

TEMPLETON DRAGON FUND INC
Form N-CSRS
August 31, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM N-CSRS

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. 2nd Street, Fort Lauderdale, FL 33301-1923

(Address of principal executive offices) (Zip code)

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

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(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: 6/30/17

Item 1. Reports to Stockholders.

Semiannual Report

June 30, 2017

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Not part of the semiannual
report 1

Semiannual Report

Templeton Dragon Fund, Inc.

Dear Shareholder:

This semiannual report for Templeton Dragon Fund, Inc. covers the period ended June 30, 2017.

Your Fund's Goal and Main Investments

The Fund seeks long-term capital appreciation by investing at least 45% of its total assets in equity securities of China companies.

Performance Overview

The Fund posted cumulative total returns of +23.14% in market price terms and +20.73% in net asset value terms for the six months under review. You can find the Fund's long-term performance data in the Performance Summary on page 6.

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.

Economic and Market Overview

China's economy, as measured by gross domestic product (GDP), grew an estimated 6.9% in the first half of 2017 compared to the prior-year period, driven by solid growth in industrial production, services, fixed-asset investment, retail sales, and imports and exports.¹ Additionally, per-capita income grew, with the gap between urban and rural incomes continuing to narrow. The People's Bank of China kept its benchmark interest rate unchanged during the period.

Greater China stocks, along with other emerging market stocks, rose significantly during the six months under review, as corporate earnings growth and encouraging economic data from China and other emerging market countries helped offset investor concerns about lower commodity prices and various geopolitical tensions. Further supporting stocks were emerging market currencies' overall strength against the U.S. dollar and

Geographic Composition

Based on Total Net Assets as of 6/30/17

subsiding concerns about the potential for a protectionist U.S. trade policy. Chinese stocks also benefited from a relatively stable currency, easing concern about capital outflows, an acceleration in initial public offerings, and MSCI's decision to include domestic Class A shares in the investable MSCI Emerging Markets (EM) Index. Currency appreciation and foreign investment inflows supported Taiwanese stocks.

In this environment, Greater China stocks, as measured by the MSCI Golden Dragon Index, generated a +23.49% total return for the six months ended June 30, 2017.² The MSCI China Index generated a total return of +24.96%, compared with +21.83% for the MSCI Taiwan Index and +21.56% for the MSCI Hong Kong Index.²

Investment Strategy

Our investment strategy employs a fundamental, value-oriented, long-term approach. In selecting companies for investment, we will consider overall growth prospects, competitive positions in export markets, technologies, research and development, productivity, labor costs, and raw material costs and sources. Additional considerations include profit margins, returns on investment, capital resources, government regulation, management and other factors in comparison to other companies around the world that we believe are comparable.

1. Source: The website of the National Bureau of Statistics of the People's Republic of China (www.stats.gov.cn).
2. Source: Morningstar.

The indexes are unmanaged and include reinvestment of any income or distributions. They do not reflect any fees, expenses or sales charges. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Consolidated Statement of Investments (SOI). The Consolidated SOI begins on page 9.

Our approach to selecting investments emphasizes fundamental, company-by-company analysis (rather than broader analyses of specific industries or sectors of the economy), to construct an action list from which we make our buy decisions. Although we will consider historical value measures, the primary factor in selecting securities for investment by the Fund will be the company's current price relative to its long-term earnings potential.

Manager's Discussion

During the period under review, the largest contributor to the Fund's absolute performance was our investment in the offshore fund that is managed by our team and dedicated to investments in China's domestic A-share market. Key A-share contributors included China Merchants Bank, Ping An Insurance (Group) Co. of China and Jiangsu Hengrui Medicine. Investors cheered China Merchants Bank's first-quarter 2017 results, as the company reported earnings growth above that of its peers, partly due to its strong retail business and resilient margins. Ping An Insurance, a leading financial conglomerate involved in insurance, banking, brokerage, trust and other financial services businesses, is well positioned to benefit from the growth in China's insurance market, in our assessment, due to its strong agency force, first-mover advantage in automobile insurance and good profitability. Jiangsu Hengrui Medicine is one of China's leading chemical drug manufacturers, specializing in antineoplastic and surgical medicines. The company reported double-digit growth in sales and net profit for 2017's first quarter.

