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TEMPLETON DRAGON FUND INC

Form N-30D

March 05, 2003

Annual  
Report

[GRAPHIC OMITTED]  
WORLD MAP

DECEMBER 31, 2002

TEMPLETON DRAGON FUND, INC.

[GRAPHIC OMITTED]  
FRANKLIN (R) TEMPLETON (R)  
INVESTMENTS

[PHOTO OMITTED]  
MARK MOBIUS

MARK MOBIUS, PH.D.  
PRESIDENT AND CHIEF EXECUTIVE  
OFFICER - INVESTMENT MANAGEMENT  
TEMPLETON DRAGON FUND, INC.

Mark Mobius has been living in emerging market countries since earning his Ph.D. in economics and political science at Massachusetts Institute of Technology in 1964. During his extensive travels, he has acquired a thorough knowledge of business practices and customs unique to developing nations.

SHAREHOLDER LETTER

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YOUR FUND'S GOAL: TEMPLETON DRAGON FUND SEEKS LONG-TERM CAPITAL APPRECIATION BY INVESTING AT LEAST 45% OF ITS TOTAL ASSETS IN THE EQUITY SECURITIES OF "CHINA COMPANIES," AS DEFINED IN THE FUND'S PROSPECTUS.  
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Dear Shareholder:

This annual report for Templeton Dragon Fund covers the period ended December 31, 2002. During the year under review, China's attraction to multinational companies continued to stimulate substantial foreign direct investment (FDI) into the mainland. These inflows increased 14.6% to US\$48 billion for the first 11 months of 2002 versus the same period in 2001. 1 The United Nations expects China to eventually overtake the U.S. as the world's largest recipient of FDI. China continued to be the fastest growing economy globally during the year under review, as third quarter 2002 gross domestic product (GDP) rose an annualized 8.1% compared with third quarter 2001, mainly due to strengthening export growth, FDI and strong consumer demand. 2 Data indicated 30% annualized export growth and a 14.5% rise in industrial production in November 2002 compared with November 2001. 3 Independent credit

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[GRAPH OMITTED]

EDGAR REPRESENTATION OF TEXT USED IN PYRAMID GRAPHIC AS FOLLOWS:

FUND CATEGORY

Global

Growth

Growth & Income

Income

Tax-Free income

1. Source: Xinhua Economic News Service, 12/12/02.

2. Source: National Bureau of Statistics, People's Republic of China, 9/30/02;  
THE DISMAL SCIENTIST (www.economy.com).

3. Source: CHINA DAILY, 12/13/02.

The dollar value, number of shares or principal amount, and complete legal titles of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 11.

rating agency Moody's Investors Service, citing strong exports and foreign currency reserves, raised its outlook to positive from stable on the Chinese government's long-term foreign currency bonds. China's continued progress seemed to benefit the Fund's holdings to some extent as rapid growth and greater FDI inflows enabled companies to enhance their profitability. In addition, Taiwanese and foreign companies have increasingly begun to set up new plants in the Yangtze River delta region. As a result, Fund holdings in toll road companies

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such as Jiangsu Expressway and Zhejiang Expressway appeared to benefit from increased business activities and traffic in the area.

In an effort to liberalize its financial markets, China announced the implementation of a qualified foreign institutional investor program, under which investors would be able to invest in China's A-share market. To ensure long-term investor participation, China restricts the amount and time period of investment. Investors must invest US\$50 million to US\$800 million each and face a lock-up period of one to three years. While the restrictions may deter some investors, in our view this is a step in the right direction. China's continued liberalization of its markets appeared to benefit the Fund's holdings as a result of greater interest and Fund inflows from foreign investors.

Taiwan recovered much faster than many analysts had expected, with third quarter 2002 GDP growing an annualized 4.8% compared with third quarter 2001. This was better than the country's 2.6% annualized growth rate in 2002's first half versus the same period in 2001. 4 Key

[GRAPHIC OMITTED]  
EDGAR REPRESENTATION OF DATA FOLLOWS:

Geographic Distribution  
Based on Total Net Assets  
12/31/02

China 47.4%  
Hong Kong 40.5%  
Taiwan 8.7  
Short-Term Investments & Other net Assets 3.4

