

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

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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 12/31/161

	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.

8 Annual Report | The accompanying notes are an integral part of these consolidated financial statements. franklintempleton.com

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

Non-controlled affiliates (Note 3c) 239

Interest (net of foreign taxes of \$3,287) 29,581

Total investment income 18,430,660

Expenses:

Management fees (Note 3a) 8,517,102

Transfer agent fees. 77,247

Custodian fees (Note 4) 270,686

Reports to shareholders 54,215

Registration and filing fees 37,658

Professional fees 80,991

Directors' fees and expenses 74,750

Other 101,920

Total expenses 9,214,569

Expense reductions (Note 4) (10,696 )

Expenses waived/paid by affiliates (Note 3c) (22,184 )

Net expenses 9,181,689

Net investment income. 9,248,971

Realized and unrealized gains (losses):

Net realized gain (loss) from:

Investments 52,263,412

Foreign currency transactions (17,566 )

Net realized gain (loss) 52,245,846

Net change in unrealized appreciation (depreciation) on:

Investments (54,541,842 )

Translation of other assets and liabilities

denominated in foreign currencies. 2,648

Net change in unrealized appreciation (depreciation) (54,539,194 )

Net realized and unrealized gain (loss) (2,293,348 )

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:

<b>Subsidiary</b>	<b>Affiliation</b>
Templeton Asset Management Ltd. (TAML) Templeton Investment Counsel, LLC (TIC) Franklin Templeton Services, LLC (FT Services)	Investment manager Investment manager 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:

<b>Annualized Fee Rate</b>	<b>Net Assets</b>
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)

	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)	% of Affiliated Fund Shares Outstanding Held at End of Year
<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:

	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	Net Change in Unrealized Appreciation (Depreciation) on Assets Held at Year End
Assets:									
Equity Investments:									
Household Durables	\$ 5,218,096	\$ -	\$ -	\$(4,164,879)	\$ -	\$ -	\$(1,053,217)	\$ -	-
Software	4,953,007	-	-	(4,776,475)	-	-	(176,532)	-	-
Total Investments in Securities	\$ 10,171,103	\$ -	\$ -	\$(8,941,354)	\$ -	\$ -	\$(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.

<b>Foreign Tax Paid</b>	<b>Foreign Source</b>	<b>Foreign Source</b>
<b>Per Share</b>	<b>Income</b>	<b>Qualified</b>
<b>Per Share</b>	<b>Per Share</b>	<b>Dividends Per</b>
<b>Per Share</b>	<b>Per Share</b>	<b>Share</b>
\$ 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 Outstanding Shares	of Outstanding 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:

For	% Voted FOR	Against	% voted Against	Abstain	% voted Abstain	% voted FOR of Outstanding Shares		% voted Against of Outstanding Shares		% voted Abstain of Outstanding Shares	
						FOR of Outstanding Shares	Against of Outstanding Shares	Against of Outstanding Shares	Abstain of Outstanding 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

### **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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TEMPLETON DRAGON FUND, INC.

## 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).
<b>Principal Occupation During at Least the Past 5 Years:</b>				

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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).

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

<p><b>Edith E. Holiday (1952)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923</p>	<p>Lead Independent Director</p>	<p>Director since 1996 and Lead Independent Director since 2007</p>	<p>142</p>	<p>Hess Corporation (exploration and refining of oil and gas) (1993-present), Canadian National Railway (railroad) (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).</p>
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**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

42

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
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<b>**Gregory E. Johnson (1961)</b> One Franklin Parkway San Mateo, CA 94403-1906	Director	Since 2006	158	None
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### 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.

**Aliya S. Gordon (1973)** Vice President Since 2009 Not Applicable Not Applicable

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.

**Steven J. Gray (1955)** Vice President Since 2009 Not Applicable Not Applicable

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.

**Robert Lim (1948)** Vice President Since Not Applicable Not Applicable

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)

<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>Mark Mobius (1936)</b> 17th Floor The Chater House 8 Connaught Road Central Hong Kong	President and Chief Executive Officer – Investment Management	President since 1994 and Chief Executive Officer – Investment Management since 2002	Not Applicable	Not Applicable

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

Portfolio Manager of various Templeton advisory affiliates; Executive Chairman, Templeton Emerging Markets Group; and officer and/or director, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of five of the investment companies in Franklin Templeton Investments.

<b>Kimberly H. Novotny (1972)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013	Not Applicable	Not Applicable
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**Principal Occupation During at Least the Past 5 Years:**

Associate General Counsel, Franklin Templeton Investments; Vice President and Corporate Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 45 of the investment companies in Franklin Templeton Investments.

<b>Mark H. Otani (1968)</b> One Franklin Parkway San Mateo, CA 94403-1906	Treasurer, Chief Financial Officer and Chief Accounting Officer	Since 2009	Not Applicable	Not Applicable
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**Principal Occupation During at Least the Past 5 Years:**

Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton Investments; and officer of 14 of the investment companies in Franklin Templeton Investments.

<b>Robert C. Rosselot (1960)</b> 300 S.E. 2nd Street	Chief Compliance	Since 2013	Not Applicable	Not Applicable
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Fort Lauderdale, FL 33301-1923 Officer

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

Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 45 of the investment companies in Franklin Templeton Investments; and **formerly**, Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).

**Karen L. Skidmore (1952)** Vice President Since 2009 Not Applicable Not Applicable

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.

**Navid J. Tofigh (1972)** Vice President Since 2015 Not Applicable Not Applicable

One Franklin Parkway  
San Mateo, CA 94403-1906

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

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

**Craig S. Tyle (1960)** Vice President Since 2005 Not Applicable Not Applicable

One Franklin Parkway  
San Mateo, CA 94403-1906

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

General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and 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 by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>Lori A. Weber (1964)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Secretary and Vice President	Secretary since 2013 and Vice President since	Not Applicable	Not Applicable

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

Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.

\*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

\*\*Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin Resources, Inc. (Resources), which is the parent company of the Fund's investment manager and distributor. Rupert H. Johnson, Jr. is considered to be an interested person of the Fund under the federal securities laws due to his position as officer and director and major shareholder of Resources.

