

TEMPLETON DRAGON FUND INC  
Form N-CSR  
March 08, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-08394

Templeton Dragon Fund, Inc.

(Exact name of registrant as specified in charter)

300 S.E. 2<sup>nd</sup> 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)

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

Date of fiscal year end: 12/31

Date of reporting period: 12/31/16

**Item 1. Reports to Stockholders.**

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# Franklin Templeton Investments

## Gain From Our Perspective®

At Franklin Templeton Investments, we're dedicated to one goal: delivering exceptional asset management for our clients. By bringing together multiple, world-class investment teams in a single firm, we're able to offer specialized expertise across styles and asset classes, all supported by the strength and resources of one of the world's largest asset managers. This has helped us to become a trusted partner to individual and institutional investors across the globe.

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Not part of the annual report 1

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TEMPLETON DRAGON FUND, INC.

## Performance Summary as of December 31, 2016

Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses. Total returns do not reflect any sales charges paid at inception or brokerage commissions paid on secondary market purchases. The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gains distributions, if any, or any realized gains on the sale of Fund shares.

### Performance as of 12/31/16<sup>1</sup>

	Cumulative Total Return <sup>2</sup>		Average Annual Total Return <sup>2</sup>	
	Based on	Based on	Based on	Based on
	NAV <sup>3</sup>	market price <sup>4</sup>	NAV <sup>3</sup>	market price <sup>4</sup>
1-Year	+0.76 %	+1.03 %	+0.76 %	+1.03 %
5-Year	+15.65 %	+15.93 %	+2.95 %	+3.00 %
10-Year	+68.39 %	+63.17 %	+5.35 %	+5.02 %

*Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.*

All investments involve risks, including possible loss of principal. Special risks are associated with foreign investing, including currency volatility, economic instability and political developments of countries where the Fund invests. Emerging markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity. There are special risks associated with investments in China, Hong Kong and Taiwan, including exposure to currency fluctuations, less liquidity, expropriation, confiscatory taxation, nationalization and exchange control regulations (including currency blockage), inflation and rapid fluctuations in inflation and interest rates. In addition, investments in Taiwan could be adversely affected by its political and economic relationship with China. Because the Fund invests its assets primarily in companies in a specific region, the Fund is subject to greater risks of adverse developments in that region and/or the surrounding regions than a fund that is more broadly diversified geographically. Political, social or economic disruptions in the region, even in countries in which the Fund is not invested, may adversely affect the value of securities held by the Fund. Also, as a nondiversified investment company investing in "China companies," the Fund may invest in a relatively small number of issuers and, as a result, be subject to a greater risk of loss with respect to its portfolio securities. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results.

1. The Fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through its current fiscal year-end. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.
2. Total return calculations represent the cumulative and average annual changes in value of an investment over the periods indicated. Return for less than one year, if any, has not been annualized.
3. Assumes reinvestment of distributions based on net asset value.
4. Assumes reinvestment of distributions based on the dividend reinvestment and cash purchase plan.

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TEMPLETON DRAGON FUND, INC.

## Important Notice to Shareholders

### Share Repurchase Program

The Fund's Board has approved an open-market share repurchase program which includes an initial authorization for the Fund to repurchase up to 10% of its outstanding shares in open-market transactions, as well as up to an additional 10% of its outstanding shares, above and in addition to the initial 10% previously authorized. The timing and amount of repurchases continue to be at the discretion of the investment manager, taking into account various factors, including, but not limited to, the level of the discount, the Fund's performance, portfolio holdings, dividend history, market conditions, cash on hand, the availability of other attractive investments and whether the sale of certain portfolio securities would be undesirable because of liquidity concerns or because the sale might subject the Fund to adverse tax consequences. Any repurchases would be made on a national securities exchange at the prevailing market price, subject to exchange requirements, federal securities laws and rules that restrict repurchases, and the terms of any outstanding leverage or borrowing of the Fund. If and when the Fund's additional 10% threshold is reached, no further repurchases could be completed until authorized by the Board. Until the additional 10% threshold is reached, Fund management will have the flexibility to commence share repurchases if and when it is determined to be appropriate in light of prevailing circumstances. The share repurchase program is intended to benefit shareholders by enabling the Fund to repurchase shares at a discount to net asset value, thereby increasing the proportionate interest of each remaining shareholder in the Fund.

In the Notes to Consolidated Financial Statements section, please see note 2 (Capital Stock) for additional information regarding shares repurchased.

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TEMPLETON DRAGON FUND, INC.

**Consolidated Financial Highlights**

	Year Ended December 31,				
	2016 a	2015 a	2014 a	2013	2012
<b>Per share operating performance</b>					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$ 20.51	\$ 26.35	\$ 28.46	\$ 31.19	\$ 27.85
Income from investment operations:					
Net investment income <sup>b</sup>	0.27	0.30	0.49	0.53	0.55
Net realized and unrealized gains (losses)	(0.06 )	(2.16 )	1.63	(1.73 )	4.25
Total from investment operations	0.21	(1.86 )	2.12	(1.20 )	4.80
Less distributions from:					
Net investment income	(0.29 )	(0.49 )	(0.02 )	(0.80 )	(0.73 )
Net realized gains	(1.41 )	(3.52 )	(4.29 )	(0.87 )	(0.75 )
Total distributions	(1.70 )	(4.01 )	(4.31 )	(1.67 )	(1.48 )
Repurchase of shares	0.03	0.03	0.08	0.14	0.02
Net asset value, end of year.	\$ 19.05	\$ 20.51	\$ 26.35	\$ 28.46	\$ 31.19
Market value, end of year <sup>c</sup>	\$ 16.38	\$ 17.81	\$ 24.04	\$ 25.88	\$ 28.44
Total return (based on market value per share)	1.03 %	(8.63 )%	9.74 %	(3.07 )%	18.07 %
<b>Ratios to average net assets</b>					
Expenses	1.35 % <sup>d,e</sup>	1.36 % <sup>d</sup>	1.35 % <sup>d</sup>	1.31 %	1.31 %
Net investment income	1.35 %	1.15 %	1.75 %	1.74 %	1.85 %
<b>Supplemental data</b>					
Net assets, end of year (000's)	\$ 654,805	\$ 713,772	\$ 925,020	\$ 1,027,479	\$ 1,174,229
Portfolio turnover rate	46.85 % <sup>f</sup>	71.98 % <sup>f</sup>	21.58 % <sup>f</sup>	4.59 %	2.50 %

<sup>a</sup>Based on the Consolidated Financial Highlights.<sup>b</sup>Based on average daily shares outstanding.<sup>c</sup>Based on the last sale on the New York Stock Exchange.<sup>d</sup>Benefit of waiver and payments by affiliates rounds to less than 0.01%.<sup>e</sup>Benefit of expense reduction rounds to less than 0.01%.<sup>f</sup>Excludes the value of portfolio securities associated with intercompany transactions.