4. Source: Taiwan Directorate General of Budget.

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contributors to growth included strengthening exports, private sector consumption and investment. However, citing slow progress on fiscal and banking reforms, independent credit rating agency Standard & Poor's downgraded Taiwan's sovereign rating to AA-minus from AA. Confident that the political tension between Taiwan and mainland China would have little impact on their business, many Taiwanese companies have shifted their bases of operations to the mainland to make use of the vast and cheaper labor resources there. This contributed to greater profitability for many Taiwanese companies. As a result, the Taiwanese government has been aiming to reposition itself as a research and procurement hub, and has been in talks with large multinationals such as Microsoft in the U.S. and Germany's Siemens. In fact, Siemens recently announced that it would set up a business center in Taiwan to head regional research and expansion. Siemens' officers estimated that this could increase the company's business with local Taiwanese companies more than 20% to about US\$1.5 billion in 2003. 5 Although we do not hold Microsoft or Siemens in the Fund, their recent involvement and underlying investments demonstrate the fruits of Taiwan's industrial repositioning efforts. This increased our interest in the potential for Taiwan's technology sector. As such, we added the following to the Fund's portfolio: ASUSTeK, one of the world's biggest computer motherboard and game

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console manufacturers; Sunplus Technology, a leading Taiwanese integrated-circuit design company; and Compal, a dominant contract manufacturer of notebook computers that moved most of its facilities to China.

TOP 10 HOLDINGS  
12/31/02

| COMPANY<br>SECTOR/INDUSTRY,<br>COUNTRY | % OF TOTAL<br>NET ASSETS |
|--|--------------------------|
|--|--------------------------|

|   |       |
|---|-------|
| Dairy Farm<br>International Holdings Ltd.<br>FOOD & DRUG<br>RETAILING, HONG KONG                | 11.4% |
| China Petroleum &<br>Chemical Corp., H<br>OIL & GAS, CHINA                                      | 6.4%  |
| Zhejiang Expressway<br>Co. Ltd., H<br>TRANSPORTATION<br>INFRASTRUCTURE, CHINA                   | 5.4%  |
| Tsingtao Brewery<br>Co. Ltd., H<br>BEVERAGES, CHINA   | 4.7%  |
| Cheung Kong Infrastructure<br>Holdings Ltd.<br>CONSTRUCTION MATERIALS,<br>HONG KONG             | 4.4%  |
| Hang Lung Group Ltd.<br>REAL ESTATE, HONG KONG  | 3.9%  |
| TCL International<br>Holdings Inc.<br>HOUSEHOLD DURABLES, CHINA                                 | 3.8%  |
| China Merchants<br>Holdings International<br>Co. Ltd.<br>INDUSTRIAL CONGLOMERATES,<br>HONG KONG | 3.7%  |
| Jiangsu Expressway Co.<br>Ltd., H<br>TRANSPORTATION INFRASTRUCTURE,<br>HONG KONG                | 3.6%  |
| China Mobile<br>(Hong Kong) Ltd.<br>WIRELESS TELECOMMUNICATION<br>SERVICES, CHINA               | 3.3%  |

5. Source: THE BUSINESS TIMES SINGAPORE, 11/26/02.

In Hong Kong, third quarter 2002 GDP rose an annualized 3.3% compared with third quarter 2001. This compared quite favorably to annualized growth of just 0.19% in the first half of 2002 versus the same period in 2001. 6 As a result, the government revised its 2002 GDP growth forecast up to 2% from 1%. Unemployment fell to 7.1% in November from 7.2% and 7.4% in October and September. 7 However, the Hong Kong government found it quite difficult to meet its deficit target for the 2003 fiscal year (which began in April 2002), and faced a fast-growing fiscal deficit. Standard & Poor's downgraded its outlook for Hong Kong's long-term local-currency credit rating, from stable to negative, citing concerns about the widening budget deficit. Hong Kong's market performance was affected by concerns over its rising budget deficit, persistent deflation and weak property market. Therefore, the Fund's exposure in Hong Kong was, to some extent, defensive in nature with companies like Cheung Kong Infrastructure and Henderson Investment. We also continued to hold Dairy Farm International, SmarTone and Hong Kong & Shanghai Hotels, seeking to benefit from any potential recovery ahead.

During this period, Templeton Dragon Fund delivered cumulative total returns of +21.22% in market-price terms and +12.29% in net asset value terms for the year ended December 31, 2002, as shown in the Performance Summary on page 8.

