waived their entitlement to a fee. The Directors are entitled to be repaid by the Fund for all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Guernsey Feeder or the Fund providing for benefits upon termination of employment. The expense for the year was US$161,599 (2006: US$56,836).

Polygon Credit Holdings II Limited (the "Voting Shareholder") is an affiliate of Polygon and the Investment Manager and holds all of the Voting Shares. As a result of its ownership and the degree of control that it exercises, the Voting Shareholder will be able to control the appointment and removal of the Guernsey Feeder's Directors. Affiliates of Polygon also control the Investment Manager and, accordingly, control the Fund's business and affairs.

The Investment Manager initially paid fees totaling US$3,878,550 in relation to the Global Offering. These were subsequently charged back to the Fund.

Note 17 Change of Name

On 30 March 2007 the Fund changed its name from Tetragon Credit Income Master Fund Limited to Tetragon Financial Group Master Fund Limited.

Note 18 Recent changes to US GAAP

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115* (Statement 159). Statement 159 gives the Fund the irrevocable option to carry most financial assets and liabilities at fair value that are not currently required to be measured at fair value. If the fair value option is elected, changes in fair value would be recorded in earnings at each subsequent reporting date. SFAS 159 is effective for the Fund's 2008 fiscal year.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurement* (Statement 157). Statement 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The Statement does not require any new fair value measures. The Statement is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. The Fund is required to adopt Statement 157 beginning on January 1, 2008. Statement 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening retained earnings in the year of adoption. In November 2007, the FASB proposed a one-year deferral of Statement 157's fair-value measurement requirements for non financial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. Disclosures required for the financial statements are currently under review by the Investment Manager.

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.

In February 2008, the FASB Staff Position indefinitely delayed the effective date of SOP 71, which defines "Investment Company" for purposes of applying the industry-specific accounting in an AICPA guide. Companies that adopted SOP 71 prior to its effective date (December 15, 2007) may continue to apply it or rescind their adoption. Companies that did not adopt SOP 71 before December 15, 2007 may not do so. However, a subsidiary formed or acquired after the parent's adoption of the SOP must apply the SOP in its standalone financial statements if the parent company chooses not to rescind its early adoption. Companies that choose to rescind their adoption of the SOP must account for the change retrospectively in accordance with Statement 154. The Fund did not early adopt SOP 71 so their will be no impact to the Fund's financial statements.

Note 19 Approval of Financial Statements

The Directors approved the financial statements on 27 February 2008.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

FINANCIAL HIGHLIGHTS
For the year ended 31 December 2007

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 2007 and the year ended 31 December 2006.

	Participating Shares* 25 April 2007 to 31 Dec 2007	Redeemable Preference Shares* 1 Jan 2007 to 25-Apr-07 US$	Redeemable Preference Shares* 31-Dec-06 US$
Per share operating performance			
Net asset value at start of year / initial issue date	9.84	123.86	103.08
Net investment income	0.96	7.26	20.87
Net realized and unrealized gain / (loss) from investments and foreign currencies	(0.40)	(0.21)	(0.09)
Dividends paid to shareholders	(0.37)	-	-
Net asset value at the end of the period	10.03	130.91	123.86
Return (NAV change excluding dividends)	1.94%	5.69%	20.16%
Ratios and supplemental data			
Ratio to average net assets:			
Total operating expenses (see Note 16)	(2.46%)	(0.64%)	(3.26%)
Net investment income	10.19%	5.65%	17.10%

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

*The ratios and returns have not been annualized.

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

SCHEDULE OF INVESTMENTS
For the year ended 31 December 2007

Security Description	Nominal	Cost US$	Fair Value US$	% of Net Assets
US Dollar				
Cayman Islands – CLO debt equity security				
ABS and Structured Finance	18,400,000	17,572,000	-	-
Broadly Syndicated Senior Secured Loans	940,375,986	858,664,741	904,202,585	71.51%
CDOs Squared	62,250,000	52,156,250	-	-
Middle Market Senior Secured Loans	236,249,000	219,797,145	228,571,357	18.08%
	1,257,274,986	1,148,190,136	1,132,773,942	89.59%
Euro				
Ireland – CLO debt equity security				
Broadly Syndicated Senior Secured Loans	127,400,000	155,916,581	185,324,517	14.66%
	127,400,000	155,916,581	185,324,517	14.66%
Luxembourg – CLO debt equity security				
Broadly Syndicated Senior Secured Loans	65,100,000	80,651,697	92,176,023	7.28%
	65,100,000	80,651,697	92,176,023	7.28%
Netherlands – CLO debt equity security				
Broadly Syndicated Senior Secured Loans	24,000,000	31,758,532	36,269,640	2.87%
	24,000,000	31,758,532	36,269,640	2.87%
Total Investments			1,446,544,122	114.40%
Cash and Cash Equivalents			209,237,922	16.55%
Bank overdraft			(13,092,191)	(1.04%)
Other Assets and Liabilities			(378,251,897)	(29.91%)
Net Assets			1,264,437,956	100.00%

TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

SCHEDULE OF INVESTMENTS (continued)
For the year ended 31 December 2006

Security Description	Nominal / Shares	Cost US$	Fair Value US$	% of Net Assets
US Dollar				
Cayman Islands –CLO debt equity security				
ABS and Structured Finance	11,500,000	11,155,000	11,068,933	1.83%
Broadly Syndicated Senior Secured Loans	486,115,628	443,793,434	461,496,540	76.14%
CDOs Squared	28,250,000	27,096,250	30,027,906	4.95%
Middle Market Senior Secured Loans	144,301,000	134,095,085	139,705,788	23.05%
	670,166,628	616,139,769	642,299,167	105.97%
Euro				
Ireland – CLO debt equity security				
Broadly Syndicated Senior Secured Loans	53,300,000	62,053,218	68,609,346	11.32%
	53,300,000	62,053,218	68,609,346	11.32%
Luxembourg – CLO debt equity security				
Broadly Syndicated Senior Secured Loans	40,100,000	48,390,166	53,274,458	8.79%
	40,100,000	48,390,166	53,274,458	8.79%
Assets under Warehouse Agreements				
Broadly Syndicated Senior Secured Loans	20,777,515	20,777,515	21,077,077	3.48%
	20,777,515	20,777,515	21,077,077	3.48%
Total Investments			785,260,048	129.56%
Cash and Cash Equivalents			117,859,435	19.44%
Other Assets and Liabilities			(296,996,243)	(49.00%)
Net Assets			606,123,240	100.00%