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TEMPLETON DRAGON FUND INC

Form N-Q

May 27, 2010

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

Date of reporting period: 3/31/10\_

ITEM 1. SCHEDULE OF INVESTMENTS.

TEMPLETON DRAGON FUND, INC.  
 STATEMENT OF INVESTMENTS, MARCH 31, 2010 (UNAUDITED)

	COUNTRY	SHARES/UNITS
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COMMON STOCKS AND OTHER EQUITY INTERESTS 99.0%		
AIR FREIGHT & LOGISTICS 0.2%		
Sinotrans Ltd., H	China	5,999,000
AUTO COMPONENTS 1.5%		
Cheng Shin Rubber Industry Co. Ltd.	Taiwan	7,512,108
AUTOMOBILES 4.4%		
Chongqing Changan Automobile Co. Ltd., B	China	5,849,502
Denway Motors Ltd.	China	7,716,000
Dongfeng Motor Corp., H	China	17,906,000
Great Wall Motor Co. Ltd., H	China	2,332,538
Jiangling Motors Corp. Ltd., B	China	3,163,420
BEVERAGES 0.4%		
Yantai Changyu Pioneer Wine Co. Ltd., B	China	538,490
CHEMICALS 0.1%		
(a, b) Yingde Gases Group Co. Ltd., 144A	Hong Kong	1,273,500

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COMMERCIAL BANKS 9.0%		
Bank of China Ltd., H	China	40,014,000
(a) Bank of China Ltd., H, 144A	China	9,420,000
BOC Hong Kong (Holdings) Ltd.	China	5,056,500
China Construction Bank Corp., H	China	43,922,797
(a, b) China Minsheng Banking Corp. Ltd., 144A	China	3,862,500
Industrial and Commercial Bank of China Ltd., H	China	27,510,000
COMMERCIAL SERVICES & SUPPLIES 0.1%		
(b) Fook Woo Group Holdings Ltd.	China	3,020,000
COMMUNICATIONS EQUIPMENT 0.6%		
D-Link Corp.	Taiwan	1,908,360
ZTE Corp., H	China	819,758
COMPUTERS & PERIPHERALS 3.8%		
Advantech Co. Ltd.	Taiwan	1,822,628
Asustek Computer Inc.	Taiwan	14,685,817
HTC Corp.	Taiwan	135,000
Lite-On IT Corp.	Taiwan	6,625,560
Lite-On Technology Corp.	Taiwan	629,835
Simplo Technology Co. Ltd.	Taiwan	380,000
CONSTRUCTION MATERIALS 0.2%		
Asia Cement China Holdings Corp.	China	3,337,500
DISTRIBUTORS 3.2%		
China Resources Enterprise Ltd.	Hong Kong	5,818,000
Dah Chong Hong Holdings Ltd.	Hong Kong	19,608,520
DIVERSIFIED TELECOMMUNICATION SERVICES 0.9%		
China Telecom Corp. Ltd., H	China	9,538,000
China Unicom (Hong Kong) Ltd.	China	4,430,752
ELECTRIC UTILITIES 2.6%		
Cheung Kong Infrastructure Holdings Ltd.	Hong Kong	7,492,000

Quarterly Statement of Investments      See Notes to Statements of Investments.

TEMPLETON DRAGON FUND, INC.  
STATEMENT OF INVESTMENTS, MARCH 31, 2010 (UNAUDITED) (CONTINUED)

ELECTRICAL EQUIPMENT 0.3%		
Dongfang Electric Co. Ltd., H	China	570,000
ELECTRONIC EQUIPMENT, INSTRUMENTS & COMPONENTS 0.5%		

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(b) China Security & Surveillance Technology Inc. Hon Hai Precision Industry Co. Ltd.	United States Taiwan	202,800 970,000
FOOD & STAPLES RETAILING 17.4% Beijing Jingkelong Co. Ltd., H Dairy Farm International Holdings Ltd.	China Hong Kong	3,229,447 28,363,378
FOOD PRODUCTS 2.8% China Foods Ltd. China Yurun Food Group Ltd. People's Food Holdings Ltd. (a, b) Shenguan Holdings Group Ltd., 144A Uni-President China Holdings Ltd. Uni-President Enterprises Corp. (b) Xiwang Sugar Holdings Co. Ltd.	China China China China Taiwan Taiwan Hong Kong	16,200,000 1,084,000 3,574,000 7,362,000 2,340,000 1,347,482 9,359,681
HOTELS, RESTAURANTS & LEISURE 0.2% NagaCorp Ltd.	Cambodia	18,008,875
INDEPENDENT POWER PRODUCERS & ENERGY TRADERS 1.9% Datang International Power Generation Co. Ltd., H Guangdong Electric Power Development Co. Ltd., B Huaneng Power International Inc., H	China China China	34,992,000 7,651,867 1,454,000
INDUSTRIAL CONGLOMERATES 2.7% Shanghai Industrial Holdings Ltd.	China	6,539,000
INSURANCE 2.3% China Life Insurance Co. Ltd., H	China	5,272,000
INTERNET SOFTWARE & SERVICES 0.6% (b) Sohu.com Inc.	China	116,000
IT SERVICES 0.4% Travelsky Technology Ltd., H	China	5,629,706
LEISURE EQUIPMENT & PRODUCTS 0.2% Yorkey Optical International Cayman Ltd.	China	11,491,000
MACHINERY 1.0% Lonking Holdings Ltd. (a, b) Sany Heavy Equipment International Holdings Co. Ltd., 144A Shanghai Prime Machinery Co. Ltd., H Shin Zu Shing Co. Ltd.	China China China Taiwan	10,809,000 320,000 500,000 465,504
MARINE 0.5% China Shipping Development Co. Ltd., H Sinotrans Shipping Ltd.	China Hong Kong	1,764,000 5,730,500
MEDIA 0.0%(C)		

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(b) Next Media Ltd.	Hong Kong	2,594,000
METALS & MINING 0.8%		
Angang Steel Co. Ltd., H	China	3,844,000
(b) China Zhongwang Holdings Ltd.	China	857,600

TEMPLETON DRAGON FUND, INC.