6. Source: Census & Statistics Department, Hong Kong, 9/30/02.

7. Source: Census & Statistics Department, Hong Kong, 12/31/02.

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During the year under review, the Morgan Stanley Capital International (MSCI) China Free Index returned -14.05% in U.S. dollar terms, compared with returns of -24.45% and -17.79% for the MSCI Taiwan and MSCI Hong Kong Indexes. 8 The Fund's relative exposure to China H shares (Hong Kong listed Chinese companies) increased as prices moved up relative to other holdings. China H shares remained the Fund's largest allocation at nearly 40% of total net assets on December 31, 2002. In Taiwan, we realized gains as we sold all or part of our stakes of Giant Manufacturing, Premier Image, Taiwan Semiconductor and Accton, thus lowering the Fund's overall Taiwan exposure. In the latter half of 2002 we increased our exposure to the financial sector through investments in Sinopac Holdings and Chinatrust Financial Holding.

In Hong Kong, key portfolio movements included a reduction in the Fund's Dairy Farm International holdings, in part, to raise cash for the Fund's tender offer which was completed in July 2002. Henderson Investment holdings were increased because we believed the company's valuation was relatively attractive. Within the top 10 holdings, China H company Tsingtao Brewery and China Red Chips (Hong Kong listed companies with significant exposure to China) TCL and China Mobile replaced Taiwan's Premier Image Technology, China H company Huaneng Power and China Red Chip company Citic Pacific. As of December 31, 2002, the Fund's top sectors included transportation infrastructure, food & drug retailing,

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industrial conglomerates and oil & gas.

8. Source: Standard & Poor's Micropal. The MSCI China Free Index measures the total return (gross dividends reinvested) of equity securities available to foreign (non-local) investors in China. The MSCI Taiwan Index measures the total returns of equity securities in Taiwan. The MSCI Hong Kong Index measures the total returns of equity securities in Hong Kong. Securities included in each index are weighted according to their market capitalization (shares outstanding times price). The unmanaged indexes are calculated by Morgan Stanley Capital International. One cannot invest directly in an index, nor is an index representative of the Fund's portfolio.

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Looking forward, we believe if China's attraction to multinational companies continues and its trade sector grows, these trends would contribute to its economic growth prospects over the long term. In our opinion, local businesses can benefit from growing demand for their products, as well as the continued outsourcing of China's cheap and vast resources. We also see Hong Kong's potential to benefit from strategic ties to China's rapidly evolving position in the global arena. Taiwan's efforts to reposition itself as a regional hub for research and procurement, if successful, could further benefit its local operations. Thus, we will continue to search for stocks we believe are well positioned for the long-term.

Of course, investing in any emerging market means accepting a certain amount of volatility and, in some cases, the consequences of severe market corrections. For example, Hong Kong's equity market has increased 410.76% in the last 15 years, but has suffered 7 quarterly declines of more than 15% each during that time. Investing in emerging markets, particularly "China companies," also entails special considerations, including risks related to market and currency volatility, adverse economic, social and political developments, and the markets' relatively small size and lesser liquidity. Also, as a non-diversified investment company,

9. Source: Standard & Poor's Micropal. Based on quarterly total return change over 15 years ended 12/31/02. Market return is measured in U.S. dollars and includes reinvested dividends. The MSCI Hong Kong Index is market capitalization-weighted and measures the total returns of equity securities in Hong Kong.

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the Fund may invest in a relatively small number of issuers, which could result in a greater risk of loss. While short-term volatility can be disconcerting, declines exceeding 50% are not unusual in emerging markets.

Thank you for investing in Templeton Dragon Fund. We appreciate your confidence

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and welcome your comments.

Sincerely,

/S/ MARK MOBIUS  
 Mark Mobius  
 President and Chief Executive Officer -  
 Investment Management  
 Templeton Dragon Fund, Inc.

This discussion reflects our analysis, opinions and portfolio holdings as of December 31, 2002, the end of the reporting period. Our strategies and the Fund's portfolio composition will change depending on 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 advisor 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.

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### PERFORMANCE SUMMARY AS OF 12/31/02

DISTRIBUTIONS WILL VARY BASED ON EARNINGS OF THE FUND'S PORTFOLIO AND ANY PROFITS REALIZED FROM THE SALE OF THE PORTFOLIO'S SECURITIES, AS WELL AS THE LEVEL OF THE FUND'S OPERATING EXPENSES. ALL TOTAL RETURNS INCLUDE REINVESTED DISTRIBUTIONS ACCORDING TO THE TERMS SPECIFIED IN THE FUND'S DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN AND DO NOT REFLECT ANY SALES CHARGES PAID AT INCEPTION OR BROKERAGE COMMISSIONS PAID ON SECONDARY MARKET PURCHASES.