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

Note 3: Effective May 13, 2016, Frank J. Crothers ceased to be a trustee of the Trust.

Note 4: Effective November 1, 2016, Frank A. Olson ceased to be a trustee of the Trust.

**The Sarbanes-Oxley Act of 2002 and Rules adopted by the U.S. Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated each of Ann Torre Bates and David W. Niemiec as an audit committee financial expert. The Board believes that Ms. Bates and Mr. Niemiec qualify as such an expert in view of their extensive business background and experience. Ms. Bates has served as a member of the Fund Audit Committee since 2008. She currently serves as a director of Ares Capital Corporation (2010-present) and United Natural Foods, Inc. (2013-present) and was formerly a director of Navient Corporation from 2014 to 2016, SLM Corporation from 1997 to 2014 and Allied Capital Corporation from 2003 to 2010, Executive Vice President and Chief Financial Officer of NHP Incorporated from 1995 to 1997 and Vice President and Treasurer of US Airways, Inc. until 1995. Mr. Niemiec has served as a member of the Fund Audit Committee since 2005, currently serves as an Advisor to Saratoga Partners and was formerly its Managing Director from 1998 to 2001. Mr. Niemiec was formerly a director of Emeritus Corporation from 1999 to**

2010 and OSI Pharmaceu-  
ticals, Inc. from 2006 to 2010, Managing Director of SBC Warburg Dillon Read from 1997 to 1998, and was Vice Chairman from 1991 to 1997 and Chief Financial Officer from 1982 to 1997 of Dillon, Read & Co. Inc. As a result of such background and experience, the Board believes that Ms. Bates and Mr. Niemiec have each acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Ms. Bates and Mr. Niemiec are independent Board members as that term is defined under the applicable U.S. Securities and Exchange Commission Rules and Releases or the listing standards applicable to the Fund.

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TEMPLETON DRAGON FUND, INC.

## Shareholder Information

### Proxy Voting Policies and Procedures

The Fund's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund's complete Policies online at [franklintempleton.com](http://franklintempleton.com). Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Fund's proxy voting records are also made available online at [franklintempleton.com](http://franklintempleton.com) and posted on the U.S. Securities and Exchange Commission's website at [sec.gov](http://sec.gov) and reflect the most recent 12-month period ended June 30.

### Quarterly Consolidated Statement of Investments

The Fund files a complete consolidated statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at [sec.gov](http://sec.gov). The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

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TEMPLETON DRAGON FUND, INC.

## TERMS AND CONDITIONS OF DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

1. Each holder of shares (a "Shareholder") in Templeton Dragon Fund, Inc (the "Fund") whose Fund shares are registered in his or her own name will automatically be a participant in the Dividend Reinvestment and Cash Purchase Plan (the "Plan"), unless any such Shareholder specifically elects in writing to receive all dividends and capital gains in cash, paid by check, mailed directly to the Shareholder. A Shareholder whose shares are registered in the name of a broker- dealer or other nominee (the "Nominee") will be a participant if (a) such a service is provided by the Nominee and (b) the Nominee makes an election on behalf of the Shareholder to participate in the Plan. Nominees intend to make such an election on behalf of Shareholders whose shares are registered in their names, as Nominee, unless a Shareholder specifically instructs his or her Nominee to pay dividends and capital gains in cash. American Stock Transfer and Trust Company LLC ("AST") will act as Plan Administrator and will open an account for each participating shareholder ("participant") under the Plan in the same name as that in which the participant's present shares are registered.
2. Whenever the Fund declares a distribution from capital gains or an income dividend payable in either cash or shares of the Fund ("Fund shares"), if the market price per share on the valuation date equals or exceeds the net asset value per share, participants will receive such dividend or distribution entirely in Fund shares, and AST shall automatically receive such Fund shares for participant accounts including aggregate fractions. The number of additional Fund shares to be credited to participant accounts shall be determined by dividing the equivalent dollar amount of the capital gains distribution or dividend payable to participants by the Fund's net asset value per share of the Fund shares on the valuation date, provided that the Fund shall not issue such shares at a price lower than 95% of the current market price per share. The valuation date will be the payable date for such distribution or dividend.
3. Whenever the Fund declares a distribution from capital gains or an income dividend payable only in cash, or if the Fund's net asset value per share exceeds the market price per share on the valuation date, AST shall apply the amount of such dividend or distribution payable to participants to the purchase of Fund shares on the open market (less their pro rata share of trading fees incurred with respect to open market purchases in connection with the reinvestment of such dividend or distribution). If, before AST has completed its purchases, the market price exceeds the net asset value per share, the average per share purchase price paid by AST may exceed the net asset value of the Fund's shares, resulting in the acquisition of fewer shares than if the dividend or capital gains distribution had been paid in shares issued by the Fund at net asset value per share. Such purchases will be made promptly after the payable date for such dividend or distribution, and in no event more than 30 days after such date except where temporary curtailment or suspension of purchase is necessary to comply with applicable provisions of the Federal securities laws.
4. A participant has the option of submitting additional payments to AST, 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 may be made electronically through [www.amstock.com](http://www.amstock.com) or 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. AST shall apply such payments (less a \$5.00 service charge and less a pro rata share of trading fees) to purchases of Fund shares on the open market, as discussed below in paragraph 6. AST shall make such purchases promptly on approximately the 15th of each month or, during a month in which a dividend or distribution is paid, beginning on the dividend payment date, and in no event more than 30 days after receipt, except where necessary to comply with provisions of Federal securities law. Any voluntary payment received less than two business days before an investment date shall be invested during the following month unless there are more than 30 days until the next investment date, in which case such payment will be returned to the participant. AST shall return to the participant his or her entire voluntary cash payment upon written notice of withdrawal received by AST not less than 48 hours before such payment is to be invested. Such written notice shall be sent to AST by the participant, as discussed below in paragraph 14.
5. For all purposes of the Plan: (a) the market price of the Fund's shares on a particular date shall be the last sale price on the New York Stock Exchange on that date if a business day and if not, on the preceding business day, or if there is no sale on such Exchange on such date, then the mean between the closing bid and asked quotations for such shares on such Exchange on such date, and (b) net asset value per share of the Fund's shares on a particular date shall be as determined by or on behalf of the Fund.
6. Open market purchases provided for above may be made on any securities exchange where Fund shares are traded, in the over-the-counter market or in negotiated transactions and may be on such terms as to price, delivery and otherwise as AST shall determine. Participant funds held by AST uninvested will not bear interest, and it is understood that, in any event, AST shall have no liability in connection with any inability to purchase Fund shares within 30 business days after the payable date for any dividend or distribution as herein provided, or with the timing of any purchases effected. AST shall have no responsibility as to the value of the Fund shares acquired for participant accounts. For the purposes of purchases in the open market, AST may aggregate purchases with those of other participants, and the average price (including trading fees) of all shares purchased by AST shall be the price per share allocable to all participants.
7. AST will hold shares acquired pursuant to this Plan, together with the shares of other participants acquired pursuant to this Plan, in its name or that of its nominee. AST will forward to participants any proxy solicitation material and will vote any shares so held for participants only in accordance with the proxies returned by participants to the Fund. Upon written request, AST will deliver to participants, without charge, a certificate or certificates for all or a portion of the full shares held by AST.
8. AST will confirm to participants each acquisition made for an account as soon as practicable but not later than 60 business days after the date thereof. AST will send to participants a detailed account statement showing total dividends and distributions, date of investment, shares acquired and price per share, and total shares of record for the account. Although participants may from time to time have an undivided fractional interest (computed to three decimal places) in a share of the Fund, no certificates for a fractional share will be issued. However, dividends and distributions on fractional shares will be credited to participant accounts. In the event of termination of an account under the Plan, AST will adjust for any such undivided fractional interest in cash at the market price of the Fund's shares on the

