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TEMPLETON DRAGON FUND INC
Form N-Q
November 28, 2006

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF
REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-08394

TEMPLETON DRAGON FUND, INC.

(Exact name of registrant as specified in charter)

500 EAST BROWARD BLVD., SUITE 2100, FORT LAUDERDALE, FL 33394-3091

(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: 9/30/06

ITEM 1. SCHEDULE OF INVESTMENTS.

Templeton Dragon Fund, Inc.

QUARTERLY STATEMENT OF INVESTMENTS
SEPTEMBER 30, 2006

CONTENTS

| | |
|---|---|
| Statement of Investments | 3 |
| Notes to Statement of Investments | 7 |

[LOGO] (R)
FRANKLIN TEMPLETON
INVESTMENTS

Franklin o TEMPLETON o Mutual Series

Quarterly Statement of Investments | 1

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Templeton Dragon Fund, Inc.

STATEMENT OF INVESTMENTS, SEPTEMBER 30, 2006 (UNAUDITED)

| | COUNTRY |
|--|----------------|
| COMMON STOCKS 95.3% | |
| AIR FREIGHT & LOGISTICS 0.1% | |
| Sinotrans Ltd., H | China |
| AIRLINES 0.4% | |
| Air China Ltd., H | China |
| a Air China Ltd., H, 144A | China |
| AUTO COMPONENTS 1.5% | |
| Cheng Shin Rubber Industry Co. Ltd. | Taiwan |
| Norstar Founders Group Ltd. | China |
| AUTOMOBILES 0.3% | |
| Brilliance China Automotive Holdings Ltd. | China |
| Chongqing Changan Automobile Co. Ltd., B | China |
| CAPITAL MARKETS 0.5% | |
| Yuanta Core Pacific Securities Co. | Taiwan |
| COMMERCIAL BANKS 11.0% | |
| a,b Bank of China Ltd., H, 144A | China |
| China Construction Bank, H | China |
| a China Construction Bank, H, 144A | China |
| a,b China Merchants Bank Co. Ltd., H, 144A | China |
| Chinatrust Financial Holding Co. Ltd. | Taiwan |
| HSBC Holdings PLC | United Kingdom |
| Mega Financial Holding Co. Ltd. | Taiwan |
| COMMUNICATIONS EQUIPMENT 0.4% | |
| D-Link Corp. | Taiwan |
| ZTE Corp., H | China |
| COMPUTERS & PERIPHERALS 3.3% | |
| Acer Inc. | Taiwan |
| Advantech Co. Ltd. | Taiwan |
| Asustek Computer Inc. | Taiwan |
| LITE-ON IT Corp. | Taiwan |
| Lite-On Technology Corp. | Taiwan |

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| | |
|--------------------------------------|-------|
| CONSTRUCTION MATERIALS 0.2% | |
| Anhui Conch Cement Co. Ltd., H | China |

Quarterly Statement of Investments | 3

Templeton Dragon Fund, Inc.

STATEMENT OF INVESTMENTS, SEPTEMBER 30, 2006 (UNAUDITED) (CONTINUED)

| ----- | | COUNTRY |
|---|--|-----------|
| ----- | | ----- |
| COMMON STOCKS (CONTINUED) | | |
| DISTRIBUTORS 2.9% | | |
| China Resources Enterprise Ltd. | | China |
| Test-Rite International Co. Ltd. | | Taiwan |
| | | |
| DIVERSIFIED TELECOMMUNICATION SERVICES 1.3% | | |
| China Telecom Corp. Ltd., H | | China |
| | | |
| ELECTRIC UTILITIES 3.8% | | |
| Cheung Kong Infrastructure Holdings Ltd. | | Hong Kong |
| | | |
| ELECTRICAL EQUIPMENT 0.8% | | |
| BYD Co. Ltd., H | | China |
| Phoenixtec Power Co. Ltd. | | Taiwan |
| | | |
| ELECTRONIC EQUIPMENT & INSTRUMENTS 1.0% | | |
| Delta Electronics Inc. | | Taiwan |
| | | |
| FOOD & STAPLES RETAILING 14.1% | | |
| Dairy Farm International Holdings Ltd. | | Hong Kong |
| | | |
| FOOD PRODUCTS 0.5% | | |
| Uni-President Enterprises Corp. | | Taiwan |
| | | |
| HOTELS RESTAURANTS & LEISURE 0.6% | | |
| Hongkong and Shanghai Hotels Ltd. | | Hong Kong |
| | | |
| HOUSEHOLD DURABLES 0.1% | | |
| Samson Holding Ltd. | | China |
| | | |
| INDEPENDENT POWER PRODUCERS & ENERGY TRADERS 3.4% | | |
| Datang International Power Generation Co. Ltd., H | | China |
| Guangdong Electric Power Development Co. Ltd., B | | China |
| Huadian Power International Corp. Ltd., H | | China |
| Huaneng Power International Inc., H | | China |

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| | |
|--|-------------|
| INDUSTRIAL CONGLOMERATES 4.4% | |
| Citic Pacific Ltd. | China |
| LG Corp. | South Korea |
| Shanghai Industrial Holdings Ltd. | China |

| | |
|--|-------|
| INSURANCE 1.0% | |
| China Life Insurance Co. Ltd., H | China |

| | |
|------------------------------------|-------|
| IT SERVICES 0.4% | |
| Travelsky Technology Ltd., H | China |

4 | Quarterly Statement of Investments

Templeton Dragon Fund, Inc.