### PRICE AND DISTRIBUTION INFORMATION

|                       | CHANGE  | 12/31/02 | 12/31/01 |
|-----------------------|---------|----------|----------|
| Net Asset Value (NAV) | +\$0.91 | \$9.73   | \$8.82   |
| Market Price (NYSE)   | +\$1.43 | \$8.92   | \$7.49   |

### DISTRIBUTIONS (1/1/02-12/31/02)

|                 |          |
|-----------------|----------|
| Dividend Income | \$0.1700 |
|-----------------|----------|

### PERFORMANCE

|                                 | 1-YEAR  | 5-YEAR  | COMMENCEMENT<br>OF OPERATIONS<br>(9/20/94) |
|---------------------------------|---------|---------|--|
| Cumulative Total Return 1       |         |         |  |
| Based on change in NAV          | +12.29% | +18.41% | +35.88%                                    |
| Based on change in market price | +21.22% | +33.39% | +17.09%                                    |
| Average Annual Total Return 1   |         |         |  |

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|                                 |         |        |        |
|---------------------------------|---------|--------|--------|
| Based on change in NAV          | +12.29% | +3.44% | +3.77% |
| Based on change in market price | +21.22% | +5.93% | +1.92% |

1. Total return calculations represent the cumulative and average annual changes in value of an investment over the periods indicated.

-----  
Ongoing market volatility can significantly affect short-term performance; more recent returns may differ from those shown. Since markets can go down as well as up, investment return and principal value will fluctuate with market conditions, 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. Also, as a non-diversified 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. You may have a gain or loss when you sell your shares.  
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For updated performance figures, call Franklin Templeton Investments at 1-800/342-5236.

Past performance does not guarantee future results.

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### IMPORTANT NOTICE TO SHAREHOLDERS

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TENDER OFFERS. On June 11, 2002, the Fund commenced a tender offer for up to 4,874,109 shares, or 10%, of the Fund's outstanding shares at a price per share equal to 90% of net asset value per share as of July 10, 2002, the expiration date of the tender offer. A total of 4,364,925.9071 shares were properly tendered and accepted for purchase at a purchase price of \$9.45 per share.

The Fund's Board announced that the Fund will commence a second tender offer for a minimum of 10% of the Fund's outstanding shares at no less than 90% of net asset value. The Board of Directors has not set a commencement date for the second tender offer; however, it anticipates that it will commence prior to April 30, 2003.

REPURCHASE PROGRAM. On May 10, 2002, the Board of Directors discontinued the Fund's open-market share repurchase program.

MANAGED DISTRIBUTION POLICY. On January 4, 2002, the Board of Directors discontinued the Fund's managed distribution policy.  
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TEMPLETON DRAGON FUND, INC.  
Financial Highlights

YEAR ENDED DECEMBER 31,



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|   | 2002      | 2001      | 2000      | 1999      | 1998      |
|---|-----------|-----------|-----------|-----------|-----------|
| PER SHARE OPERATING PERFORMANCE ++<br>(for a share outstanding throughout the year) |           |           |           |           |           |
| Net asset value, beginning of year .....  | \$8.82    | \$9.91    | \$12.75   | \$10.00   | \$13.50   |
| Income from investment operations:  |           |           |           |           |           |
| Net investment income .....   | .17       | .25       | .12       | .31       | .25       |
| Net realized and unrealized gains (losses) .....                                    | .81       | (.37)     | (2.01)    | 3.58      | (3.20)    |
| Total from investment operations .....  | .98       | (.12)     | (1.89)    | 3.89      | (3.00)    |
| Capital share repurchases .....   | .10       | .01       | .22       | --        | .00       |
| Less distributions from:  |           |           |           |           |           |
| Net investment income .....   | (.17)     | (.23)     | (1.17)    | (.32)     | (.25)     |
| Net realized gains .....  | --        | --        | --        | --        | --        |
| Tax return of capital .....   | --        | (.75)     | --        | (.82)     | (.30)     |
| Total distributions .....   | (.17)     | (.98)     | (1.17)    | (1.14)    | (.55)     |
| Net asset value, end of year .....  | \$9.73    | \$8.82    | \$9.91    | \$12.75   | \$10.00   |
| Market value, end of year a .....   | \$8.9200  | \$7.4900  | \$7.2500  | \$9.8125  | \$7.3750  |
| Total return (based on market value per share)* .....                               | 21.22%    | 16.95%    | (15.31)%  | 50.11%    | (30.08)%  |
| RATIOS/SUPPLEMENTAL DATA  |           |           |           |           |           |
| Net assets, end of year (000's) .....   | \$431,779 | \$429,889 | \$485,091 | \$673,869 | \$528,460 |
| Ratios to average net assets:   |           |           |           |           |           |
| Expenses .....  | 1.62%     | 1.54%     | 1.56%     | 1.59%     | 1.59%     |
| Net investment income .....   | 1.80%     | 2.58%     | 1.04%     | 2.80%     | 3.21%     |
| Portfolio turnover rate .....   | 15.75%    | 70.94%    | 132.74%   | 66.60%    | 39.92%    |