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date of termination.

9. Any share dividends or split shares distributed by the Fund on shares held by AST for participants will be credited to participant accounts. In the event that the Fund makes available to its shareholders transferable rights to purchase additional Fund shares or other securities, AST will sell such rights and apply the proceeds of the sale to the purchase of additional Fund shares for the participant accounts. The shares held for participants under the Plan will be added to underlying shares held by participants in calculating the number of rights to be issued.

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TEMPLETON DRAGON FUND, INC.

**TERMS AND CONDITIONS OF DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN** (continued)

10. AST's service charge for capital gains or income dividend purchases will be paid by the Fund when shares are issued by the Fund or purchased on the open market. AST will deduct a \$5.00 service charge from each voluntary cash payment. Participants will be charged a pro rata share of trading fees on all open market purchases.

11. Participants may withdraw shares from such participant's account or terminate their participation under the Plan by notifying AST in writing. Such withdrawal or termination will be effective immediately if notice is received by AST not less than ten days prior to any dividend or distribution record date; otherwise such withdrawal or termination will be effective after the investment of any current dividend or distribution or voluntary cash payment. The Plan may be terminated by AST or the Fund upon 90 days' notice in writing mailed to participants. Upon any withdrawal or termination, AST will cause a certificate or certificates for the full shares held by AST for participants and cash adjustment for any fractional shares (valued at the market value of the shares at the time of withdrawal or termination) to be delivered to participants, less any trading fees. Alternatively, a participant may elect by written notice to AST to have AST sell part or all of the shares held for him and to remit the proceeds to him. AST is authorized to deduct a \$15.00 service charge and a trading fee of \$0.12 per share for this transaction from the proceeds. If a participant disposes of all shares registered in his name on the books of the Fund, AST may, at its option, terminate the participant's account or determine from the participant whether he wishes to continue his participation in the Plan.

12. These terms and conditions may be amended or supplemented by AST or the Fund at any time or times, except when necessary or appropriate to comply with applicable law or the rules or policies of the U.S. Securities and Exchange Commission or any other regulatory authority, only by mailing to participants appropriate written notice at least 90 days prior to the effective date thereof. The amendment or supplement shall be deemed to be accepted by participants unless, prior to the effective date thereof, AST receives written notice of the termination of a participant account under the Plan. Any such amendment may include an appointment by AST in its place and stead of a successor Plan Administrator under these terms and conditions, with full power and authority to perform all or any of the acts to be performed by AST under these terms and conditions. Upon any such appointment of a Plan Administrator for the purpose of receiving dividends and distributions, the Fund will be authorized to pay to such successor Plan Administrator, for a participant's account, all dividends and distributions payable on Fund shares held in a participant's name or under the Plan for retention or application by such successor Plan Administrator as provided in these terms and conditions.

13. AST shall at all times act in good faith and agree to use its best efforts within reasonable limits to ensure the accuracy of all services performed under this Agreement and to comply with applicable law, but shall assume no responsibility and shall not be liable for loss or damage due to errors unless such error is caused by AST's negligence, bad faith or willful misconduct or that of its employees.

14. Any notice, instruction, request or election which by any provision of the Plan is required or permitted to be given or made by the participant to AST shall be in writing addressed to American Stock Transfer and Trust Company LLC, P.O. Box 922, Wall Street Station, New York, NY 10269-0560, or [ww.amstock.com](http://www.amstock.com) or such other address as AST shall furnish to the participant, and shall have been deemed to be given or made when received by AST.

15. Any notice or other communication which by any provision of the Plan is required to be given by AST to the participant shall be in writing and shall be deemed to have been sufficiently given for all purposes by being deposited postage prepaid in a post office letter box addressed to the participant at his or her address as it shall last appear on AST's records. The participant agrees to notify AST promptly of any change of address.

16. These terms and conditions shall be governed by and construed in accordance with the laws of the State of New York and the rules and regulations of the U.S. Securities and Exchange Commission, as they may be amended from time to time.

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Investors should be aware that the value of investments made for the Fund may go down as well as up. Like any investment in securities, the value of the Fund's portfolio will be subject to the risk of loss from market, currency, economic, political and other factors. The Fund and its investors are not protected from such losses by the investment manager. Therefore, investors who cannot accept this risk should not invest in shares of the Fund.