More broadly, Chinese shares benefited from MSCI's announcement in June 2017 about its plans to include the domestic A shares into the investable MSCI EM Index. Although the inclusion will take another year to implement and the first inclusion will be kept at a relatively minimal percentage, this is a very positive development for the domestic market as this could increase participation in the A-share market and continue to push regulators in China to lift regulatory standards.

In addition to this news, Chinese shares were buoyed by positive earnings growth and outlook, stability in the renminbi and official statements that eased investor concerns about potential monetary policy tightening. Acceleration in domestic consumption, a revival of private investments, a recovery in export demand and easing concerns about trade friction with the U.S. further supported sentiment in the Chinese economy. China's first-quarter GDP growth of 6.9% year-over-year also confirmed a strong start to 2017.

Top 10 Holdings

6/30/17

Company

<i>Sector/Industry, Country</i>	% of Total Net Assets
Taiwan Semiconductor Manufacturing Co. Ltd.	9.8%
<i>Semiconductors & Semiconductor Equipment, Taiwan</i>	
Tencent Holdings Ltd.	9.0%
<i>Internet Software & Services, China</i>	
Alibaba Group Holding Ltd.	5.6%
<i>Internet Software & Services, China</i>	
China Petroleum & Chemical Corp.	4.9%

<i>Oil, Gas & Consumable Fuels, China</i>	
Nine Dragons Paper Holdings Ltd.	4.7%
<i>Paper & Forest Products, China</i>	
Dairy Farm International Holdings Ltd.	3.4%
<i>Food & Staples Retailing, Hong Kong</i>	
Anta Sports Products Ltd.	3.3%
<i>Textiles, Apparel & Luxury Goods, China</i>	
AIA Group Ltd.	3.1%
<i>Insurance, Hong Kong</i>	
Industrial and Commercial Bank of China Ltd.	2.8%
<i>Banks, China</i>	
China Construction Bank Corp.	2.7%

Banks, China

Other key individual contributors to absolute performance during the reporting period included investments in Tencent Holdings and Nine Dragons Paper Holdings.

Tencent is one of the world's largest and most widely used Internet service portals. The company provides value-added Internet, mobile and telecommunication services and online advertising under the strategic goal of providing users with one-stop online lifestyle services. Over the last decade, Tencent has maintained steady growth under its user-oriented operating strategies. Internet stocks in China rebounded in the first half of 2017 following pressure in the fourth quarter of 2016. Tencent's shares further benefited from a better-than-expected double-digit increase in first-quarter revenues, driven by the online gaming, online advertising and social networking segments.

Nine Dragons Paper is Asia's largest containerboard paper manufacturer. The company reported strong growth in the first half of its fiscal-year 2017 sales and net profits compared to the same period in 2016, helped by price increases as well as volumes. The industry's operating environment has been aided by capacity reductions in recent quarters, amid government closures of inefficient capacities due to environmental concerns, as well as a number of regional price hikes in the paper industry. Demand remained solid, driven by domestic consumption and packaging for e-commerce merchandise.

TEMPLETON DRAGON FUND, INC.

In contrast, key detractors from the Fund's absolute performance included positions in Jiangling Motors, PetroChina and Ginko International.

Jiangling Motors is a China-based automobile manufacturer primarily focused on vans, trucks and pickups across a number of brands such as Ford Motor (through a joint venture), Isuzu Motors and Landwind. It also produces spare parts and distributes used vehicles. Ford is a strategic investor in Jiangling Motors with a 32% stake. The company reported worse-than-expected first-quarter corporate results including a double-digit year-over-year decline in earnings and lower gross margins, pressuring share-price performance.

PetroChina, China's largest oil and gas producer and distributor, is engaged in the exploration, production and marketing of crude oil and natural gas. The company is also steadily expanding its service stations and downstream activities. Lower natural gas and crude oil prices impacted companies across the energy sector globally, including China. Reports that better technology could lower the production cost of shale oil, making a reduction in global inventory and recovery of crude prices much slower than originally expected, also pressured sentiment.

Ginko International is the market leader in China's contact lens and contact lens solution market. Ginko manufactures and distributes contact lenses under its own brands, Hydron (mid-to-high end) and Horien (mid-to-low end) through its extensive distribution network. The company reported disappointing first-quarter 2017 corporate results. The temporary closure of a plant in the Jiangsu province due to a failed inspection raised concerns about demand and impact on Ginko's brand value.