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TEMPLETON DRAGON FUND, INC.

**Consolidated Statement of Investments, December 31, 2016**

	Country	Shares	Value
<b>Common Stocks 99.7%</b>			
<b>Aerospace &amp; Defense 0.0%†</b>			
<sup>a</sup> AVIC Helicopter Co. Ltd., A	China	25,039	\$ 174,498
<b>Auto Components 0.8%</b>			
<sup>a</sup> Fuyao Glass Industry Group Co. Ltd., A	China	1,109,400	2,975,972
<sup>a,b</sup> Ningbo Joyson Electronic Corp., A	China	170,700	812,822
Weifu High-Technology Co. Ltd., B	China	562,819	1,339,095
<sup>b,c</sup> Xinyi Automobile Glass Hong Kong Enterprises Ltd., Reg S	Hong Kong	37,250	7,109
			5,134,998
<b>Automobiles 5.1%</b>			
Chongqing Changan Automobile Co. Ltd., B	China	5,357,019	7,661,273
Dongfeng Motor Group Co. Ltd., H	China	14,124,000	13,787,953
Jiangling Motors Corp. Ltd., B	China	4,916,708	12,186,360
			33,635,586
<b>Banks 11.8%</b>			
BOC Hong Kong (Holdings) Ltd	Hong Kong	782,600	2,800,587
China Construction Bank Corp., H	China	27,602,272	21,250,314
<sup>a</sup> China Merchants Bank Co. Ltd., A.	China	6,073,354	15,399,822
<sup>a</sup> Huaxia Bank Co. Ltd., A	China	3,209,692	5,009,800
<sup>a</sup> Industrial and Commercial Bank of China Ltd., A	China	18,195,718	11,527,885
Industrial and Commercial Bank of China Ltd., H	China	16,551,155	9,924,930
<sup>a</sup> Ping An Bank Co. Ltd., A	China	8,464,015	11,090,358
			77,003,696
<b>Beverages 0.6%</b>			
<sup>a</sup> Kweichow Moutai Co. Ltd., A	China	80,819	3,888,040
<b>Capital Markets 2.0%</b>			
<sup>a</sup> Changjiang Securities Co. Ltd., A	China	7,679,200	11,311,478
<sup>a</sup> CITIC Securities Co. Ltd., A	China	238,928	552,166
<sup>a</sup> Huatai Securities Co. Ltd., A	China	593,623	1,527,436
			13,391,080
<b>Chemicals 1.0%</b>			
Green Seal Holding Ltd	China	1,301,300	5,833,988
<sup>a</sup> Zhejiang Weixing New Building Materials Co., Ltd., A	China	203,500	452,124
			6,286,112

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## Communications Equipment 0.1%

<sup>a</sup> Guangzhou Haige Communications Group Inc. Co., A	China	194,439	326,165
<sup>a,b</sup> Hengtong Optic-electric Co. Ltd., A	China	98,400	264,383
			590,548

## Construction & Engineering 0.7%

<sup>a,b</sup> China Gezhouba Group Co. Ltd., A	China	3,587,200	4,741,612
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## Construction Materials 0.5%

Anhui Conch Cement Co. Ltd., H	China	411,700	1,120,236
Asia Cement China Holdings Corp	China	9,652,629	2,215,704
			3,335,940

## Distributors 1.0%

Dah Chong Hong Holdings Ltd	China	16,928,420	6,461,812
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## Diversified Telecommunication Services 0.2%

China Telecom Corp. Ltd., H	China	2,948,000	1,360,996
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TEMPLETON DRAGON FUND, INC.  
CONSOLIDATED STATEMENT OF INVESTMENTS

	Country	Shares	Value
<b>Common Stocks</b> (continued)			
<b>Electric Utilities 1.7%</b>			
Cheung Kong Infrastructure Holdings Ltd	Hong Kong	1,326,400	\$ 10,553,727
<sup>a</sup> Chongqing Fuling Electric Power Industrial Co. Ltd., A	China	50,475	303,141
			10,856,868
<b>Electrical Equipment 0.2%</b>			
<sup>a</sup> Jiangsu Linyang Energy Co. Ltd., A	China	1,035,382	1,203,100
<b>Electronic Equipment, Instruments &amp; Components 0.7%</b>			
<sup>a</sup> Avic Jonhon OptronicTechnology Co. Ltd., A.	China	651,267	3,403,093
Flytech Technology Co. Ltd	Taiwan	405,000	1,174,275
			4,577,368
<b>Food &amp; Staples Retailing 4.7%</b>			
Beijing Jingkelong Co. Ltd., H	China	7,155,429	1,522,530
Dairy Farm International Holdings Ltd	Hong Kong	4,033,478	29,000,707
			30,523,237
<b>Food Products 2.9%</b>			
Uni-President China Holdings Ltd	China	23,948,000	16,892,844
Uni-President Enterprises Corp	Taiwan	1,329,831	2,188,078
			19,080,922
<b>Health Care Equipment &amp; Supplies 0.3%</b>			
Ginko International Co. Ltd	Taiwan	212,000	2,178,496
<b>Health Care Providers &amp; Services 0.4%</b>			
<sup>a</sup> China National Accord Medicines Corp. Ltd., A	China	241,100	2,322,475
<b>Hotels, Restaurants &amp; Leisure 1.4%</b>			
<sup>a</sup> Shenzhen Overseas Chinese Town Co. Ltd., A	China	4,288,400	4,291,487
<sup>a</sup> Songcheng Performance Development Co. Ltd., A	China	1,619,469	4,882,892
			9,174,379
<b>Household Durables 0.6%</b>			
<sup>a</sup> Gree Electric Appliances Inc. of Zhuhai, A	China	76	270
<sup>a</sup> Midea Group Co. Ltd., A.	China	988,350	4,008,901
			4,009,171
<b>Independent Power &amp; Renewable Electricity Producers 0.3%</b>			
Huaneng Renewables Corp. Ltd., H.	China	6,170,000	2,005,081
<b>Industrial Conglomerates 1.6%</b>			

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CK Hutchison Holdings Ltd	Hong Kong	366,000	4,148,739
Hopewell Holdings Ltd	Hong Kong	1,918,600	6,618,422
			10,767,161

## Insurance 6.9%

AIA Group Ltd	Hong Kong	3,458,780	19,514,040
China Life Insurance Co. Ltd., H	China	3,060,000	7,971,113
<sup>a</sup> China Pacific Insurance Group Co. Ltd., A	China	1,644,163	6,576,652
<sup>a</sup> Ping An Insurance (Group) Co. of China Ltd., A	China	2,111,750	10,773,118
			44,834,923