To help ensure we provide you with quality service, all calls to and from our service areas are monitored and/or recorded.

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**Item 2. Code of Ethics.**

(a) The Registrant has adopted a code of ethics that applies to its principal executive officers and principal financial and accounting officer.

(c) N/A

(d) N/A

(f) Pursuant to Item 12(a)(1), the Registrant is attaching as an exhibit a copy of its code of ethics that applies to its principal executive officers and principal financial and accounting officer.

**Item 3. Audit Committee Financial Expert.**

(a)(1) The Registrant has an audit committee financial expert serving on its audit committee.

(2) The audit committee financial expert is David W. Niemiec and he is "independent" as defined under the relevant Securities and Exchange Commission Rules and Releases.

**Item 4. Principal Accountant Fees and Services.**

(a) Audit Fees

The aggregate fees paid to the principal accountant for professional services rendered by the principal accountant for the audit of the registrant's annual

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financial statements or for services that are normally provided by the principal accountant in connection with statutory and regulatory filings or engagements were \$51,049 for the fiscal year ended December 31, 2016 and \$51,017 for the fiscal year ended December 31, 2015.

(b) Audit-Related Fees

The aggregate fees paid to the principal accountant for assurance and related services rendered by the principal accountant to the registrant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported under paragraph (a) of Item 4 were \$6,817 for the fiscal year ended December 31, 2016 and \$6,683 for the fiscal year ended December 31, 2015. The services for which these fees were paid included attestation services.

There were no fees paid to the principal accountant for assurance and related services rendered by the principal accountant to the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant that are reasonably related to the performance of the audit of their financial statements.

(c) Tax Fees

There were no fees paid to the principal accountant for professional services rendered by the principal accountant to the registrant for tax compliance, tax advice and tax planning.

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There were no fees paid to the principal accountant for professional services rendered by the principal accountant to the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant for tax compliance, tax advice and tax planning.

### (d) All Other Fees

The aggregate fees paid to the principal accountant for products and services rendered by the principal accountant to the registrant not reported in paragraphs (a)-(c) of Item 4 were \$0 for the fiscal year ended December 31, 2016 and \$230 for the fiscal year ended December 31, 2015. The services for which these fees were paid include review of materials provided to the fund Board in connection with the investment management contract renewal process.

The aggregate fees paid to the principal accountant for products and services rendered by the principal accountant to the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant other than services reported in paragraphs (a)-(c) of Item 4 were \$0 for the fiscal year ended December 31, 2016 and \$10,053 for the fiscal year ended December 31, 2015. The services for which these fees were paid include review of materials provided to the fund Board in connection with the investment management contract renewal process and certifying assets under management.

(e) (1) The registrant's audit committee is directly responsible for approving the services to be provided by the auditors, including:

(i) pre-approval of all audit and audit related services;

(ii) pre-approval of all non-audit related services to be provided to the Fund by the auditors;

(iii) pre-approval of all non-audit related services to be provided to the registrant by the auditors to the registrant's investment adviser or to any entity that controls, is controlled by or is under common control with the

registrant's investment adviser and that provides ongoing services to the registrant where the non-audit services relate directly to the operations or financial reporting of the registrant; and

(iv) establishment by the audit committee, if deemed necessary or appropriate, as an alternative to committee pre-approval of services to be provided by the auditors, as required by paragraphs (ii) and (iii) above, of policies and procedures to permit such services to be pre-approved by other means, such as through establishment of guidelines or by action of a designated member or members of the committee; provided the policies and procedures are detailed as to the particular service and the committee is informed of each service and such policies and procedures do not include delegation of audit committee responsibilities, as contemplated under the Securities Exchange Act of 1934, to management; subject, in the case of (ii) through (iv), to any waivers, exceptions or exemptions that may be available under applicable law or rules.

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(e) (2) None of the services provided to the registrant described in paragraphs (b)-(d) of Item 4 were approved by the audit committee pursuant to paragraph (c) (7) (i) (C) of Rule 2-01 of regulation S-X.

(f) No disclosures are required by this Item 4(f).

(g) The aggregate non-audit fees paid to the principal accountant for services rendered by the principal accountant to the registrant and the registrant's investment adviser and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the registrant were \$6,817 for the fiscal year ended December 31, 2016 and \$16,966 for the fiscal year ended December 31, 2015.

(h) The registrant's audit committee of the board has considered whether the provision of non-audit services that were rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c) (7) (ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence.

#### **Item 5. Audit Committee of Listed Registrants**

Members of the Audit Committee are: Ann Torre Bates, J. Michael Luttig, David W. Niemiec and Constantine D. Tseretopoulos

#### **Item 6. Schedule of Investments. N/A**

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

The board of directors of the Fund has delegated the authority to vote proxies related to the portfolio securities held by the Fund to the Fund's investment manager Templeton Asset Management Ltd. in accordance with the Proxy Voting Policies and Procedures (Policies) adopted by the investment manager.

The investment manager has delegated its administrative duties with respect to the voting of proxies for securities to the Proxy Group within Franklin Templeton Companies, LLC (Proxy Group), an affiliate and wholly owned subsidiary of Franklin Resources, Inc. All proxies received by the Proxy Group will be voted based upon the investment manager's instructions and/or policies. The investment manager votes proxies solely in the best interests of the Fund and its shareholders.