In the last six months, we increased the Fund's position in the information technology (IT) sector and made some purchases in the health care and industrials sectors due to fundamentals and prospects that we considered attractive.³ Key purchases included additional investments in the aforementioned Ginko International, as well as in Alibaba Group Holding, China's

largest e-commerce company, and China Overseas Land & Investment, a major Chinese property developer.

Conversely, we reduced the Fund's holdings in the consumer staples, consumer discretionary and utilities sectors and conducted some sales in the materials sector due to the availability of what we considered to be more attractive investment opportunities in the greater China region.⁴ We reduced the Fund's investments in the domestic A-share market, which were held through the offshore China fund managed by our team after we repatriated capital gains. Key sales included reducing the Fund's positions in the aforementioned Nine Dragons Paper, as well as in Asian retailer Dairy Farm International Holdings and Dah Chong Hong, a Chinese diversified business conglomerate with interests in motor vehicles, food and logistics.

Thank you for your continued participation in Templeton Dragon Fund. We look forward to serving your future investment needs.

Sincerely,

Eddie Chow, CFA

Portfolio Manager

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3. The IT sector comprises communications equipment; electronic equipment, instruments and components; Internet software and services; IT services; semiconductors and semiconductor equipment; and technology hardware, storage and peripherals in the Consolidated SOI. The health care sector comprises health care equipment and supplies, health care providers and services, and pharmaceuticals in the Consolidated SOI. The industrials sector comprises construction and engineering, electrical equipment, industrial conglomerates, machinery, marine, professional services and transportation infrastructure in the Consolidated SOI.

4. The consumer staples sector comprises beverages, food and staples retailing, and food products in the Consolidated SOI. The consumer discretionary sector comprises auto components; automobiles; distributors; hotels, restaurants and leisure; household durables; Internet and direct marketing retail; leisure products; media; and textiles, apparel and luxury goods in the Consolidated SOI. The utilities sector comprises electric utilities and independent power and renewable electricity producers in the Consolidated SOI. The materials sector comprises chemicals, construction materials, metals and mining, and paper and forest products in the Consolidated SOI.

See www.franklintempletondatasources.com for additional data provider information.

The foregoing information reflects our analysis, opinions and portfolio holdings as of June 30, 2017, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

TEMPLETON DRAGON FUND, INC.

Performance Summary as of June 30, 2017

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. Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses. Capital gain distributions are net profits realized from the sale of portfolio securities.

Performance as of 6/30/17¹

	Cumulative Total Return ²		Average Annual Total Return ²	
	Based on NAV ³	Based on market price ⁴	Based on NAV ³	Based on market price ⁴
6-Month	+20.73%	+23.14%	+20.73%	+23.14%
1-Year	+24.07%	+27.92%	+24.07%	+27.92%
5-Year	+35.12%	+37.10%	+6.20%	+6.51%
10-Year	+68.92%	+91.23%	+5.38%	+6.70%

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.

The Fund may invest in eligible China A shares (Stock Connect Securities) listed and traded on the Shanghai Stock Exchange through the Shanghai-Hong Kong Stock Connect program, as well as eligible China A shares listed and traded on the Shenzhen Stock Exchange through the Shenzhen-Hong Kong Stock Connect program (collectively, Stock Connect). However, trading through Stock Connect is subject to a number of restrictions that may affect the Fund's investments and returns. For example, investors in Stock Connect Securities are generally subject to Chinese securities regulations and the listing rules of the respective Exchange, among other restrictions. In addition, Stock Connect Securities generally may not be sold, purchased or otherwise

transferred other than through Stock Connect in accordance with applicable rules. While Stock Connect is not subject to individual investment quotas, daily and aggregate investment quotas apply to all Stock Connect participants, which may restrict or preclude the Fund's ability to invest in Stock Connect Securities. Trading in the Stock Connect program is subject to trading, clearance and settlement procedures that are untested in China, which could pose risks to the Fund. Finally, the withholding tax treatment of dividends and capital gains payable to overseas investors currently is unsettled. The application and interpretation of the laws and regulations of Hong Kong and China, and the rules, policies or guidelines published or applied by relevant regulators and exchanges in respect of the Stock Connect program, are uncertain, and they may have a detrimental effect on the Fund's investments and returns.

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 12/31/17. 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.

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.

Portfolio Management

Effective April 3, 2017, Eddie Chow, director of China Strategy for Templeton Emerging Markets Group (TEMG), and previously co-lead portfolio manager for Templeton Dragon Fund, Inc., became sole lead portfolio manager for the Fund as its previous co-lead portfolio manager Dr. Mark Mobius stepped off the Fund's portfolio management team. Mr. Chow has been with Franklin Templeton since 1994. Dr. Mobius will remain as executive chairman for TEMG, contributing investment ideas and research for the group.