\*Total return is not annualized for periods less than one year.

\*\*Annualized.

+For the period April 1, 1998 to December 31, 1998. Prior to this period, the Fund's fiscal year end was March 31.

++Based on average weighted shares outstanding effective year ended December 31, 1999.

aBased on the last sale on the New York Stock Exchange.

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See notes to financial statements.

TEMPLETON DRAGON FUND, INC.  
STATEMENT OF INVESTMENTS, DECEMBER 31, 2002

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|   | COUNTRY   | SHARES     |
|---|-----------|------------|
| COMMON STOCKS 96.6%                                     |           |            |
| AUTOMOBILES 1.3%  |           |            |
| Qingling Motors Co. Ltd., H .....                       | China     | 48,813,496 |
| BANKS 3.1%  |           |            |
| *Chinatrust Financial Holding Co. ....                  | Taiwan    | 5,680,000  |
| *Sinopac Holdings .....                                 | Taiwan    | 21,053,423 |
| BEVERAGES 4.7%  |           |            |
| +Tsingtao Brewery Co. Ltd., H .....                     | China     | 39,944,000 |
| CHEMICALS 3.1%  |           |            |
| *Sinopec Beijing Yanhua Petrochemical Co. Ltd., H ..... | China     | 72,215,887 |
| *Sinopec Shanghai Petrochemical Co. Ltd., H .....       | China     | 32,138,000 |
| COMMERCIAL SERVICES & SUPPLIES .3%                      |           |            |
| Travelsky Technology Ltd., H .....                      | China     | 1,911,000  |
| COMPUTERS & PERIPHERALS 1.9%                            |           |            |
| Asustek Computer Inc. ....                              | Taiwan    | 1,320,000  |
| CMC Magnetics Corp. ....                                | Taiwan    | 4,524,000  |
| Compal Electronics Inc. ....                            | Taiwan    | 1,294,000  |
| Legend Group Ltd. ....                                  | Hong Kong | 7,604,000  |
| CONSTRUCTION MATERIALS 4.4%                             |           |            |
| Cheung Kong Infrastructure Holdings Ltd. ....           | Hong Kong | 11,180,000 |
| DISTRIBUTORS 1.8%                                       |           |            |
| China Resources Enterprise Ltd. ....                    | China     | 8,720,000  |
| DIVERSIFIED FINANCIALS .8%                              |           |            |
| China Everbright Ltd. ....                              | China     | 1,663,788  |
| Yuanta Core Pacific Securities Co. ....                 | Taiwan    | 6,000,445  |
| ELECTRIC UTILITIES 4.3%                                 |           |            |
| Beijing Datang Power Generation Co. Ltd., H .....       | China     | 32,020,000 |
| Huaneng Power International Inc., H .....               | China     | 10,154,000 |
| ELECTRICAL EQUIPMENT 1.3%                               |           |            |
| Phoenixtec Power Co. Ltd. ....                          | Taiwan    | 7,180,000  |
| *Universal Scientific Industrial Co. Ltd. ....          | Taiwan    | 1,002,000  |
| FOOD & DRUG RETAILING 11.4%                             |           |            |
| Dairy Farm International Holdings Ltd. ....             | Hong Kong | 51,900,478 |

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|                                      |        |            |
|--------------------------------------|--------|------------|
| FOOD PRODUCTS 1.2%                   |        |            |
| UNI-President Enterprises Corp. .... | Taiwan | 16,069,030 |

