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TEMPLETON DRAGON FUND INC

Form N-Q

November 27, 2009

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF  
REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-08394  
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TEMPLETON DRAGON FUND, INC.  
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(Exact name of registrant as specified in charter)

500 EAST BROWARD BLVD., SUITE 2100, FORT LAUDERDALE, FL 33394-3091  
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(Address of principal executive offices) (Zip code)

CRAIG S. TYLE, ONE FRANKLIN PARKWAY, SAN MATEO, CA 94403-1906  
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(Name and address of agent for service)

Registrant's telephone number, including area code: (954) 527-7500  
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Date of fiscal year end: 12/31  
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Date of reporting period: 9/30/09  
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ITEM 1. SCHEDULE OF INVESTMENTS.

TEMPLETON DRAGON FUND, INC.

STATEMENT OF INVESTMENTS, SEPTEMBER 30, 2009 (UNAUDITED)

	COUNTRY	SHARES/UNITS	
	-----	-----	-----
COMMON STOCKS AND OTHER EQUITY INTERESTS 99.0%			
AIR FREIGHT & LOGISTICS 0.1%			
Sinotrans Ltd., H	China	5,999,000	\$
AUTO COMPONENTS 2.0%			
Cheng Shin Rubber Industry Co. Ltd.	Taiwan	9,595,108	
AUTOMOBILES 3.6%			
Chongqing Changan Automobile Co. Ltd., B	China	5,933,702	
Denway Motors Ltd.	China	5,606,000	
Dongfeng Motor Corp., H	China	22,070,000	
Great Wall Motor Co. Ltd., H	China	2,382,538	
Jiangling Motors Corp. Ltd., B	China	3,818,520	
BEVERAGES 0.4%			
Yantai Changyu Pioneer Wine Co. Ltd., B	China	538,490	
COMMERCIAL BANKS 8.9%			

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Bank of China Ltd., H	China	35,777,000
(a) Bank of China Ltd., H, 144A	China	9,420,000
BOC Hong Kong (Holdings) Ltd.	China	3,874,000
China Construction Bank Corp., H	China	44,293,000
China Merchants Bank Co. Ltd., H	China	562,000
Industrial and Commercial Bank of China Ltd., H	China	27,510,000
COMMUNICATIONS EQUIPMENT 0.6%		
D-Link Corp.	Taiwan	1,908,360
ZTE Corp., H	China	869,358
COMPUTERS & PERIPHERALS 3.6%		
Advantech Co. Ltd.	Taiwan	1,822,628
Asustek Computer Inc.	Taiwan	14,685,817
Lite-On IT Corp.	Taiwan	6,625,560
Lite-On Technology Corp.	Taiwan	1,373,835
Simplo Technology Co. Ltd.	Taiwan	68,000
CONSTRUCTION MATERIALS 0.1%		
Asia Cement China Holdings Corp.	China	2,055,000
DISTRIBUTORS 2.5%		
China Resources Enterprise Ltd.	Hong Kong	5,818,000
Dah Chong Hong Holdings Ltd.	Hong Kong	19,636,520
(a) Dah Chong Hong Holdings Ltd., 144A	Hong Kong	550,000
DIVERSIFIED TELECOMMUNICATION SERVICES 1.1%		
China Telecom Corp. Ltd., H	China	10,694,000
China Unicom (Hong Kong) Ltd.	China	4,430,752
ELECTRIC UTILITIES 2.8%		
Cheung Kong Infrastructure Holdings Ltd.	Hong Kong	7,814,000
ELECTRICAL EQUIPMENT 0.3%		
Dongfang Electric Co. Ltd., H	China	570,000
ELECTRONIC EQUIPMENT, INSTRUMENTS & COMPONENTS 0.3%		
(b) China Security & Surveillance Technology Inc.	United States	202,800
Hon Hai Precision Industry Co. Ltd.	Taiwan	466,000