To assist it in analyzing proxies of equity securities, the investment manager subscribes to Institutional Shareholder Services, Inc. (ISS), an unaffiliated third-party corporate governance research service that provides in-depth analyses of shareholder meeting agendas, vote recommendations, vote execution services, ballot reconciliation services, recordkeeping and vote disclosure services. In addition, the investment manager subscribes to Glass, Lewis & Co., LLC (Glass Lewis), an unaffiliated third-party analytical research firm, to receive analyses and vote recommendations on the shareholder meetings of publicly held U.S. companies, as well as a limited subscription to its international research. Also, the investment manager has a supplemental subscription to Egan-Jones Proxy Services (Egan-Jones), an unaffiliated third party proxy advisory firm, to receive analyses and vote recommendations. Although analyses provided by ISS, Glass Lewis, Egan-Jones, and/or another independent third party proxy service provider (each a Proxy Service) are thoroughly reviewed and considered in making a final voting decision, the investment manager does not consider recommendations from a Proxy Service or any third party to be determinative of the investment manager's ultimate decision. Rather, the investment manager exercises its independent judgment in making voting decisions. As a matter of policy, the officers, directors/trustees and employees of the investment manager and the Proxy Group will not be influenced by outside sources whose interests conflict with the interests of the Fund and its shareholders. Efforts are made to resolve all conflicts in the best interests of the investment manager's clients. Material conflicts of interest are identified by the Proxy Group based upon analyses of client, distributor, broker-dealer and vendor lists, information periodically gathered from directors and officers, and information derived from other sources, including public filings. In situations where a material conflict of interest is identified, the Proxy Group may vote consistent with the voting recommendation of a Proxy Service; or send the proxy directly to the Fund's board or a committee of the board with the investment manager's recommendation regarding the vote for approval.

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Where a material conflict of interest has been identified, but the items on which the investment manager's vote recommendations differ from a Proxy Service and relate specifically to (1) shareholder proposals regarding social or environmental issues, (2) "Other Business" without describing the matters that might be considered, or (3) items the investment manager wishes to vote in opposition to the recommendations of an issuer's management, the Proxy Group may defer to the vote recommendations of the investment manager rather than sending the proxy directly to the Fund's board or a board committee for approval.

To avoid certain potential conflicts of interest, the investment manager will employ echo voting, if possible, in the following instances: (1) when the Fund invests in an underlying fund in reliance on any one of Sections 12(d) (1) (E), (F), or (G) of the 1940 Act, the rules thereunder, or pursuant to a SEC exemptive order thereunder; (2) when the Fund invests uninvested cash in affiliated money market funds pursuant to the rules under the 1940 Act or any exemptive orders thereunder ("cash sweep arrangement"); or (3) when required pursuant to the Fund's governing documents or applicable law. Echo voting means that the investment manager will vote the shares in the same proportion as the vote of all of the other holders of the underlying fund's shares.

The recommendation of management on any issue is a factor that the investment manager considers in determining how proxies should be voted. However, the investment manager does not consider recommendations from management to be determinative of the investment manager's ultimate decision. As a matter of practice, the votes with respect to most issues are cast in accordance with the position of the company's management. Each issue, however, is considered on its own merits, and the investment manager will not support the position of the company's management in any situation where it deems that the ratification of management's position would adversely affect the investment merits of owning that company's shares.

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*Engagement with issuers.* The investment manager believes that engagement with issuers is important to good corporate governance and to assist in making proxy voting decisions. The investment manager may engage with issuers to discuss specific ballot items to be voted on in advance of an annual or special meeting to obtain further information or clarification on the proposals. The investment manager may also engage with management on a range of environmental, social or corporate governance issues throughout the year.

**Investment manager's proxy voting policies and principles** The investment manager has adopted general proxy voting guidelines, which are summarized below. These guidelines are not an exhaustive list of all the issues that may arise and the investment manager cannot anticipate all future situations. In all cases, each proxy and proposal (including both management and shareholder proposals) will be considered based on the relevant facts and circumstances on a case-by-case basis.

*Board of directors.* The investment manager supports an independent, diverse board of directors, and prefers that key committees such as audit, nominating, and compensation committees be comprised of independent directors. The investment manager supports boards with strong risk management oversight. The investment manager will generally vote against management efforts to classify a board and will generally support proposals to declassify the board of directors. The investment manager will consider withholding votes from directors who have attended less than 75% of meetings without a valid reason. While generally in favor of separating Chairman and CEO positions, the investment manager will review this issue as well as proposals to restore or provide for cumulative voting on a case-by-case basis, taking into consideration factors such as the company's corporate governance guidelines or provisions and performance. The investment manager generally will support non-binding shareholder proposals to require a majority vote standard for the election of directors; however, if these proposals are binding, the investment manager will give careful review on a case-by-case basis of the potential ramifications of such implementation.

In the event of a contested election, the investment manager will review a number of factors in making a decision including management's track record, the company's financial performance, qualifications of candidates on both slates, and the strategic plan of the dissidents and/or shareholder nominees.

*Ratification of auditors of portfolio companies.* The investment manager will closely scrutinize the independence, role and performance of auditors. On a case-by-case basis, the investment manager will examine proposals relating to non-audit relationships and non-audit fees. The investment manager will also consider, on a case-by-case basis, proposals to rotate auditors, and will vote against the ratification of auditors when there is clear and compelling evidence of a lack of independence, accounting irregularities or negligence. The investment manager may also consider whether the ratification of auditors has been approved by an appropriate audit committee that meets applicable composition and independence requirements.



*Management and director compensation.* A company's equity-based compensation plan should be in alignment with the shareholders' long-term interests. The investment manager believes that executive compensation should be directly linked to the performance of the company. The investment manager evaluates plans on a case-by-case basis by considering several factors to determine whether the plan is fair and reasonable, including the ISS quantitative model utilized to assess such plans and/or the Glass Lewis evaluation of the plans. The investment manager will generally oppose plans that have the potential to be excessively dilutive, and will almost always oppose plans that are structured to allow the repricing of underwater options, or plans that have an automatic share replenishment "evergreen" feature. The investment manager will generally support employee stock option plans in which the purchase price is at least 85% of fair market value, and when potential dilution is 10% or less.

Severance compensation arrangements will be reviewed on a case-by-case basis, although the investment manager will generally oppose "golden parachutes" that are considered to be excessive. The investment manager will normally support proposals that require a percentage of directors' compensation to be in the form of common stock, as it aligns their interests with those of shareholders.

The investment manager will review non-binding say-on-pay proposals on a case-by-case basis, and will generally vote in favor of such proposals unless compensation is misaligned with performance and/or shareholders' interests, the company has not provided reasonably clear disclosure regarding its compensation practices, or there are concerns with the company's remuneration practices.