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TEMPLETON DRAGON FUND, INC.  
STATEMENT OF INVESTMENTS, DECEMBER 31, 2002 (CONT.)

|   | COUNTRY   | SHARES      |
|---|-----------|-------------|
| -----   |           |             |
| COMMON STOCKS (CONT.)                                     |           |             |
| HOTELS RESTAURANTS & LEISURE 2.8%                         |           |             |
| China Travel International Investment Hong Kong Ltd. .... | Hong Kong | 1,020,000   |
| Hong Kong & Shanghai Hotels Ltd. ....                     | Hong Kong | 28,157,000  |
| HOUSEHOLD DURABLES 3.9%                                   |           |             |
| TCL International Holdings Inc. ....                      | China     | 53,614,000  |
| Tsann Kuen Enterprise Co. Ltd. ....                       | Taiwan    | 326,000     |
| INDUSTRIAL CONGLOMERATES 9.0%                             |           |             |
| Beijing Enterprises Holdings Ltd. ....                    | Hong Kong | 3,082,000   |
| China Merchants Holdings International Co. Ltd. ....      | Hong Kong | 22,860,000  |
| Citic Pacific Ltd. ....                                   | Hong Kong | 6,496,000   |
| Hutchison Whampoa Ltd. ....                               | Hong Kong | 622,000     |
| Shanghai Industrial Holdings Ltd. ....                    | Hong Kong | 2,904,000   |
| MARINE 2.1%   |           |             |
| China Shipping Development Co. Ltd., H ....               | China     | 43,988,000  |
| METALS & MINING 1.9%                                      |           |             |
| +Angang New Steel Company Ltd., H ....                    | China     | 58,332,000  |
| OFFICE ELECTRONICS .3%                                    |           |             |
| Kinpo Electronics Inc. ....                               | Taiwan    | 2,322,000   |
| OIL & GAS 8.8%  |           |             |
| China Petroleum & Chemical Corp., H ....                  | China     | 164,928,000 |
| PetroChina Co. Ltd., H ....                               | China     | 50,880,000  |

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|   |           |            |
|---|-----------|------------|
| PHARMACEUTICALS 1.0%                                    |           |            |
| China Pharmaceutical Enterprise & Invt. Corp. Ltd. .... | China     | 24,814,000 |
| REAL ESTATE 8.3%  |           |            |
| Cheung Kong Holdings Ltd. ....                          | Hong Kong | 989,000    |
| Hang Lung Group Ltd. ....                               | Hong Kong | 20,415,000 |
| Henderson China Holdings Ltd. ....                      | Hong Kong | 9,215,000  |
| Henderson Investment Ltd. ....                          | Hong Kong | 9,677,000  |
| Henderson Land Development Co. Ltd. ....                | Hong Kong | 248,000    |
| ROAD & RAIL 1.5%  |           |            |
| Guangshen Railway Co. Ltd., H .....                     | China     | 27,326,000 |
| MTR Corp. Ltd. ....                                     | Hong Kong | 1,577,652  |

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TEMPLETON DRAGON FUND, INC.  
STATEMENT OF INVESTMENTS, DECEMBER 31, 2002 (CONT.)

|  | COUNTRY   | SHARES     |
|--|-----------|------------|
| -----  |           |            |
| COMMON STOCKS (CONT.)                          |           |            |
| SEMICONDUCTOR EQUIPMENT & PRODUCTS .6%         |           |            |
| Sunplus Technology Co. Ltd. ....               | Taiwan    | 435,000    |
| *United Microelectronics Corp. ....            | Taiwan    | 3,220,000  |
| TRANSPORTATION INFRASTRUCTURE 11.5%            |           |            |
| Cosco Pacific Ltd. ....                        | Hong Kong | 13,462,000 |
| Jiangsu Expressway Co. Ltd., H .....           | China     | 53,156,000 |
| Zhejiang Expressway Co. Ltd., H .....          | China     | 60,074,000 |
| WIRELESS TELECOMMUNICATION SERVICES 5.3%       |           |            |
| *China Mobile (Hong Kong) Ltd. ....            | China     | 5,988,000  |
| *China Unicom Ltd. ....                        | China     | 5,206,000  |
| Smartone Telecommunications Holdings Ltd. .... | Hong Kong | 3,777,000  |
| Taiwan Cellular Corp. ....                     | Taiwan    | 1,009,120  |