## Internet & Direct Marketing Retail 0.5%

<sup>b</sup> Ctrip.com International Ltd., ADR	China	44,000	1,760,000
<sup>b</sup> JD.com Inc., ADR	China	62,655	1,593,943
			3,353,943

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TEMPLETON DRAGON FUND, INC.  
CONSOLIDATED STATEMENT OF INVESTMENTS

	Country	Shares	Value
<b>Common Stocks</b> (continued)			
<b>Internet Software &amp; Services 11.6%</b>			
<sup>b</sup> Alibaba Group Holding Ltd., ADR	China	216,410	\$ 19,002,962
<sup>b</sup> Baidu Inc., ADR	China	45,000	7,398,450
Tencent Holdings Ltd	China	1,979,500	48,424,934
<sup>a</sup> Wangsu Science & Technology Co. Ltd., A	China	154,800	1,194,936
			76,021,282
<b>IT Services 1.8%</b>			
TravelSky Technology Ltd., H	China	5,715,859	12,014,766
<b>Leisure Products 0.8%</b>			
<sup>a</sup> Alpha Group, A	China	497,500	1,626,098
Merida Industry Co. Ltd	Taiwan	837,000	3,713,753
			5,339,851
<b>Machinery 0.9%</b>			
<sup>a</sup> CRRC Corp. Ltd., A	China	2,862,100	4,022,188
<sup>a</sup> Shenwu Environmental Technology Co. Ltd., A	China	459,850	1,655,990
			5,678,178
<b>Marine 1.0%</b>			
COSCO Shipping Energy Transportation Co. Ltd., H	China	9,492,000	5,300,195
<sup>b</sup> Sinotrans Shipping Ltd	China	4,860,400	915,105
			6,215,300
<b>Media 1.1%</b>			
<sup>a</sup> Beijing Enlight Media Co. Ltd., A	China	2,000,700	2,811,639
Poly Culture Group Corp. Ltd., H	China	1,071,500	2,614,325
<sup>a</sup> Zhejiang Huace Film & TV Co. Ltd., A	China	1,023,400	1,672,511
			7,098,475
<b>Oil, Gas &amp; Consumable Fuels 7.6%</b>			
China Petroleum and Chemical Corp., H	China	49,449,000	35,072,474
CNOOC Ltd	China	3,024,800	3,783,682
PetroChina Co. Ltd., H	China	14,755,500	10,998,361
			49,854,517
<b>Paper &amp; Forest Products 4.1%</b>			
Nine Dragons Paper Holdings Ltd	China	29,657,901	26,886,975
<b>Pharmaceuticals 4.1%</b>			



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<sup>a</sup> Jiangsu Hengrui Medicine Co. Ltd., A	China	2,455,920	16,096,973
<sup>a</sup> Kangmei Pharmaceutical Co. Ltd., A	China	2,734,532	6,988,905
Tong Ren Tang Technologies Co. Ltd., H	China	1,904,300	3,531,347
			26,617,225

## Real Estate Management & Development 1.2%

Cheung Kong Property Holdings Ltd	Hong Kong	284,000	1,741,466
<sup>a</sup> China Merchants Shekou Industrial Zone Co. Ltd., A	China	331,300	781,859
China Overseas Land & Investment Ltd	China	760,000	2,014,056
<sup>a</sup> Gemdale Corp., A	China	915,500	1,711,043
<sup>a</sup> Poly Real Estate Group Co. Ltd., A	China	1,425,200	1,873,589
			8,122,013

## Semiconductors & Semiconductor Equipment 9.8%

Taiwan Semiconductor Manufacturing Co. Ltd	Taiwan	11,416,136	63,844,110
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## Software 0.0%†

<sup>a</sup> Aisino Corp., A	China	106,310	305,383
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## TEMPLETON DRAGON FUND, INC. CONSOLIDATED STATEMENT OF INVESTMENTS

	Country	Shares	Value
<b>Common Stocks</b> (continued)			
<b>Textiles, Apparel &amp; Luxury Goods 3.6%</b>			
Anta Sports Products Ltd	China	7,927,000	\$ 23,664,975
<b>Transportation Infrastructure 3.2%</b>			
COSCO Shipping Ports Ltd	China	8,183,479	8,220,943
<sup>a</sup> Shenzhen Airport Co., A	China	11,268,300	12,980,043
			21,200,986
<b>Wireless Telecommunication Services 2.9%</b>			
China Mobile Ltd	China	1,768,500	18,746,625
<b>Total Common Stocks (Cost \$427,044,327)</b>			652,502,703
<b>Short Term Investments (Cost \$2,119,665) 0.3%</b>			
<b>Money Market Funds 0.3%</b>			
<sup>d,e</sup> Institutional Fiduciary Trust Money Market Portfolio, 0.09%	United States	2,119,665	2,119,665
<b>Total Investments (Cost \$429,163,992) 100.0%</b>			654,622,368
<b>Other Assets, less Liabilities 0.0%†</b>			182,415
<b>Net Assets 100.0%</b>			\$ 654,804,783

See Abbreviations on page 22.

†Rounds to less than 0.1% of net assets.

<sup>a</sup>The security is owned by Templeton China Opportunities Fund, Ltd., a wholly-owned subsidiary of the Fund. See Note 1(c).

<sup>b</sup>Non-income producing.

<sup>c</sup>Security was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States.

Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption

from registration. This security has been deemed liquid under guidelines approved by the Fund's Board of Directors. At December 31, 2016, the value of this security was

\$7,109, representing less than 0.1% of net assets.

<sup>d</sup>See Note 3(c) regarding investments in affiliated management investment companies.

<sup>e</sup>The rate shown is the annualized seven-day yield at period end.

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TEMPLETON DRAGON FUND, INC.

**Consolidated Financial Statements****Consolidated Statement of Assets and Liabilities**

December 31, 2016

**Assets:**

## Investments in securities:

Cost - Unaffiliated issuers	\$ 427,044,327
Cost - Non-controlled affiliates (Note 3c)	2,119,665
Total cost of investments	\$ 429,163,992
Value - Unaffiliated issuers	\$ 652,502,703
Value - Non-controlled affiliates (Note 3c)	2,119,665
Total value of investments	654,622,368
Cash	12,994
Foreign currency, at value (cost \$614,777)	615,685
Receivables from dividends	489,549
Total assets	655,740,596

**Liabilities:**

## Payables:

Management fees	688,489
Professional fees	125,492
Accrued expenses and other liabilities	121,832
Total liabilities	935,813
Net assets, at value	\$ 654,804,783
Net assets consist of:	
Paid-in capital	\$ 372,815,778
Undistributed net investment income	9,139,656
Net unrealized appreciation (depreciation)	225,947,529
Accumulated net realized gain (loss)	46,901,820
Net assets, at value	\$ 654,804,783
Shares outstanding	34,367,760
Net asset value per share.	\$ 19.05

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TEMPLETON DRAGON FUND, INC.