*Anti-takeover mechanisms and related issues.* The investment manager generally opposes anti-takeover measures since they tend to reduce shareholder rights. However, as with all proxy issues, the investment manager conducts an independent review of each anti-takeover proposal. On occasion, the investment manager may vote with management when the research analyst has concluded that the proposal is not onerous and would not harm the Fund or its shareholders' interests. The investment manager generally supports proposals that require shareholder rights' plans ("poison pills") to be subject to a shareholder vote and will closely evaluate such plans on a case-by-case basis to determine whether or not they warrant support. In addition, the investment manager will generally vote against any proposal to issue stock that has unequal or subordinate voting rights. The investment manager generally opposes any supermajority voting requirements as well as the payment of "greenmail." The investment manager generally supports "fair price" provisions and confidential voting. The investment manager will review a company's proposal to reincorporate to a different state or country on a case-by-case basis taking into consideration financial benefits such as tax treatment as well as comparing corporate governance provisions and general business laws that may result from the change in domicile.

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*Changes to capital structure.* The investment manager realizes that a company's financing decisions have a significant impact on its shareholders, particularly when they involve the issuance of additional shares of common or preferred stock or the assumption of additional debt. The investment manager will review, on a case-by-case basis, proposals by companies to increase authorized shares and the purpose for the increase. The investment manager will generally not vote in favor of dual-class capital structures to increase the number of authorized shares where that class of stock would have superior voting rights. The investment manager will generally vote in favor of the issuance of preferred stock in cases where the company specifies the voting, dividend, conversion and other rights of such stock and the terms of the preferred stock issuance are deemed reasonable. The investment manager will review proposals seeking preemptive rights on a case-by-case basis.

*Mergers and corporate restructuring.* Mergers and acquisitions will be subject to careful review by the research analyst to determine whether they would be beneficial to shareholders. The investment manager will analyze various economic and strategic factors in making the final decision on a merger or acquisition. Corporate restructuring proposals are also subject to a thorough examination on a case-by-case basis.

*Environmental and social issues.* The investment manager considers environmental and social issues alongside traditional financial measures to provide a more comprehensive view of the value, risk and return potential of an investment. Companies may face significant financial, legal and reputational risks resulting from poor environmental and social practices, or negligent oversight of environmental or social issues. Franklin Templeton's "Responsible Investment Principles and Policies" describes the investment manager's approach to consideration of environmental, social and governance issues within the investment manager's processes and ownership practices.

In the investment manager's experience, those companies that are managed well are often effective in dealing with the relevant environmental and social issues that pertain to their business. As such, the investment manager will generally give management discretion with regard to environmental and social issues. However, in cases where management and the board have not demonstrated adequate efforts to mitigate material environmental or social risks, have engaged in inappropriate or illegal conduct, or have failed to adequately address current or emergent risks that threaten shareholder value, the investment manager may choose to support well-crafted shareholder proposals that serve to promote or protect shareholder value. This may include seeking appropriate disclosure regarding material environmental and social issues. The investment manager will review shareholder proposals on a case-by-case basis and may support those that serve to enhance value or mitigate risk, are drafted appropriately, and do not disrupt the course of business or require a disproportionate or inappropriate use of company resources.

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The investment manager will consider supporting a shareholder proposal seeking disclosure and greater board oversight of lobbying and corporate political contributions if the investment manager believes that there is evidence of inadequate oversight by the company's board, if the company's current disclosure is significantly deficient, or if the disclosure is notably lacking in comparison to the company's peers.

*Governance matters.* The investment manager generally supports the right of shareholders to call special meetings and act by written consent. However, the investment manager will review such shareholder proposals on a case-by-case basis in an effort to ensure that such proposals do not disrupt the course of business or require a disproportionate or inappropriate use of company resources.

*Proxy access.* In cases where the investment manager is satisfied with company performance and the responsiveness of management, it will generally vote against shareholder proxy access proposals not supported by management. In other instances, the investment manager will consider such proposals on a case-by-case basis, taking into account factors such as the size of the company, ownership thresholds and holding periods, nomination limits (e.g., number of candidates that can be nominated), the intentions of the shareholder proponent, and shareholder base.

*Global corporate governance.* Many of the tenets discussed above are applied to the investment manager's proxy voting decisions for international investments. However, the investment manager must be flexible in these worldwide markets. Principles of good corporate governance may vary by country, given the constraints of a country's laws and acceptable practices in the markets. As a result, it is on occasion difficult to apply a consistent set of governance practices to all issuers. As experienced money managers, the investment manager's analysts are skilled in understanding the complexities of the regions in which they specialize and are trained to analyze proxy issues germane to their regions.

The investment manager will generally attempt to process every proxy it receives for all domestic and foreign securities. However, there may be situations in which the investment manager may be unable to vote a proxy, or may choose not to vote a proxy, such as where: (i) a proxy ballot was not received from the custodian bank; (ii) a meeting notice was received too late; (iii) there are fees imposed upon the exercise of a vote and it is determined that such fees outweigh the benefit of voting; (iv) there are legal encumbrances to voting, including blocking restrictions in certain markets that preclude the ability to dispose of a security if the investment manager votes a proxy or where the investment manager is prohibited from voting by applicable law, economic or other sanctions, or other regulatory or market requirements, including but not limited to, effective Powers of Attorney; (v) the investment manager held shares on the record date but has sold them prior to the meeting date; (vi) a proxy voting service is not offered by the custodian in the market; (vii) the investment manager believes it is not in the best interest of the Fund or its shareholders to vote the proxy for any other reason not

enumerated herein; or (viii) a security is subject to a securities lending or similar program that has transferred legal title to the security to another person.

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In some foreign jurisdictions, even if the investment manager uses reasonable efforts to vote a proxy on behalf of the Fund, such vote or proxy may be rejected because of (a) operational or procedural issues experienced by one or more third parties involved in voting proxies in such jurisdictions; (b) changes in the process or agenda for the meeting by the issuer for which the investment manager does not have sufficient notice; or (c) the exercise by the issuer of its discretion to reject the vote of the investment manager. In addition, despite the best efforts of the Proxy Group and its agents, there may be situations where the investment manager's votes are not received, or properly tabulated, by an issuer or the issuer's agent.