STATEMENT OF INVESTMENTS, SEPTEMBER 30, 2006 (UNAUDITED) (CONTINUED)

COUNTRY

COMMON STOCKS (CONTINUED)

MACHINERY 1.8%

| | |
|---|--------|
| China International Marine Containers (Group) Co. Ltd., B | China |
| Yungtay Engineering Co. Ltd. | Taiwan |

MEDIA 0.3%

| | |
|-------------------------------|-----------|
| a Next Media Ltd., 144A | Hong Kong |
|-------------------------------|-----------|

METALS & MINING 0.1%

| | |
|---------------------------------------|-------|
| Aluminum Corp. of China Ltd., H | China |
| China Oriental Group Co. Ltd. | China |

OFFICE ELECTRONICS 0.1%

| | |
|-----------------------------|--------|
| Kinpo Electronics Inc. | Taiwan |
|-----------------------------|--------|

OIL, GAS & CONSUMABLE FUELS 17.8%

| | |
|---|-------|
| China Petroleum and Chemical Corp., H | China |
| China Shenhua Energy Co. Ltd., H | China |
| CNOOC Ltd. | China |
| a CNOOC Ltd., 144A | China |
| PetroChina Co. Ltd., H | China |
| a PetroChina Co. Ltd., H, 144A | China |

PHARMACEUTICALS 0.1%

| | |
|--|-------|
| Tong Ren Tang Technologies Co. Ltd., H | China |
|--|-------|

REAL ESTATE 4.9%

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| | |
|----------------------------------|-----------|
| Cheung Kong (Holdings) Ltd. | Hong Kong |
| Hang Lung Group Ltd. | Hong Kong |
| Henderson Investment Ltd. | Hong Kong |

| | |
|--|-------------|
| SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT 4.5% | |
| Elan Microelectronics Corp. | Taiwan |
| Faraday Technology Corp. | Taiwan |
| Realtek Semiconductor Corp. | Taiwan |
| Samsung Electronics Co. Ltd. | South Korea |
| Sunplus Technology Co. Ltd. | Taiwan |
| Taiwan Semiconductor Manufacturing Co. Ltd. | Taiwan |

| | |
|--|-----------|
| TEXTILES, APPAREL & LUXURY GOODS 0.5% | |
| Tack Fat Group International Ltd. | Hong Kong |
| Tainan Enterprises Co. Ltd. | Taiwan |

Quarterly Statement of Investments | 5

Templeton Dragon Fund, Inc.

STATEMENT OF INVESTMENTS, SEPTEMBER 30, 2006 (UNAUDITED) (CONTINUED)

| ----- | | COUNTRY |
|---|--|---------------|
| ----- | | ----- |
| COMMON STOCKS (CONTINUED) | | |
| TRANSPORTATION INFRASTRUCTURE 2.1% | | |
| Cosco Pacific Ltd. | | China |
| b Hainan Meilan International Airport Co. Ltd., H | | China |
| Hopewell Holdings Ltd. | | Hong Kong |
| WIRELESS TELECOMMUNICATION SERVICES 11.1% | | |
| China Mobile (Hong Kong) Ltd. | | China |
| Taiwan Mobile Co. Ltd. | | Taiwan |
| TOTAL COMMON STOCKS (COST \$488,452,194) | | |
| SHORT TERM INVESTMENTS (COST \$40,253,335) 4.4% | | |
| MONEY MARKET FUND 4.4% | | |
| c Franklin Institutional Fiduciary Trust Money Market Portfolio, 4.95% | | United States |
| TOTAL INVESTMENTS (COST \$528,705,529) 99.7% | | |
| OTHER ASSETS, LESS LIABILITIES 0.3% | | |
| NET ASSETS 100.0% | | |

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- a Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Fund's Board of Directors. At September 30, 2006, the aggregate value of these securities was \$53,492,927, representing 5.95% of net assets.
- b Non-income producing for the twelve months ended September 30, 2006.
- c The Franklin Institutional Fiduciary Trust Money Market Portfolio is managed by an affiliate of the Fund's investment manager. The rate shown is the annualized seven-day yield at period end.

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

Templeton Dragon Fund, Inc.

NOTES TO STATEMENT OF INVESTMENTS (UNAUDITED)

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

1. INCOME TAXES

At September 30, 2006, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

| | |
|--|---------------|
| Cost of investments | \$529,608,463 |
| | ===== |
| Unrealized appreciation | \$375,092,496 |
| Unrealized depreciation | (7,179,409) |
| | ----- |
| Net unrealized appreciation (depreciation) | \$367,913,087 |
| | ===== |

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

Quarterly Statement of Investments | 7

ITEM 2. CONTROLS AND PROCEDURES.

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

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

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

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

ITEM 3. EXHIBITS.

(a) Certifications pursuant to Section 30a-2 of the Investment Company Act of 1940 of Jimmy D. Gambill, Chief Executive Officer - Finance and Administration, and Galen G. Vetter, Chief Financial 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/JIMMY D. GAMBILL

Jimmy D. Gambill
Chief Executive Officer -
Finance and Administration
Date November 27, 2006

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/JIMMY D. GAMBILL

Jimmy D. Gambill
Chief Executive Officer -
Finance and Administration
Date November 27, 2006

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By /s/GALEN G. VETTER

Galen G. Vetter

Chief Financial Officer

Date November 27, 2006