CONSOLIDATED FINANCIAL STATEMENTS

# **Consolidated Statement of Operations**

for the year ended December 31, 2016

Investment income:

Dividends: (net of foreign taxes of \$1,590,460)

Unaffiliated issuers	\$ 18,400,840
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Non-controlled affiliates (Note 3c)	239
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Interest (net of foreign taxes of \$3,287)	29,581
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Total investment income	18,430,660
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Expenses:

Management fees (Note 3a)	8,517,102
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Transfer agent fees.	77,247
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Custodian fees (Note 4)	270,686
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Reports to shareholders	54,215
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Registration and filing fees	37,658
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Professional fees	80,991
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Directors' fees and expenses	74,750
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Other	101,920
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Total expenses	9,214,569
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Expense reductions (Note 4)	(10,696 )
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Expenses waived/paid by affiliates (Note 3c)	(22,184 )
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Net expenses	9,181,689
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Net investment income.	9,248,971
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Realized and unrealized gains (losses):

Net realized gain (loss) from:

Investments	52,263,412
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Foreign currency transactions	(17,566 )
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Net realized gain (loss)	52,245,846
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Net change in unrealized appreciation (depreciation) on:

Investments	(54,541,842 )
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Translation of other assets and liabilities

denominated in foreign currencies.	2,648
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Net change in unrealized appreciation (depreciation)	(54,539,194 )
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Net realized and unrealized gain (loss)	(2,293,348 )
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Net increase (decrease) in net assets resulting from operations	\$ 6,955,623
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TEMPLETON DRAGON FUND, INC.  
CONSOLIDATED FINANCIAL STATEMENTS

**Consolidated Statements of Changes in Net Assets**

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 9,248,971	\$ 10,517,420
Net realized gain (loss)	52,245,846	109,049,494
Net change in unrealized appreciation (depreciation)	(54,539,194 )	(184,212,197 )
Net increase (decrease) in net assets resulting from operations.	6,955,623	(64,645,283 )
Distributions to shareholders from:		
Net investment income	(9,938,154 )	(17,070,212 )
Net realized gains	(48,622,574 )	(122,570,932 )
Total distributions to shareholders	(58,560,728 )	(139,641,144 )
Capital share transactions from - repurchase of shares (Note 2)	(7,361,986 )	(6,962,075 )
Net increase (decrease) in net assets.	(58,967,091 )	(211,248,502 )
Net assets:		
Beginning of year	713,771,874	925,020,376
End of year	\$ 654,804,783	\$ 713,771,874
Undistributed net investment income included in net assets:		
End of year	\$ 9,139,656	\$ 9,831,432 *

\*See Note 10 regarding revisions to the previously issued consolidated financial statements.

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TEMPLETON DRAGON FUND, INC.

## Notes to Consolidated Financial Statements

### 1. Organization and Significant Accounting Policies

Templeton Dragon Fund, Inc. (Fund) is registered under the Investment Company Act of 1940 (1940 Act) as a closed-end management investment company and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP).

The following summarizes the Fund's significant accounting policies.

#### a. 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. The Fund calculates the net asset value (NAV) per share as of 4 p.m. Eastern time each day the New York Stock Exchange (NYSE) is open for trading. Under compliance policies and procedures approved by the Fund's Board of Directors (the Board), the Fund's administrator has responsibility for oversight of valuation, including leading the cross-functional Valuation Committee (VC). The VC 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 as of 4 p.m. Eastern time. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time 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 are valued at the closing NAV.

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 VC 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 VC 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 VC 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 4 p.m. Eastern time. In addition, trading in certain foreign markets may not take place on every Fund's business day. Occasionally, events occur between the time at which trading in a foreign security is completed and 4 p.m. Eastern time 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 4 p.m. Eastern time. In order to minimize the potential for these differences, the VC 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.





TEMPLETON DRAGON FUND, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

When the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the Fund's NAV is not calculated, 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.

**b. Foreign Currency Translation**

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert 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 Board.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments in the Consolidated Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

**c. Investments in Templeton China Opportunities Fund, Ltd. (China Fund)**

The Fund invests in certain China A shares through its investment in the China Fund. The China Fund is a Cayman Islands exempt company, is a wholly-owned subsidiary of the Fund, and is able to invest directly in China A shares consistent with the investment objective of the Fund. At December 31, 2016, the China Fund's investments as well as any other assets and liabilities of the China Fund are reflected in the Fund's Consolidated Statement of Investments and Consolidated Statement of Assets and Liabilities. At December 31, 2016, the China Fund's investments as well as any other assets and liabilities were \$162,055,906, representing 24.7% of the Fund's consolidated net assets.

The China Fund gains access to the A-shares market through Templeton Investment Counsel, LLC (TIC), which serves as the registered Qualified Foreign Institutional Investor (QFII) for the China Fund and one other participating Franklin Templeton Investments sponsored investment company. Investment decisions related to A-shares are specific to each participating fund, and each fund bears the resultant economic and tax consequences of its holdings and transactions in A-shares. The China Fund is subject to certain restrictions and administrative processes relating to its ability to repatriate cash balances, investment proceeds, and earnings associated with its A-shares and may incur substantial delays in gaining access to its assets or a loss of value in the event of noncompliance with applicable Chinese rules or requirements.

**d. Income and Deferred Taxes**

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income and net realized gains to relieve it from federal income and excise taxes. As a result, no provision for U.S. federal income taxes is required.

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply, the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

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TEMPLETON DRAGON FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. Organization and Significant Accounting**

**Policies** (continued)

**d. Income and Deferred Taxes** (continued)

The Fund may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of December 31, 2016, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken in future tax years). Open tax years are those that remain subject to examination and are based on each tax jurisdiction's statute of limitation.

**e. Security Transactions, Investment Income, Expenses and Distributions**

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Dividend income is recorded on the ex-dividend date except for certain dividends from securities where the dividend rate is not available. In such cases, the dividend is recorded as soon as the information is received by the Fund. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with

U.S. GAAP. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

**f. Accounting Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**g. Guarantees and Indemnifications**

Under the Fund's organizational documents, its officers and directors are indemnified by the Fund against certain liabilities arising out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. Currently, the Fund expects the risk of loss to be remote.

**2. Capital Stock**

At December 31, 2016, there were 100 million shares authorized (\$0.01 par value). During the year ended December 31, 2016 and December 31, 2015 there were no shares issued; all reinvested distributions were satisfied with previously issued shares purchased in the open market.

