

TEMPLETON DRAGON FUND INC
Form N-Q
November 27, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF
REGISTERED MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-08394

Templeton Dragon Fund, Inc.

(Exact name of registrant as specified in charter)

**300 S.E. 2nd Street, Fort Lauderdale, FL
33301-1923**

(Address of principal executive offices) (Zip code)

**Craig S. Tyle, One Franklin Parkway, San
Mateo, CA 94403-1906**

(Name and address of agent for service)

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Registrant's telephone number, including area code: (954) 527-7500

Date of fiscal year end: 12/31

Date of reporting period: 9/30/13

Item 1. Schedule of Investments.

Templeton Dragon Fund, Inc.

Statement of Investments, September 30, 2013 (unaudited)

| | Country | Shares | Value |
|---|-----------|------------|--------------|
| Common Stocks 98.1% | | | |
| Air Freight & Logistics 0.2% | | | |
| Sinotrans Ltd., H | China | 5,999,000 | \$ 1,577,880 |
| Auto Components 2.2% | | | |
| Cheng Shin Rubber Industry Co. Ltd. | Taiwan | 8,851,439 | 23,172,717 |
| Automobiles 6.6% | | | |
| Chongqing Changan Automobile Co. Ltd., B | China | 3,540,804 | 5,405,285 |
| Dongfeng Motor Group Co. Ltd., H | China | 14,578,000 | 22,216,744 |
| Great Wall Motor Co. Ltd., H | China | 5,180,345 | 28,019,195 |
| Guangzhou Automobile Group Co. Ltd., H | China | 3,657,584 | 3,966,024 |
| aJiangling Motors Corp. Ltd., B | China | 3,985,917 | 11,074,918 |
| | | | 70,682,166 |
| Beverages 0.3% | | | |
| Yantai Changyu Pioneer Wine Co. Ltd., B | China | 825,075 | 2,815,868 |
| Commercial Banks 8.9% | | | |
| Bank of China Ltd., H | China | 51,200,600 | 23,303,157 |
| BOC Hong Kong (Holdings) Ltd. | Hong Kong | 5,202,500 | 16,702,306 |
| China Construction Bank Corp., H | China | 47,622,272 | 36,717,770 |
| Industrial and Commercial Bank of China Ltd., H | China | 25,873,155 | 18,047,275 |
| | | | 94,770,508 |
| Commercial Services & Supplies 0.0%† | | | |
| b,cIntegrated Waste Solutions Group Holdings Ltd. | China | 5,424,078 | 95,111 |
| Computers & Peripherals 2.5% | | | |
| Advantech Co. Ltd. | Taiwan | 1,533,990 | 8,587,024 |
| Asustek Computer Inc. | Taiwan | 1,290,103 | 10,276,315 |
| Simplo Technology Co. Ltd. | Taiwan | 1,600,214 | 7,766,978 |
| | | | 26,630,317 |
| Construction Materials 2.0% | | | |
| Anhui Conch Cement Co. Ltd., H | China | 3,355,500 | 10,750,994 |
| Asia Cement China Holdings Corp. | China | 8,734,229 | 4,144,168 |
| China National Building Material Co. Ltd. | China | 7,082,000 | 6,802,636 |

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| | | | |
|--|-----------|------------|-------------|
| | | | 21,697,798 |
| Distributors 1.4% | | | |
| Dah Chong Hong Holdings Ltd. | China | 18,886,520 | 15,365,486 |
| Diversified Telecommunication Services 0.9% | | | |
| China Telecom Corp. Ltd., H | China | 7,406,000 | 3,685,836 |
| China Unicom (Hong Kong) Ltd. | China | 3,912,752 | 6,124,435 |
| | | | 9,810,271 |
| Electric Utilities 3.3% | | | |
| Cheung Kong Infrastructure Holdings Ltd. | Hong Kong | 5,139,000 | 35,647,239 |
| Electrical Equipment 0.2% | | | |
| Dongfang Electric Corp. Ltd., H | China | 1,140,000 | 1,660,918 |
| Food & Staples Retailing 18.4% | | | |
| dBeijing Jingkelong Co. Ltd., H | China | 9,920,429 | 2,980,241 |
| China Resources Enterprise Ltd. | China | 5,818,000 | 18,528,304 |
| Dairy Farm International Holdings Ltd. | Hong Kong | 17,386,078 | 175,773,248 |
| | | | 197,281,793 |
| Food Products 1.6% | | | |
| China Foods Ltd. | China | 14,638,000 | 5,265,637 |
| Shenguan Holdings Group Ltd. | China | 9,294,000 | 3,942,426 |
| Uni-President China Holdings Ltd. | China | 4,888,000 | 4,903,157 |

Quarterly Statement of Investments | See Notes to Statement of Investments.

Templeton Dragon Fund, Inc.