STATEMENT OF INVESTMENTS, MARCH 31, 2010 (UNAUDITED) (CONTINUED)

(d) Fushan International Energy Group Ltd.	Hong Kong	808,000
OIL, GAS & CONSUMABLE FUELS 25.6%		
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
(b) Inner Mongolia Yitai Coal Co. Ltd., B	China	163,900
PetroChina Co. Ltd., H	China	52,788,000
Yanzhou Coal Mining Co. Ltd., H	China	15,172,000
PHARMACEUTICALS 0.1%		
Tong Ren Tang Technologies Co. Ltd., H	China	713,000
REAL ESTATE MANAGEMENT & DEVELOPMENT 3.8%		
Agile Property Holdings Ltd.	China	1,442,000
Cheung Kong (Holdings) Ltd.	Hong Kong	933,000
Hopewell Holdings Ltd.	Hong Kong	7,088,000
Soho China Ltd.	China	12,384,000
SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT 3.7%		
MediaTek Inc.	Taiwan	540,567
Taiwan Semiconductor Manufacturing Co. Ltd.	Taiwan	16,377,136
SOFTWARE 0.7%		
Kingdee International Software Group Co. Ltd., fgn.	Hong Kong	11,536,000
(b) Shanda Interactive Entertainment Ltd., ADR	China	61,900
SPECIALTY RETAIL 0.1%		
(b) I.T Ltd.	Hong Kong	9,303,993
TEXTILES, APPAREL & LUXURY GOODS 0.4%		
Anta Sports Products Ltd.	China	1,766,000
Weiqiao Textile Co. Ltd., H	China	1,545,500
TRANSPORTATION INFRASTRUCTURE 1.0%		

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Cosco Pacific Ltd.	China	6,792,906
Rickmers Maritime (Trust Units)	Singapore	2,469,000
WIRELESS TELECOMMUNICATION SERVICES 5.0%		
China Mobile Ltd.	China	5,676,000
TOTAL COMMON STOCKS AND OTHER EQUITY INTERESTS (COST \$498,137,646)		
SHORT TERM INVESTMENTS (COST \$8,904,594) 0.8%		
MONEY MARKET FUNDS 0.8%		
(e) Institutional Fiduciary Trust Money Market Portfolio, 0.00%	United States	8,904,594
TOTAL INVESTMENTS (COST \$507,042,240) 99.8%		
OTHER ASSETS, LESS LIABILITIES 0.2%		
NET ASSETS 100.0%		

TEMPLETON DRAGON FUND, INC.

STATEMENT OF INVESTMENTS, MARCH 31, 2010 (UNAUDITED) (CONTINUED)

- (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 March 31, 2010, the aggregate value of these securities was \$17,833,932, representing 1.62% of net assets.
- (b) Non-income producing.
- (c) Rounds to less than 0.1% of net assets.
- (d) A portion or all of the security purchased on a delayed delivery basis.
- (e) 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, Inc. (Fund) is registered under the Investment Company Act of 1940, as amended, as a closed-end investment company.

### 2. FINANCIAL INSTRUMENT VALUATION

The Fund values its investments in securities and other assets and liabilities carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.

Under procedures approved by the Fund's Board of Directors, the Fund may utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

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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. 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 is earlier. 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 may be valued utilizing a market-based approach in which the fundamental characteristics or relationships to similar securities are used to determine the fair value of the security held.

The Fund has procedures to determine the fair value of investments for which market prices are not readily available or which may not be reliably priced. Under these procedures, the Fund primarily employs a market-based approach, which may use prices of recent transactions, various market multiples, book values, and other relevant information for the investment, related assets or liabilities or other comparable assets or liabilities to determine the fair value of the investment. In developing this fair value, the Fund may also give consideration to an income-based approach valuation, which considers anticipated future cash flows of the investment and converts those amounts into a net present value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had a ready market existed.

Trading in securities on foreign exchanges and over-the-counter markets may be completed before the daily close of business on the NYSE. Occasionally, events occur between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the availability (including the reliability) of the value of a foreign security held by the Fund. As a result, variances may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at the close of the NYSE. In order to minimize the potential for these discrepancies, 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 Depositary 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 that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

Investments in open-end mutual funds are valued at the closing net asset value.

### 3. INCOME TAXES

At March 31, 2010, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	\$510,093,044
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Unrealized appreciation	\$601,460,880
Unrealized depreciation	(15,765,917)

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Net unrealized appreciation (depreciation)	\$585,694,963
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\$585,694,963  
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#### 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 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.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

At March 31, 2010, 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.

#### 5. SUBSEQUENT EVENTS

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

#### ABBREVIATIONS

##### PORTFOLIO

ADR - American Depository Receipts

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, recognizes that any set of controls and procedures, no matter how well designed

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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 May 27, 2010

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

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Laura F. Fergerson  
Chief Executive Officer -  
Finance and Administration  
Date May 27, 2010

By /s/MARK H. OTANI

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Mark H. Otani  
Chief Financial Officer and  
Chief Accounting Officer  
Date May 27, 2010