Under the Board approved open-market share repurchase program, the Fund may purchase, from time to time, Fund shares in open-market transactions, at the discretion of management. Since the inception of the program, the Fund has repurchased a total of 8,771,567 shares. Transactions in the Fund's shares were as follows:

	Year Ended December 31,			
	2016		2015	
Shares	Amount	Shares	Amount	

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Shares repurchased	435,156	\$	7,361,986	303,382	\$	6,962,075
Weighted average discount of market price to net asset value of shares repurchased.			14.04 %			14.52 %

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TEMPLETON DRAGON FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 3. Transactions with Affiliates

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and directors of the Fund are also officers, and/or directors of the following subsidiaries:

Subsidiary	Affiliation
Templeton Asset Management Ltd. (TAML)	Investment manager
Templeton Investment Counsel, LLC (TIC)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager

#### a. Management Fees

The Fund pays an investment management fee to TAML based on the average weekly net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
1.250%	Up to and including \$1 billion
1.200%	Over \$1 billion, up to and including \$5 billion
1.150%	Over \$5 billion, up to and including \$10 billion
1.100%	Over \$10 billion, up to and including \$15 billion
1.050%	Over \$15 billion, up to and including \$20 billion
1.000%	In excess of \$20 billion

The investment manager of China Fund, TIC, agrees to waive the management fee for its services. There is a sub-advisory agreement between TAML and TIC. TAML provides sub-advisory investment management services to the China Fund. The subadvisory fee is paid by TIC and is not an additional expense of the Fund.

For the year ended December 31, 2016, the effective investment management fee rate was 1.250% of the Fund's average daily net assets.

#### b. Administrative Fees

Under an agreement with TAML, FT Services provides administrative services to the Fund. The fee is paid by TAML based on the Fund's average weekly net assets, and is not an additional expense of the Fund.

#### c. Investments in Affiliated Management Investment Companies

The Fund invests in one or more affiliated management investment companies for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment companies, as noted in the Consolidated Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. Prior to January 1, 2014, the waiver was accounted for as a reduction to management fees. During the year ended December 31, 2016, the Fund held investments in affiliated management investment companies as follows:

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TEMPLETON DRAGON FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**3. Transactions with Affiliates** (continued)

**c. Investments in Affiliated Management Investment Companies** (continued)

								% of Affiliated Fund Shares Outstanding Held at End of Year
	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Investment Income	Realized Gain (Loss)	
<b>Non-Controlled Affiliates</b>								
Institutional Fiduciary Trust Money								
Market Portfolio, 0.09%	2,133,867	103,962,042	(103,976,244 )	2,119,665	\$ 2,119,665	\$ 239	\$—	—%a

aRounds to less than 0.1%.

**d. Interfund Transactions**

The Fund engaged in purchases and sales of investments with funds or other accounts that have common investment managers (or affiliated investment managers), directors, trustees or officers. During the year ended December 31, 2016, the purchase and sale transactions aggregated \$2,017,102 and \$0, respectively.

**4. Expense Offset Arrangement**

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended December 31, 2016, the custodian fees were reduced as noted in the Consolidated Statement of Operations.

**5. Income Taxes**

The tax character of distributions paid during the years ended December 31, 2016 and 2015, was as follows:

	2016	2015
Distributions paid from:		
Ordinary income	\$ 9,938,154	\$ 17,070,212
Long term capital gain	48,622,574	122,570,932
	\$ 58,560,728	\$ 139,641,144

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At December 31, 2016, the cost of investments, net unrealized appreciation (depreciation), undistributed ordinary income and undistributed long term capital gains for income tax purposes were as follows:

Cost of investments	\$ 465,934,538
Unrealized appreciation	\$ 248,546,617
Unrealized depreciation	(59,858,787 )
Net unrealized appreciation (depreciation)	\$ 188,687,830
Undistributed ordinary income	\$ 9,229,744
Undistributed long term capital gains	46,754,331
Distributable earnings.	\$ 55,984,075

The China Fund is a disregarded entity for U.S Federal income tax purposes.

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TEMPLETON DRAGON FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of the wholly-owned subsidiary and wash sales.

## 6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended December 31, 2016, aggregated \$314,399,508 and \$367,824,390, respectively. Purchases and sales of investments excludes intercompany transactions of \$0 and \$18,507,408, respectively. The intercompany transactions represent the Fund's redemption of shares of the China Fund.

## 7. Concentration of Risk

Investing in foreign securities may include certain risks and considerations not typically associated with investing in U.S. securities, such as fluctuating currency values and changing local and regional economic, political and social conditions, which may result in greater market volatility. In addition, certain foreign securities may not be as liquid as U.S. securities.

Investing in China A-shares may include certain risks and considerations not typically associated with investing in U.S. securities. In general, A-shares are issued by companies incorporated in the People's Republic of China (PRC) and listed on the Shanghai and Shenzhen Stock Exchanges and available for investment by domestic (Chinese) investors and holders of a QFII license. The Shanghai and Shenzhen Stock Exchanges are, however, substantially smaller, less liquid and more volatile than the major securities markets in the United States.

## 8. 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:

- 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 input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

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 December 31, 2016, all of the Fund's investments in financial instruments carried at fair value were valued using Level 1 inputs.

For detailed categories, see the accompanying Consolidated Statement of Investments.

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TEMPLETON DRAGON FUND, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**8. Fair Value Measurements** (continued)

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 financial instruments at the end of the year. At December 31, 2016, the reconciliation of assets, is as follows:

									Net Change in Unrealized Appreciation (Depreciation) on Assets Held at Year End
	Balance at Beginning of Year	Purchases (Sales)	Transfers Into Level 3	Transfer Out of Level 3a	Cost Basis Adjustments	Net Realized Gain (Loss)	Net Unrealized Appreciation (Depreciation)	Balance at End of Year	
Assets:									
Equity Investments:									
Household Durables	\$ 5,218,096	\$ —	—	—	—	—	(1,053,217 )	\$ —	—
Software	4,953,007	—	—	—	—	—	(176,532 )	—	—
Total Investments in Securities	\$ 10,171,103	\$ —	—	—	—	—	(1,229,749 )	\$ —	—

aThe investments were transferred out of Level 3 as a result of the availability of a quoted price in an active market for identical securities and other significant observable valuation inputs.

**9. Investment Company Reporting Modernization**

In October 2016, the U.S. Securities and Exchange Commission adopted new rules and amended existing rules (together, final rules) intended to modernize the reporting and disclosure of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosures about derivatives in investment company financial statements, as well as other amendments. The compliance date for the amendments to Regulation S-X is August 1, 2017. Management is currently evaluating the impact that the adoption of the amendments to Regulation S-X will have on the Fund's financial statements and related disclosures.