The investment manager or its affiliates may, on behalf of one or more of the proprietary registered investment companies advised by the investment manager or its affiliates, determine to use its best efforts to recall any security on loan where the investment manager or its affiliates (a) learn of a vote on a material event that may affect a security on loan and (b) determine that it is in the best interests of such proprietary registered investment companies to recall the security for voting purposes.

*Procedures for meetings involving fixed income securities.* From time to time, certain custodians may process events for fixed income securities through their proxy voting channels rather than corporate action channels for administrative convenience. In such cases, the Proxy Group will receive ballots for such events on the ISS voting platform. The Proxy Group will solicit voting instructions from the investment manager for each Fund involved. If the Proxy Group does not receive voting instructions from the investment manager, the Proxy Group will take no action on the event. The investment manager may be unable to vote a proxy for a fixed income security, or may choose not to vote a proxy, for the reasons described under the section entitled "Proxy Procedures."

The Proxy Group will monitor such meetings involving fixed income securities for conflicts of interest in accordance with these procedures for fixed income securities. If a fixed income issuer is flagged as a potential conflict of interest, the investment manager may nonetheless vote as it deems in the best interests of the Fund. The investment manager will report such decisions on an annual basis to the Fund board as may be required.

Shareholders may view the complete Policies online at [franklintempleton.com](http://franklintempleton.com). Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301-1923, Attention: Proxy Group. Copies of the Fund's proxy voting records are available online at [franklintempleton.com](http://franklintempleton.com) and posted on the SEC website at [www.sec.gov](http://www.sec.gov). The proxy voting records are updated each year by August 31 to reflect the most recent 12-month period ended June 30.

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**Item 8. Portfolio Managers of Closed-End Management Investment Companies.**

(a) (1) As of February 24, 2017, the portfolio managers of the Fund are as follows:

**Mark Mobius, Ph.D.,** *Executive Chairman of Templeton Emerging Markets Group and Portfolio Manager of Asset Management.*

Dr. Mobius has been a portfolio manager of the Fund since inception. He has primary responsibility for the investments of the Fund. He has final authority over all aspects of the Fund's investment portfolio, including but not limited to, purchases and sales of individual securities, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated management requirements. The degree to which he may perform these functions, and the nature of these functions, may change from time to time. Dr. Mobius joined Franklin Templeton Investments in 1987.

**Eddie Chow,** *Investment Analyst of Templeton Asset Management Ltd.*

Mr. Chow heads the team with primary responsibility for allocation of investments for the Fund. He has been working on the Fund since 2000 providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. Mr. Chow joined Franklin Templeton Investments in 1994.

(a) (2) This section reflects information about the portfolio managers as of the fiscal year ended December 31, 2016.

The following table shows the number of other accounts managed by each portfolio manager and the total assets in the accounts managed within each category:

	Assets of Other Registered Investment	Assets of Other Pooled Investment
Number of Other		

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Name	Registered Investment Companies Managed	Companies Managed (x \$1 million)	Number of Other Investment Vehicles Managed <sup>1</sup>	Vehicles Pooled Managed (x \$1 million) <sup>1</sup>	Number of Other Accounts Managed <sup>1</sup>	Assets of Other Accounts Managed (x \$1 million) <sup>1</sup>
Mark Mobius	8	3,008.2	37 <sup>2</sup>	11,729.5	24 <sup>2</sup>	6,360.2
Eddie Chow	1	268.3	1	513.2	3	1.8

1. The various pooled investment vehicles and accounts listed are managed by a team of investment professionals. Accordingly, the portfolio manager listed would not be solely responsible for managing such listed amounts.

2. Dr. Mobius manages other accounts with \$360.9 million in assets with a performance fee, and a pooled investment vehicle with \$115.8 million in assets with a performance fee.

Portfolio managers that provide investment services to the Fund may also provide services to a variety of other investment products, including other funds, institutional accounts and private accounts. The advisory fees for some of such other products and accounts may be different than that charged to the Fund and may include performance based compensation (as noted, in the chart above, if any). This may result in fees that are higher (or lower) than the advisory fees paid by the Fund. As a matter of policy, each fund or account is managed solely for the benefit of the beneficial owners thereof. As discussed below, the separation of the trading execution function from the portfolio management function and the application of objectively based trade allocation procedures help to mitigate potential conflicts of interest that may arise as a result of the portfolio managers managing accounts with different advisory fees.

*Conflicts.* The management of multiple funds, including the Fund, and accounts may also give rise to potential conflicts of interest if the funds and other accounts have different objectives, benchmarks, time horizons, and fees as the portfolio manager must allocate his or her time and investment ideas across multiple funds and accounts. The investment manager seeks to manage such competing interests for the time and attention of portfolio managers by having portfolio managers focus on a particular investment discipline. Most other accounts managed by a portfolio manager are managed using the same investment strategies that are used in connection with the management of the Fund. Accordingly, portfolio holdings, position sizes, and industry and sector exposures tend to be similar across similar portfolios, which may minimize the potential for conflicts of interest. As noted above, the separate management of the trade execution and valuation functions from the portfolio management process also helps to reduce potential conflicts of interest. However, securities selected for funds or accounts other than the Fund may outperform the securities selected for the Fund. Moreover, if a portfolio manager identifies a limited investment opportunity that may be suitable for more than one fund or other account, the Fund may not be able to take full advantage of that opportunity due to an allocation of that opportunity across all eligible funds and other accounts. The investment manager seeks to manage such potential conflicts by using procedures intended to provide a fair allocation of buy and sell opportunities among funds and other accounts.

The structure of a portfolio manager's compensation may give rise to potential conflicts of interest. A portfolio manager's base pay and bonus tend to increase with additional and more complex responsibilities that include increased assets under management. As such, there may be a relationship between a portfolio manager's marketing or sales efforts and his or her bonus.