Statement of Investments, September 30, 2013

(unaudited) (continued)

| | | | |
|---|-----------|-------------|-------------|
| Uni-President Enterprises Corp. | Taiwan | 1,729,012 | 3,222,343 |
| | | | 17,333,563 |
| Gas Utilities 0.8% | | | |
| ENN Energy Holdings Ltd. | China | 1,466,700 | 8,188,308 |
| Hotels, Restaurants & Leisure 0.6% | | | |
| SJM Holdings Ltd. | Hong Kong | 2,191,000 | 6,158,343 |
| Industrial Conglomerates 3.1% | | | |
| Hopewell Holdings Ltd. | Hong Kong | 5,540,500 | 18,430,353 |
| Shanghai Industrial Holdings Ltd. | China | 4,406,000 | 14,599,656 |
| | | | 33,030,009 |
| Insurance 0.7% | | | |
| AIA Group Ltd. | Hong Kong | 1,696,200 | 7,971,491 |
| Internet Software & Services 0.8% | | | |
| bSohu.com Inc. | China | 113,800 | 8,970,854 |
| IT Services 0.6% | | | |
| Travelsky Technology Ltd., H | China | 8,444,559 | 6,794,016 |
| Leisure Equipment & Products 0.1% | | | |
| Yorkey Optical International Cayman Ltd. | China | 11,491,000 | 1,022,285 |
| Machinery 0.7% | | | |
| eZoomlion Heavy Industry Science and Technology Development Co. Ltd., H | China | 9,165,020 | 7,940,863 |
| Marine 0.5% | | | |
| bChina Shipping Development Co. Ltd., H | China | 3,862,000 | 2,036,576 |
| Sinotrans Shipping Ltd. | China | 9,364,500 | 2,946,045 |
| | | | 4,982,621 |
| Metals & Mining 0.7% | | | |
| b,eAngang Steel Co. Ltd., H | China | 1,014,000 | 604,011 |
| Jiangxi Copper Co. Ltd., H | China | 3,306,840 | 6,497,752 |
| | | | 7,101,763 |
| Multiline Retail 0.1% | | | |
| Springland International Holdings Ltd. | China | 2,297,000 | 1,243,871 |
| Oil, Gas & Consumable Fuels 24.7% | | | |
| China Coal Energy Co. Ltd., H | China | 4,662,000 | 2,801,065 |
| China Petroleum and Chemical Corp., H | China | 121,205,000 | 94,858,057 |
| China Shenhua Energy Co. Ltd., H | China | 7,424,000 | 22,637,794 |
| CNOOC Ltd. | China | 38,862,000 | 79,067,343 |
| Inner Mongolia Yitai Coal Co. Ltd., B | China | 585,800 | 1,171,600 |
| PetroChina Co. Ltd., H | China | 50,147,500 | 55,216,918 |
| Yanzhou Coal Mining Co. Ltd., H | China | 8,194,000 | 8,187,714 |
| | | | 263,940,491 |

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Paper & Forest Products 1.4%

| | | | |
|----------------------------------|-------|------------|------------|
| Nine Dragons Paper Holdings Ltd. | China | 20,494,901 | 14,480,761 |
|----------------------------------|-------|------------|------------|

Pharmaceuticals 0.6%

| | | | |
|--|-------|-----------|-----------|
| Tong Ren Tang Technologies Co. Ltd., H | China | 2,013,000 | 6,462,613 |
|--|-------|-----------|-----------|

Real Estate Management & Development 2.0%

| | | | |
|------------------------------|-------|-----------|-----------|
| Agile Property Holdings Ltd. | China | 3,426,000 | 3,781,169 |
|------------------------------|-------|-----------|-----------|

| | | | |
|-----------------------------|-----------|---------|-----------|
| Cheung Kong (Holdings) Ltd. | Hong Kong | 539,000 | 8,186,515 |
|-----------------------------|-----------|---------|-----------|

| | | | |
|-----------------|-------|------------|-----------|
| Soho China Ltd. | China | 10,892,000 | 9,366,956 |
|-----------------|-------|------------|-----------|

21,334,640

Semiconductors & Semiconductor Equipment 6.0%

| | | | |
|---------------|--------|---------|------------|
| MediaTek Inc. | Taiwan | 825,648 | 10,207,148 |
|---------------|--------|---------|------------|

| | | | |
|-----------------------------|--------|---------|-----------|
| Realtek Semiconductor Corp. | Taiwan | 602,259 | 1,470,763 |
|-----------------------------|--------|---------|-----------|

Templeton Dragon Fund, Inc.