**10. Revision of Previously Issued Consolidated Financial Statements**

Within the December 31, 2015 consolidated financial statements, the Fund made an incorrect consolidation entry which resulted in a misclassification within the prior year consolidated components of net assets. There is no impact on net increase (decrease) in consolidated net assets resulting from operations, beginning and ending consolidated net assets or total return. These misclassifications were not considered to be material individually or in aggregate to previously issued consolidated financial statements. However, for purposes of consistency with the December 31, 2016 consolidated financial statement presentation, the Fund has revised the prior year undistributed net investment income disclosure from \$4,646,360 to \$9,831,432.

**11. 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**

**Selected Portfolio**

**ADR** American Depositary Receipt

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TEMPLETON DRAGON FUND, INC.

## **Report of Independent Registered Public Accounting Firm**

### **To the Board of Directors and Shareholders of Templeton Dragon Fund, Inc.**

In our opinion, the accompanying consolidated statement of assets and liabilities, including the consolidated statement of investments, and the related consolidated statements of operations and of changes in net assets and the consolidated financial highlights present fairly, in all material respects, the financial position of Templeton Dragon Fund, Inc. and its subsidiary (collectively, the Fund ) as of December 31, 2016, the results of its operations for the year then ended, the changes in its consolidated net assets for each of the two years in the period then ended and the consolidated financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of December 31, 2016 by correspondence with the custodian, transfer agent and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California February 22, 2017

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TEMPLETON DRAGON FUND, INC.

## Tax Information (unaudited)

Under Section 852(b)(3)(C) of the Internal Revenue Code (Code), the Fund hereby reports the maximum amount allowable but no less than \$48,622,574 as a long term capital gain dividend for the fiscal year ended December 31, 2016.

Under Section 854(b)(1)(B) of the Code, the Fund hereby reports the maximum amount allowable but no less than \$2,969,739 as qualified dividends for purposes of the maximum rate under Section 1(h)(11) of the Code for the fiscal year ended December 31, 2016. Distributions, including qualified dividend income, paid during calendar year 2016 will be reported to shareholders on Form 1099-DIV by mid-February 2017. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their individual income tax returns.

At December 31, 2016, more than 50% of the Fund's total assets were invested in securities of foreign issuers. In most instances, foreign taxes were withheld from income paid to the Fund on these investments. As shown in the table below, the Fund hereby reports to shareholders the foreign source income and foreign taxes paid, pursuant to Section 853 of the Code. This written statement will allow shareholders of record on September 12, 2016, to treat their proportionate share of foreign taxes paid by the Fund as having been paid directly by them. The shareholder shall consider these amounts as foreign taxes paid in the tax year in which they receive the Fund distribution.

The following table provides a detailed analysis of foreign tax paid, foreign source income and foreign source qualified dividends as reported by the Fund, to shareholders of record.

Foreign Tax Paid		Foreign Source		Foreign Source
Per Share		Income		Qualified
		Per Share		Dividends Per
				Share
\$	0.0610	\$	0.3651	\$ 0.0953

Foreign Tax Paid Per Share (Column 1) is the amount per share available to you, as a tax credit (assuming you held your shares in the Fund for a minimum of 16 days during the 31-day period beginning 15 days before the ex-dividend date of the Fund's distribution to which the foreign taxes relate), or, as a tax deduction.

Foreign Source Income Per Share (Column 2) is the amount per share of income dividends attributable to foreign securities held by the Fund, plus any foreign taxes withheld on these dividends. The amounts reported include foreign source qualified dividends that have not been adjusted for the rate differential applicable to such dividend income.<sup>1</sup>

Foreign Source Qualified Dividends Per Share (Column 3) is the amount per share of foreign source qualified dividends, plus any foreign taxes withheld on these dividends. These amounts represent the portion of the Foreign Source Income reported to you in column 2 that were derived from qualified foreign securities held by the Fund.<sup>1</sup>

By mid-February 2017, shareholders will receive Form 1099-DIV which will include their share of taxes paid and foreign source income distributed during the calendar year 2016. The Foreign Source Income reported on Form 1099-DIV has not been adjusted for the rate differential on foreign source qualified dividend income. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their 2016 individual income tax returns.

<sup>1</sup>Qualified dividends are taxed at reduced long term capital gains tax rates. In determining the amount of foreign tax credit that may be applied against the U.S. tax liability of individuals receiving foreign source qualified dividends, adjustments may be required to the foreign tax credit limitation calculation to reflect the rate differential applicable to such dividend income. The rules however permit certain individuals to elect not to apply the rate differential adjustments for capital gains and/or

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dividends for any taxable  
year. Please consult your tax advisor and the instructions to Form 1116 for more information.

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TEMPLETON DRAGON FUND, INC.

## Annual Meeting of Shareholders, May 26, 2016 (unaudited)

The Annual Meeting of Shareholders of the Fund was held at the offices of Franklin Templeton Investments, 300 S.E. 2nd Street, Fort Lauderdale, Florida, on May 26, 2016. The purpose of the meeting was to elect four Directors of the Fund and to ratify the selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Fund for the fiscal year ending December 31, 2016. At the meeting, the following persons were elected by the shareholders to serve as Directors of the Fund: Edith E. Holiday, Larry D. Thompson, Rupert H. Johnson, Jr. and Gregory E. Johnson.\* Shareholders also ratified the selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Fund for the fiscal year ending December 31, 2016. No other business was transacted at the meeting.

The results of the voting at the Annual Meeting are as follows:

### 1. The election of four Directors:

Term Expiring 2019	For	% voted FOR	Withhold	%Withhold			% voted FOR %voted Withhold			
							of	of		
							Outstanding	Outstanding		
							Shares	Shares		
Edith E. Holiday	21,821,404	68.78	%	9,906,909	31.22	%	62.92	%	28.57	%
Larry D. Thompson	21,758,917	68.58	%	9,969,396	31.42	%	62.74	%	28.75	%
Rupert H. Johnson, Jr	21,808,503	68.74	%	9,919,810	31.26	%	62.88	%	28.60	%
Gregory E. Johnson	21,819,715	68.77	%	9,908,598	31.23	%	62.91	%	28.57	%

There were no broker non-votes received with respect to this item.

### 2. The ratification of the selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Fund for the fiscal year ending December 31, 2016:

									% voted		% voted		% voted	
									FOR of		Against of		Abstain of	
For	% Voted		Against	% voted		Abstain	% voted		Outstanding		Outstanding		Outstanding	
	FOR	%	Against	Against	%	Abstain	Abstain	%	Shares	%	Shares	%	Shares	%
31,388,602	98.93	%	128,936	0.41	%	210,768	0.66	%	90.51	%	0.37	%	0.61	%

\*Harris J. Ashton, Ann Torre Bates, J. Michael Luttig, David W. Niemiec, Constantine D. Tseretopoulos and Robert E. Wade are Directors of the Fund who are currently serving and whose terms of office continued after the Annual Meeting of Shareholders. Mary C. Choksi was appointed to the Fund's Board effective October 19, 2016.