Fund By-Laws

The Fund's Board unanimously approved amendments to the Fund's By-Laws, effective January 1, 2018 to change to a majority of votes cast voting standard for uncontested Director elections and to a plurality voting standard for contested Director elections. In addition, the Board has unanimously adopted guidelines on director elections. Under the guidelines, any Director who is not re-elected shall tender his or her resignation to the Fund's Nominating Committee. The Fund's Nominating Committee will consider the tendered resignation in accordance with all factors believed relevant. The guidelines further provide that the Board will issue a press release describing its decision regarding a Director's resignation, including the reason for rejecting the resignation offer, if applicable.

 TEMPLETON DRAGON FUND, INC.
Consolidated Financial Highlights

	Six Months Ended June 30, 2017 (unaudited)^a	2016^a	Year Ended December 31,			
			2015^a	2014^a	2013	2012
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	\$19.05	\$20.51	\$26.35	\$28.46	\$31.19	\$27.85
Income from investment operations:						
Net investment income ^b	0.12	0.27	0.30	0.49	0.53	0.55
Net realized and unrealized gains (losses)	3.82	(0.06)	(2.16)	1.63	(1.73)	4.25
Total from investment operations	3.94	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	0.01	0.03	0.03	0.08	0.14	0.02
Net asset value, end of period	\$23.00	\$19.05	\$20.51	\$26.35	\$28.46	\$31.19
Market value, end of period ^c	\$20.17	\$16.38	\$17.81	\$24.04	\$25.88	\$28.44
Total return (based on market value per share) ^d	23.14%	1.03%	(8.63)%	9.74%	(3.07)%	18.07%

Ratios to average net assets^e

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Expenses	1.36% ^{f,g}	1.35% ^{f,g}	1.36% ^f	1.35% ^f	1.31%	1.31%
Net investment income	1.11%	1.35%	1.15%	1.75%	1.74%	1.85%

Supplemental data

Net assets, end of period (000 s)	\$787,107	\$654,805	\$713,772	\$925,020	\$1,027,479	\$1,174,229
Portfolio turnover rate	21.09% ^h	46.85% ^h	71.98% ^h	21.58% ^h	4.59%	2.50%

^aBased on the Consolidated Financial Highlights.

^bBased on average daily shares outstanding.

^cBased on the last sale on the New York Stock Exchange.

^dTotal return is not annualized for periods less than one year.

^eRatios are annualized for periods less than one year.

^fBenefit of waiver and payments by affiliates rounds to less than 0.01%.

^gBenefit of expense reduction rounds to less than 0.01%.

^hExcludes the value of portfolio securities associated with intercompany transactions.

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

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TEMPLETON DRAGON FUND, INC.

Consolidated Statement of Investments, June 30, 2017 (unaudited)

	Country	Shares	Value
Common Stocks 97.1%			
Auto Components 0.9%			
^a Fuyao Glass Industry Group Co. Ltd., A	China	1,242,900	\$ 4,772,982
^a Ningbo Joyson Electronic Corp., A	China	170,700	808,074
Weifu High-Technology Co. Ltd., B	China	582,819	1,377,969
^{b,c} Xinyi Automobile Glass Hong Kong Enterprises Ltd., Reg S	Hong Kong	37,250	7,300
			6,966,325
Automobiles 4.2%			
Chongqing Changan Automobile Co. Ltd., B	China	5,357,019	7,066,991
Dongfeng Motor Group Co. Ltd., H	China	13,414,000	15,857,477
Jiangling Motors Corp. Ltd., B	China	4,916,708	10,340,027
			33,264,495
Banks 8.1%			
BOC Hong Kong (Holdings) Ltd.	Hong Kong	394,600	1,887,651
China Construction Bank Corp., H	China	27,602,272	21,388,204
^a China Merchants Bank Co. Ltd., A	China	5,301,146	18,676,633
^a Industrial and Commercial Bank of China Ltd., A	China	14,173,318	10,952,556
Industrial and Commercial Bank of China Ltd., H	China	16,551,155	11,171,539
			64,076,583
Beverages 0.7%			
^a Kweichow Moutai Co. Ltd., A	China	80,819	5,623,207
Capital Markets 1.8%			