Finally, the management of personal accounts by a portfolio manager may give rise to potential conflicts of interest. While the funds and the investment manager have adopted a code of ethics which they believe contains provisions designed to prevent a wide range of prohibited activities by portfolio managers and others with respect to their personal trading activities, there can be no assurance that the code of ethics addresses all individual conduct that could result in conflicts of interest.

The investment manager and the Fund have adopted certain compliance procedures that are designed to address these, and other, types of conflicts. However, there is no guarantee that such procedures will detect each and every situation where a conflict arises.



*Compensation.* The investment manager seeks to maintain a compensation program that is competitively positioned to attract, retain and motivate top-quality investment professionals. Portfolio managers receive a base salary, a cash incentive bonus opportunity, an equity compensation opportunity, and a benefits package. Portfolio manager compensation is reviewed annually and the level of compensation is based on individual performance, the salary range for a portfolio manager's level of responsibility and Franklin Templeton guidelines. Portfolio managers are provided no financial incentive to favor one fund or account over another. Each portfolio manager's compensation consists of the following three elements:

**Base salary** Each portfolio manager is paid a base salary.

**Annual bonus** Annual bonuses are structured to align the interests of the portfolio manager with those of the Fund's shareholders. Each portfolio manager is eligible to receive an annual bonus. Bonuses generally are split between cash and equity which vest over a three-year period. The deferred equity-based compensation is intended to build a vested interest of the portfolio manager in the mutual funds they advise. The bonus plan seeks to provide a competitive level of annual bonus compensation, commensurate with the portfolio manager's consistently strong investment performance. In accordance with Franklin Templeton guidelines, the Chief Investment Officer and/or other officers of the investment manager who also bear responsibility for the account, have discretion in the granting of annual bonuses. The following factors are generally considered when determining bonuses:

- *Stock selection.* The quality and success of a portfolio manager's purchase and sale recommendations are considered when granting bonus awards.
- *Investment performance.* Primary consideration is given to the performance of their portfolios relative to those portfolios with similar objectives and restrictions.
- *Non-investment performance.* The more qualitative contributions of a portfolio manager to the company's business and the investment management team, such as superior client service, are evaluated in determining the amount of any bonus award.
- *Responsibilities.* The characteristics and complexity of accounts managed by the portfolio manager are factored in the manager's appraisal.
- *Research.* Where the portfolio management team also has research responsibilities, each portfolio manager is evaluated on productivity and quality of recommendations over time.

**Additional long-term equity-based compensation** Portfolio managers may also be awarded restricted shares or units of Franklin Resources stock or restricted shares or units of one or more mutual funds. Vesting of such deferred equity-based compensation awards is subject to achievement of key corporate and investment management metrics, designed to retain key talent through attractive incentives, whilst maintaining line of sight to both corporate and Fund performance.



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Portfolio managers also participate in benefit plans and programs available generally to all employees of the investment manager.

*Ownership of Fund shares.* The investment manager has a policy of encouraging portfolio managers to invest in the funds they manage. Exceptions arise when, for example, a fund is closed to new investors or when tax considerations or jurisdictional constraints cause such an investment to be inappropriate for the portfolio manager. The following is the dollar range of Fund shares beneficially owned by each portfolio manager (such amounts may change from time to time):

Dollar Range of Fund Shares Beneficially Owned

Portfolio Manager	
Mark Mobius	None
Eddie Chow	None

Note: Because the portfolio managers are all foreign nationals, they do not hold shares in this U.S. registered fund, however they own shares in other similar Franklin Templeton funds managed by them, registered offshore and appropriate for foreign nationals.

**Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.**

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Program
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Month #1 (7/1/16 - 7/31/16)	42,195.000	17.44	42,195.000
Month #2 (8/1/16 - 8/29/16)	2,495.000	18.63	2,495.000
Month #3 (9/1/16 - - 9/30/16)		-	-
Month #4 (10/1/16 - 10/31/16)	115,144.000	17.59	115,144.000
Month #5 (11/1/16 - 11/30/16)	96,616.000	17.01	96,616.000
Month #6 (12/1/16 -- 12/31/16)		-	-
	256,450.000		256,450.000
Total			

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1. The Board previously authorized an open-market share repurchase program pursuant to which the Fund may purchase, from time to time, Fund shares in open-market transactions, at the discretion of management. Effective February 26, 2013, the Board approved a modification to the Fund's previously announced open-market share repurchase program to authorize the Fund to repurchase up to 10% of the Fund's shares outstanding in open market transactions as of that date, at the discretion of management. Since the inception of the program, the Fund had repurchased a total of 8,771,567 shares.

**Item 10. Submission of Matters to a Vote of Security Holders.**

There have been no changes to the procedures by which shareholders may recommend nominees to the Registrant's Board of Directors that would require disclosure herein.

**Item 11. Controls and Procedures.**

(a) **Evaluation of Disclosure Controls and Procedures.** The Registrant maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Registrant's filings under the Securities Exchange Act of 1934 and the Investment Company Act of 1940 is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission. Such information is accumulated and communicated to the Registrant's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. The Registrant's management, including the principal executive officer and the principal financial officer, recognizes that any set of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Within 90 days prior to the filing date of this Shareholder Report on Form N-CSR, 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

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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 Shareholder Report on Form N-CSR.

**Item 12. Exhibits.**

**(a) (1)** Code of Ethics

**(a) (2)** Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Laura F. Ferguson, Chief Executive Officer - Finance and Administration, and Mark H. Otani, Chief Financial Officer and Chief Accounting Officer

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(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Laura F. Fergerson, Chief Executive Officer - Finance and Administration, and Mark H. Otani, Chief Financial Officer and Chief Accounting Officer

**SIGNATURES**

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

**Templeton Dragon Fund, Inc.**

By /s/Laura F. Fergerson

Laura F. Fergerson

Chief Executive Officer -

Finance and Administration

Date February 24, 2017

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. Ferguson

Chief Executive Officer -

Finance and Administration

Date February 24, 2017

By /s/Mark H. Otani

Mark H. Otani

Chief Financial Officer and

Chief Accounting Officer

Date February 24, 2017