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TEMPLETON DRAGON FUND, INC.

## Dividend Reinvestment and Cash Purchase Plan

The Fund offers a Dividend Reinvestment and Cash Purchase Plan (the Plan) with the following features:

If shares of the Fund are held in the shareholder's name, the shareholder will automatically be a participant in the Plan, unless he elects to withdraw. If the shares are registered in the name of a broker-dealer or other nominee (i.e. in street name), the brokerdealer or nominee will elect to participate in the Plan on the shareholder's behalf unless the shareholder instructs them otherwise, or unless the reinvestment service is not provided by the broker-dealer or nominee.

To receive dividends or distributions in cash, the shareholder must notify American Stock Transfer and Trust Company LLC (the Plan Administrator) at P.O. Box 922, Wall Street Station, New York, NY 10269-0560 or the institution in whose name the shares are held. The Plan Administrator must receive written notice ten business days before the record date for the distribution.

Whenever the Fund declares dividends in either cash or shares of the Fund, if the market price is equal to or exceeds net asset value at the valuation date, the participant will receive the dividends entirely in new shares at a price equal to the net asset value, but not less than 95% of the then current market price of the Fund's shares. If the market price is lower than net asset value or if dividends and/or capital gains distributions are payable only in cash, the participant will receive shares purchased on the New York Stock Exchange or otherwise on the open market.

A participant has the option of submitting additional cash payments to the Plan Administrator, in any amounts of at least \$100, up to a maximum of \$5,000 per month, for the purchase of Fund shares for his or her account. These payments can be made by check payable to American Stock Transfer and Trust Company LLC and sent to American Stock Transfer and Trust Company LLC, P.O. Box 922, Wall Street Station, New York, NY 10269-0560, Attention: Templeton Dragon Fund, Inc. The Plan Administrator will apply such payments (less a \$5.00 service charge and less a pro rata share of trading fees) to purchases of the Fund's shares on the open market.

Whenever shares are purchased on the New York Stock Exchange or otherwise on the open market, each participant will pay a prorata portion of trading fees. Trading fees will be deducted from amounts to be invested. The Plan Administrator's fee for a sale of shares through the Plan is \$15.00 per transaction plus a \$0.12 per share trading fee.

The automatic reinvestment of dividends and/or capital gains does not relieve the participant of any income tax that may be payable on dividends or distributions.

The participant may withdraw from the Plan without penalty at any time by written notice to the Plan Administrator sent to American Stock Transfer and Trust Company LLC, P.O. Box 922, Wall Street Station, New York, NY 10269-0560. Upon withdrawal, the participant will receive, without charge, share certificates issued in the participant's name for all full shares held by the Plan Administrator; or, if the participant wishes, the Plan Administrator will sell the participant's shares and send the proceeds to the participant, less a service charge of \$15.00 and less trading fees of \$0.12 per share. The Plan Administrator will convert any fractional shares held at the time of withdrawal to cash at current market price and send a check to the participant for the net proceeds.

For more information, please see the Plan's Terms and Conditions located at the back of this report.

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TEMPLETON DRAGON FUND, INC.

### **Transfer Agent**

American Stock Transfer and Trust Company LLC  
P.O. Box 922, Wall Street Station  
New York, NY 10269-0560

(800) 416-5585  
[www.amstock.com](http://www.amstock.com)

### **Direct Deposit Service for Registered Shareholders**

Cash distributions can now be electronically credited to a checking or savings account at any financial institution that participates in the Automated Clearing House ( ACH ) system. The Direct Deposit service is provided for registered shareholders at no charge. To enroll in the service, access your account online by going to [www.amstock.com](http://www.amstock.com) or dial (800) 416-5585 (toll free) and follow the instructions. Direct Deposit will begin with the next scheduled distribution payment date following enrollment in the service.

### **Direct Registration**

If you are a registered shareholder of the Fund, purchases of shares of the Fund can be electronically credited to your Fund account at American Stock Transfer and Trust Company LLC through Direct Registration. This service provides shareholders with a convenient way to keep track of shares through book entry transactions, electronically move book-entry shares between broker-dealers, transfer agents and DRS eligible issuers, and eliminate the possibility of lost certificates. For additional information, please contact American Stock Transfer and Trust Company LLC at (800) 416-5585.

### **Shareholder Information**

Shares of Templeton Dragon Fund, Inc. are traded on the New York Stock Exchange under the symbol TDF. Information about the net asset value and the market price is published each Monday in the Wall Street Journal, weekly in Barron's and each Saturday in The New York Times and other newspapers. Daily market prices for the Fund's shares are published in the New York Stock Exchange Composite Transactions section of newspapers.

For current information about dividends and shareholder accounts, call (800) 416-5585. Registered shareholders can access their Fund account on-line. For information go to American Stock Transfer and Trust Company LLC's website at [www.amstock.com](http://www.amstock.com) and follow the instructions.

The daily closing net asset value as of the previous business day may be obtained when available by calling Franklin Templeton Fund Information after 7 a.m. Pacific time any business day at (800) DIAL BEN/342-5236. The Fund's net asset value and dividends are also listed on the NASDAQ Stock Market, Inc.'s Mutual Fund Quotation Service ( NASDAQ MFQS ).

Shareholders not receiving copies of reports to shareholders because their shares are registered in the name of a broker or a custodian can request that they be added to the Fund's mailing list by writing Templeton Dragon Fund, Inc., 100 Fountain Parkway, P.O. Box 33030, St. Petersburg, FL, 33733-8030.

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## Board Members and Officers

The name, year of birth and address of the officers and board members, as well as their affiliations, positions held with the Trust, principal occupations during at least the past five years and number of U.S. registered portfolios overseen in the Franklin Templeton Investments fund complex, are shown below. Generally, each board member serves until that person's successor is elected and qualified.

### Independent Board Members

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>Harris J. Ashton (1932)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Director	Since 1994	142	Bar-S Foods (meat packing company) (1981-2010).
<b>Principal Occupation During at Least the Past 5 Years:</b>				
Director of various companies; and <b>formerly</b> , Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).				
<b>Ann Torre Bates (1958)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Director	Since 2008	42	Ares Capital Corporation (specialty finance company) (2010-present), United Natural Foods, Inc. (distributor of natural, organic and specialty foods) (2013-present), Allied Capital Corporation (financial services) (2003-2010), SLM Corporation (Sallie Mae) (1997-2014) and Navient Corporation (loan management, servicing and asset recovery) (2014-2016).

**Principal Occupation During at Least the Past 5 Years:**

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Director of various companies; and **formerly**, Executive Vice President and Chief Financial Officer, NHP Incorporated (manager of multifamily housing) (1995-1997); and Vice President and Treasurer, US Airways, Inc. (until 1995).