Quarterly Statement of Investments

See Notes to Statements of Investments

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FOOD & STAPLES RETAILING 18.0%			
Beijing Jingkelong Co. Ltd., H	China	2,947,447	\$
Dairy Farm International Holdings Ltd.	Hong Kong	30,104,178	
FOOD PRODUCTS 2.1%			
China Foods Ltd.	China	17,406,000	
China Yurun Food Group Ltd.	China	1,084,000	
People's Food Holdings Ltd.	China	3,574,000	
Uni-President China Holdings Ltd.	Taiwan	2,340,000	
Uni-President Enterprises Corp.	Taiwan	1,347,482	
(b) Xiwang Sugar Holdings Co. Ltd.	Hong Kong	9,341,681	
HOTELS, RESTAURANTS & LEISURE 0.2%			
NagaCorp Ltd.	Cambodia	18,208,875	
INDEPENDENT POWER PRODUCERS & ENERGY TRADERS 2.5%			
Datang International Power Generation Co. Ltd., H	China	34,992,000	
Guangdong Electric Power Development Co. Ltd., B	China	10,982,067	
Huaneng Power International Inc., H	China	1,454,000	
INDUSTRIAL CONGLOMERATES 2.9%			
Shanghai Industrial Holdings Ltd.	China	6,539,000	
INSURANCE 2.2%			
China Life Insurance Co. Ltd., H	China	4,967,000	
INTERNET SOFTWARE & SERVICES 0.7%			
(b) Sohu.com Inc.	China	107,800	
IT SERVICES 0.4%			
Travelsky Technology Ltd., H	China	5,629,706	
LEISURE EQUIPMENT & PRODUCTS 0.3%			
Yorkey Optical International Cayman Ltd.	China	11,491,000	
MACHINERY 1.4%			
China International Marine Containers (Group) Co. Ltd., B	China	4,030,376	
Lonking Holdings Ltd.	China	6,965,000	
Shin Zu Shing Co. Ltd.	Taiwan	1,078,504	
MARINE 0.3%			
China Shipping Development Co. Ltd., H	China	1,264,000	
Sinotrans Shipping Ltd.	Hong Kong	4,017,500	
MEDIA 0.1%			
(b) Next Media Ltd.	Hong Kong	5,588,000	
METALS & MINING 0.4%			
Angang Steel Co. Ltd., H	China	1,880,000	
(c) China Zhongwang Holdings Ltd.	China	857,600	

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OIL, GAS & CONSUMABLE FUELS 24.4%			
China Coal Energy Co., H	China	3,237,000	
China Petroleum and Chemical Corp., H	China	97,904,000	
China Shenhua Energy Co. Ltd., H	China	7,424,000	
CNOOC Ltd.	China	38,862,000	
PetroChina Co. Ltd., H	China	52,788,000	
Yanzhou Coal Mining Co. Ltd., H	China	9,996,000	
PHARMACEUTICALS 0.1%			
Tong Ren Tang Technologies Co. Ltd., H	China	713,000	\$
REAL ESTATE MANAGEMENT & DEVELOPMENT 4.1%			
Agile Property Holdings Ltd.	China	536,000	
Cheung Kong (Holdings) Ltd.	Hong Kong	933,000	
Hopewell Holdings Ltd.	Hong Kong	7,088,000	
Soho China Ltd.	China	11,126,500	
(a) Soho China Ltd., 144A	China	764,000	
SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT 4.3%			
MediaTek Inc.	Taiwan	540,567	
Novatek Microelectronics Corp. Ltd.	Taiwan	513,144	
Taiwan Semiconductor Manufacturing Co. Ltd.	Taiwan	16,377,136	
SOFTWARE 0.6%			
Kingdee International Software Group Co. Ltd., fgn.	Hong Kong	12,774,000	
(b) Shanda Interactive Entertainment Ltd., ADR	China	80,200	
SPECIALTY RETAIL 0.1%			
(b) I.T Ltd.	Hong Kong	8,513,993	
TEXTILES, APPAREL & LUXURY GOODS 0.3%			
Anta Sports Products Ltd.	China	1,547,000	
Weiqiao Textile Co. Ltd., H	China	1,545,500	
TRANSPORTATION INFRASTRUCTURE 1.1%			
Cosco Pacific Ltd.	China	6,792,906	
Hopewell Highway Infrastructure Ltd.	Hong Kong	708,800	
Rickmers Maritime (Trust Units)	Singapore	2,904,000	
WIRELESS TELECOMMUNICATION SERVICES 6.2%			
China Mobile Ltd.	China	6,271,000	
Taiwan Mobile Co. Ltd.	Taiwan	900,831	

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TOTAL COMMON STOCKS AND OTHER EQUITY INTERESTS  
(COST \$477,660,872)

SHORT TERM INVESTMENTS (COST \$2,645,803) 0.3%  
MONEY MARKET FUNDS 0.3%

(d) Institutional Fiduciary Trust Money Market Portfolio,  
0.00% United States 2,645,803

TOTAL INVESTMENTS (COST \$480,306,675) 99.3%  
OTHER ASSETS, LESS LIABILITIES 0.7%

NET ASSETS 100.0%

### PORTFOLIO ABBREVIATIONS

ADR - American Depositary Receipt

- (a) Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Fund's Board of Trustees. At September 30, 2009, the aggregate value of these securities was \$5,598,929, representing 0.55% of net assets.
- (b) Non-income producing.
- (c) Security purchased on a delayed delivery basis.
- (d) The Institutional Fiduciary Trust Money Market Portfolio is managed by an affiliate of the Fund's investment manager. The rate shown is the annualized seven-day yield at period end.

### TEMPLETON DRAGON FUND

Notes to Statement of Investments (unaudited)

#### 1. ORGANIZATION

Templeton Dragon Fund (Fund) is registered under the Investment Company Act of 1940, as amended, as a closed-end investment company.