Statement of Investments, September 30, 2013

(unaudited) *(continued)*

| | | | |
|--|---------------|------------|------------------|
| Taiwan Semiconductor Manufacturing Co. Ltd. | Taiwan | 15,560,136 | 52,893,410 |
| | | | 64,571,321 |
| Textiles, Apparel & Luxury Goods 0.5% | | | |
| Anta Sports Products Ltd. | China | 4,350,000 | 5,574,946 |
| Transportation Infrastructure 1.0% | | | |
| COSCO Pacific Ltd. | China | 7,189,472 | 11,067,928 |
| Wireless Telecommunication Services 4.7% | | | |
| China Mobile Ltd. | China | 4,509,500 | 50,438,584 |
| Total Common Stocks (Cost \$437,709,252) | | | 1,049,817,343 |
| Short Term Investments 1.9% | | | |
| Money Market Funds (Cost \$15,863,159) 1.5% | | | |
| b,fInstitutional Fiduciary Trust Money Market Portfolio | United States | 15,863,159 | 15,863,159 |
| Investments from Cash Collateral Received for Loaned Securities (Cost \$4,413,747) 0.4% | | | |
| Money Market Funds 0.4% | | | |
| gBNY Mellon Overnight Government Fund, 0.032% | United States | 4,413,747 | 4,413,747 |
| Total Investments (Cost \$457,986,158) 100.0% | | | 1,070,094,249 |
| Other Assets, less Liabilities 0.0%† | | | 467,295 |
| Net Assets 100.0% | | | \$ 1,070,561,544 |

‡Rounds to less than 0.1% of net assets.

aA portion or all of the security purchased on a delayed delivery basis.

bNon-income producing.

cSecurity has been deemed illiquid because it may not be able to be sold within seven days.

dSee Note 4 regarding holdings of 5% voting securities.

eA portion or all of the security is on loan at September 30, 2013.

fThe Institutional Fiduciary Trust Money Market Portfolio is managed by an affiliate of the Fund's investment manager.

gThe rate shown is the annualized seven-day yield at period end.

Templeton Dragon Fund, Inc.

Notes to Statement of Investments (unaudited)

1. ORGANIZATION

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

2. FINANCIAL INSTRUMENT VALUATION

The Fund's investments in financial instruments are 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 Board), the Fund's administrator, investment manager and other affiliates have formed the Valuation and Liquidity Oversight Committee (VLOC). The VLOC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities listed on an 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. 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. Over-the-counter (OTC) securities 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 and non-registered money market funds are valued at the closing net asset value.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair 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 an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

Trading in securities on foreign securities stock exchanges and OTC 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 reliability of the value of a portfolio security held by the Fund. As a result, differences 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

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the close of the NYSE. In order to minimize the potential for these differences, the VLOC 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.

In addition, certain foreign markets may be open on days that the NYSE is closed, which could result in differences between the value of the Fund's portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

3. INCOME TAXES

At September 30, 2013, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

| | | |
|--|----|---------------|
| Cost of investments | \$ | 462,035,453 |
| Unrealized appreciation | \$ | 632,581,398 |
| Unrealized depreciation | | (24,522,602) |
| Net unrealized appreciation (depreciation) | \$ | 608,058,796 |

4. HOLDINGS OF 5% VOTING SECURITIES OF PORTFOLIO COMPANIES

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" for the Fund for the nine months ended September 30, 2013, were as shown below.

| Name of Issuer | Number of Shares | | Number of Shares | | Value at | | Investment | |
|---|-----------------------------|-----------------|-----------------------|------------------|---------------|--------|------------------------------|---|
| | Held at Beginning of Period | Gross Additions | Held at End of Period | Gross Reductions | End of Period | Income | Realized Capital Gain (Loss) | |
| Non-Controlled Affiliates | | | | | | | | |
| Beijing Jingkelong Co. Ltd., H | | | | | | | | |
| Total Affiliated Securities (Value is 0.28% of Net Assets) | 3,229,447 | 6,690,982 | - | 9,920,429 | \$ 2,980,241 | \$ | - | - |

5. 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 financial instruments and are summarized in the following fair value hierarchy:

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Level 1 quoted prices in active markets for identical financial instruments

Level 2 other significant observable inputs (including quoted prices for similar financial instruments, interest rates, prepayment speed, credit risk, etc.)

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

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

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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.

A summary of inputs used as of September 30, 2013, in valuing the Fund's assets carried at fair value, is as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|--|------------------|--------------|-----------|------------------|
| Assets: | | | | |
| Investments in Securities: | | | | |
| Equity Investments: ^a | | | | |
| Commercial Services & Supplies | \$ - | \$ - | \$ 95,111 | \$ 95,111 |
| All other equity Investment ^b | 1,049,722,232 | - | - | 1,049,722,232 |
| Short Term Investments | 15,863,159 | 4,413,747 | - | 20,276,906 |
| Total Investments in Securities | \$ 1,065,585,391 | \$ 4,413,747 | \$ 95,111 | \$ 1,070,094,249 |

^aIncludes common stocks.

^bFor detailed categories, see the accompanying Statement of Investments.

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 investments at the end of the period.

6. SUBSEQUENT EVENTS

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

For additional information on the Fund's 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

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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 changes in the Registrant's internal controls or in other factors that could materially affect the internal controls over financial reporting 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. Ferguson, 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

Laura F. Ferguson

Chief Executive Officer -

Finance and Administration

Date November 26, 2013

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 November 26, 2013

By /s/MARK H. OTANI

Mark H. Otani

Chief Financial Officer and

Chief Accounting Officer

Date November 26, 2013