<b>Mary C. Choksi (1950)</b>	Director	Since	136	Avis Budget Group Inc. (car rental)
300 S.E. 2nd Street		October 2016		(2007-present), Omnicom group Inc.
Fort Lauderdale, FL 33301-1923				(advertising and marketing communications services)
				(2011-present) and H.J. Heinz Company (processed foods and allied products) (1998-2006).

### Principal Occupation During at Least the Past 5 Years:

Senior Advisor, Strategic Investment Group (investment management group) (2015-present); director of various companies; and **formerly**, Founding Partner and Senior Managing Director, Strategic Investment Group (1987-2015); Founding Partner and Managing Director, Emerging Markets Management LLC (investment management firm) (1987-2011); and Loan Officer/Senior Loan Officer/Senior Pension Investment Officer, World Bank Group (international financial institution) (1977-1987).

<b>Edith E. Holiday (1952)</b>	Lead	Director since	142	Hess Corporation (exploration and refining of oil and gas) (1993-present),
300 S.E. 2nd Street	Independent	1996 and Lead		Canadian National Railway (railroad)
Fort Lauderdale, FL 33301-1923	Director	Independent		(2001-present), White Mountains Insurance Group, Ltd. (holding company) (2004-present), Santander Consumer USA Holdings, Inc. (consumer finance) (November 2016), RTI International Metals, Inc. (manufacture and distribution of titanium (1999-2015) and H.J. Heinz Company (processed foods and allied products) (1994-2013).
		Director since 2007		

### Principal Occupation During at Least the Past 5 Years:

Director or Trustee of various companies and trusts; and **formerly**, Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison – United States Treasury Department (1988-1989).

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TEMPLETON DRAGON FUND, INC.

**Independent Board Members** (continued)

<b>Name, Year of Birth and Address</b>	<b>Position</b>	<b>Length of Time Served</b>	<b>Number of Portfolios in Fund Complex Overseen by Board Member*</b>	<b>Other Directorships Held During at Least the Past 5 Years</b>
<b>J. Michael Luttig (1954)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Director	Since 2009	142	Boeing Capital Corporation (aircraft financing) (2006-2013).
<b>Principal Occupation During at Least the Past 5 Years:</b> Executive Vice President, General Counsel and member of the Executive Council, The Boeing Company (aerospace company) (2006-present); and <b>formerly</b> , Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).				
<b>David W. Niemiec (1949)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Director	Since 2005	42	Emeritus Corporation (assisted living) (1999-2010) and OSI Pharmaceuticals, Inc. (pharmaceutical products) (2006-2010).
<b>Principal Occupation During at Least the Past 5 Years:</b> Advisor, Saratoga Partners (private equity fund); and <b>formerly</b> , Managing Director, Saratoga Partners (1998-2001) and SBC Warburg Dillon Read (investment banking) (1997-1998); Vice Chairman, Dillon, Read & Co. Inc. (investment banking) (1991-1997); and Chief Financial Officer, Dillon, Read & Co. Inc. (1982-1997).				
<b>Larry D. Thompson (1945)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Director	Since 2005	142	The Southern Company (energy company) (2014-present; previously 2010-2012), Graham Holdings Company (education and media organization) (2011-present) and Cbeyond, Inc. (business communications provider) (2010-2012).
<b>Principal Occupation During at Least the Past 5 Years:</b> Director of various companies; John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (2015-present;				

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previously 2011-2012); and **formerly**, Executive Vice President - Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc.

(consumer products) (2012-2014); Senior Vice President - Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).

**Constantine D. Tseretopoulos**

Director

Since 1998

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None

(1954 )

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

**Principal Occupation During at Least the Past 5 Years:**

Physician, Chief of Staff, owner and operator of the Lyford Cay Hospital (1987-present); director of various nonprofit organizations; and **formerly**, Cardiology Fellow, University of Maryland (1985-1987); and Internal Medicine Resident, Greater Baltimore Medical Center (1982-1985).

**Robert E. Wade (1946)**

Director

Since 2006

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El Oro Ltd (investments)

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

(2003-present).

**Principal Occupation During at Least the Past 5 Years:**

Attorney at law engaged in private practice (1972-2008) and member of various boards.

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TEMPLETON DRAGON FUND, INC.

**Interested Board Members and Officers**

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>**Gregory E. Johnson (1961)</b> One Franklin Parkway San Mateo, CA 94403-1906	Director	Since 2006	158	None

**Principal Occupation During at Least the Past 5 Years:**

Chairman of the Board, Member - Office of the Chairman, Director and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director

or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin

Templeton Investments; Vice Chairman, Investment Company Institute; and **formerly**, President, Franklin Resources, Inc. (1994-2015).

<b>**Rupert H. Johnson, Jr. (1940)</b> One Franklin Parkway San Mateo, CA 94403-1906	Chairman of the Board, Director and Vice President	Chairman of the Board and Director since 2013 and Vice President since 1996	142	None
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**Principal Occupation During at Least the Past 5 Years:**

Vice Chairman, Member - Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton Investments.

<b>Alison E. Baur (1964)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2012	Not Applicable	Not Applicable
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**Principal Occupation During at Least the Past 5 Years:**

Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 45 of the investment companies in Franklin Templeton Investments.

<b>Laura F. Ferguson (1962)</b> One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer – Finance and	Since 2009	Not Applicable	Not Applicable
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### Administration

#### Principal Occupation During at Least the Past 5 Years:

Senior Vice President, Franklin Templeton Services, LLC; Vice President, Franklin Advisers, Inc. and Franklin Templeton Institutional, LLC; and

officer of 45 of the investment companies in Franklin Templeton Investments.

<b>Aliya S. Gordon (1973)</b>	Vice President	Since 2009	Not Applicable	Not Applicable
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One Franklin Parkway

San Mateo, CA 94403-1906

#### Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; and officer of 45 of the investment companies in Franklin Templeton Investments.

<b>Steven J. Gray (1955)</b>	Vice President	Since 2009	Not Applicable	Not Applicable
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One Franklin Parkway

San Mateo, CA 94403-1906

#### Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and Franklin Alternative Strategies Advisers, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.

<b>Robert Lim (1948)</b>	Vice President	Since	Not Applicable	Not Applicable
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One Franklin Parkway

San Mateo, CA 94403-1906

– AML  
May 2016  
Compliance

#### Principal Occupation During at Least the Past 5 Years:

Vice President, Franklin Templeton Companies, LLC; Chief Compliance Officer, Franklin Templeton Distributors, Inc. and Franklin Templeton Investor Services, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.

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TEMPLETON DRAGON FUND, INC.

**Interested Board Members and Officers** (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen	Other Directorships Held During
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