#### 2. SECURITY VALUATION

Equity and other securities listed on a securities exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Over-the-counter securities and listed securities for which there is no reported sale are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities. Investments in open-end mutual funds are valued at the closing net asset value.

Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or the NYSE, whichever

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is earlier. If no sale is reported at that time, the foreign equity security will be valued within the range of the most recent quoted bid and ask prices. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE on the day that the value of the security is determined. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert to the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Fund's Board of Directors.

The Fund has procedures to determine the fair value of individual securities and other assets for which market prices are not readily available or which may not be reliably priced. Methods for valuing these securities may include: fundamental analysis based upon the underlying investment book value, anticipated future cash flows, market changes in comparable or similar securities, matrix pricing, discounts from market prices of similar securities, or discounts applied due to the nature and duration of restrictions on the disposition of the securities. Due to the inherent uncertainty of valuations of such securities, the fair values may differ significantly from the values that would have been used had a ready market for such investments existed. Occasionally, events occur between the time at which trading in a security is completed and the close of the NYSE that might call into question the availability (including the reliability) of the value of a portfolio security held by the Fund. The investment manager monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depository Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services. All security valuation procedures are approved by the Fund's Board of Directors.

### 3. INCOME TAXES

At September 30, 2009, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	\$483,327,165
	-----
Unrealized appreciation	\$538,103,523
Unrealized depreciation	(18,203,348)
	-----
Net unrealized appreciation (depreciation)	\$519,900,175
	=====

### 4. FAIR VALUE MEASUREMENTS

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's investments and are summarized in the following fair value hierarchy:

- Level 1 - quoted prices in active markets for identical securities
- Level 2 - other significant observable inputs (including quoted prices

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for similar securities, interest rates, prepayment speed, credit risk, etc.)

- Level 3 - significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

At September 30, 2009, all of the Fund's investments in securities carried at fair value were in Level 1 inputs. For detailed industry descriptions, see the accompanying Statement of Investments.

At September 30, 2009, the reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value, is as follows:

	BALANCE AT BEGINNING OF PERIOD	NET REALIZED GAIN (LOSS)	NET CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION)	NET PURCHASES (SALES)	TRANSFER IN (OUT) OF LEVEL 3
	-----	-----	-----	-----	-----
ASSETS					
Investments in Securities:					
Equity Investments:					
Auto Components	\$952,764	\$--	\$--	\$--	\$(952,764)
	-----	---	---	---	-----
Total Investments in Securities	\$952,764	\$--	\$--	\$--	\$(952,764)
	=====	===	===	===	=====

### 5. SUBSEQUENT EVENTS

The Fund has evaluated subsequent events through November 20, 2009, the issuance date of the financial statements and determined that no events have occurred that require disclosure.

For information on the Fund's policy regarding other significant accounting policies, please refer to the Fund's most recent semiannual or annual shareholder report.

### ITEM 2. CONTROLS AND PROCEDURES.

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. The Registrant maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Registrant's filings under the Securities Exchange Act of 1934 and the Investment Company Act of 1940 is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission. Such information is accumulated and communicated to the Registrant's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. The Registrant's management, including the principal executive officer and the principal financial officer,

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recognizes that any set of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Within 90 days prior to the filing date of this Quarterly Schedule of Portfolio Holdings on Form N-Q, the Registrant had carried out an evaluation, under the supervision and with the participation of the Registrant's management, including the Registrant's principal executive officer and the Registrant's principal financial officer, of the effectiveness of the design and operation of the Registrant's disclosure controls and procedures. Based on such evaluation, the Registrant's principal executive officer and principal financial officer concluded that the Registrant's disclosure controls and procedures are effective.

(b) CHANGES IN INTERNAL CONTROLS. There have been no significant changes in the Registrant's internal controls or in other factors that could significantly affect the internal controls subsequent to the date of their evaluation in connection with the preparation of this Quarterly Schedule of Portfolio Holdings on Form N-Q.

ITEM 3. EXHIBITS.

(a) Certification pursuant to Section 30a-2 under the Investment Company Act of 1940 of Laura F. Fergerson, Chief Executive Officer - Finance and Administration, and Mark H. Otani, Chief Financial Officer and Chief Accounting Officer.

SIGNATURES

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

TEMPLETON DRAGON FUND, INC.

By /s/LAURA F. FERGERSON

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Laura F. Fergerson  
Chief Executive Officer -  
Finance and Administration  
Date November 25, 2009

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

By /s/LAURA F. FERGERSON

-----  
Laura F. Fergerson  
Chief Executive Officer -  
Finance and Administration  
Date November 25, 2009

By /s/MARK H. OTANI

-----  
Mark H. Otani  
Chief Financial Officer and  
Chief Accounting Officer



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Date November 25, 2009