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|   |                          |
|---|--------------------------|
| TOTAL COMMON STOCKS (COST \$406,315,142) .....      |                          |
| SHORT TERM INVESTMENTS (COST \$23,091,482) 5.3%     |                          |
| a Franklin Institutional Fiduciary Trust            |                          |
| Money Market Portfolio .....                        | United States 23,091,482 |
| TOTAL INVESTMENTS (COST \$429,406,624) 101.9% ..... |                          |
| OTHER ASSETS LESS LIABILITIES (1.9)% .....          |                          |
| TOTAL NET ASSETS 100.0% .....                       |                          |

a See note 6 regarding investments in the "Sweep Money Fund."  
 \* Non-income producing.  
 + See note 7 regarding holdings of 5% voting securities.

See notes to financial statements.

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TEMPLETON DRAGON FUND, INC.  
 Financial Statements

STATEMENT OF ASSETS AND LIABILITIES  
 DECEMBER 31, 2002

|   |       |
|---|-------|
| Assets  |       |
| Investments in Securities:                      |       |
| Cost - Unaffiliated issuers .....               | \$405 |
| Cost - Non-controlled affiliated issuers .....  | 23    |
|   | ----  |
| Value - Unaffiliated issuers .....              | 402   |
| Value - Non-controlled affiliated issuers ..... | 37    |
| Foreign currency, at value (cost \$1,547) ..... |       |
|   | ----  |
| Total assets .....                              | 440   |
|   | ----  |
| Liabilities:                                    |       |
| Payables:                                       |       |
| Affiliates .....                                | 7     |
| Distributions to shareholders .....             |       |
| Accrued expenses .....                          |       |
|   | ----  |
| Total liabilities .....                         | 8     |
|   | ----  |
| Net assets, at value .....                      | \$431 |
|   | ===== |
| Net assets consist of:                          |       |
| Undistributed net investment income .....       | \$    |
| Net unrealized appreciation .....               | 10    |
| Accumulated net realized loss .....             | (101) |

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|   |       |
|---|-------|
| Capital shares .....  | 521   |
| Net assets, at value .....  | \$431 |
| Net asset value per share (\$431,779,063 [DIVIDE] 44,376,167<br>shares outstanding) ..... | \$    |

See notes to financial statements.

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TEMPLETON DRAGON FUND, INC.  
Financial Statements (CONTINUED)

STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2002

|   |      |
|---|------|
| Investment Income:  |      |
| (net of foreign taxes of \$409,227)   |      |
| Dividend Income:  |      |
| Unaffiliated issuers .....  | \$13 |
| Non-controlled affiliated issuers (Note 7) .....                              | 2    |
| Interest Income - unaffiliated issuers .....                                  |      |
| Total Investment Income .....   | 15   |
| Expenses:   |      |
| Management fees (Note 3) .....  | 5    |
| Administrative fees (Note 3) .....  |      |
| Transfer agent fees .....   |      |
| Custodian fees .....  |      |
| Registration and filing fees .....  |      |
| Professional fees .....   |      |
| Directors' fees and expenses .....  |      |
| Other .....   |      |
| Total expenses .....  | 7    |
| Net investment income .....   | 8    |
| Realized and unrealized gains (losses):                                       |      |
| Net realized gain (loss) from:  |      |
| Investments:  |      |
| Unaffiliated issuers .....  | 1    |
| Non-controlled affiliated issuers (Note 7) .....                              | 2    |
| Foreign currency transactions .....   |      |
| Net realized gain .....   | 3    |
| Net unrealized appreciation (depreciation) on:                                |      |
| Investments .....   | 39   |
| Translation of assets and liabilities denominated in foreign currencies ..... |      |
| Net unrealized appreciation .....   | 39   |

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|  |      |
|--|------|
| Net realized and unrealized gain .....                     | 42   |
| Net increase in net assets resulting from operations ..... | \$50 |

See notes to financial statements.

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TEMPLETON DRAGON FUND, INC.  
Financial Statements (CONTINUED)

STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

|   | 2002          |       |
|---|---------------|-------|
|   | -----         | ----- |
| Increase (decrease) in net assets:  |               |       |
| Operations:   |               |       |
| Net investment income .....   | \$ 8,191,719  | \$ 12 |
| Net realized gain (loss) from investments<br>and foreign currency transactions .....  | 3,663,821     | (35)  |
| Net unrealized appreciation on investments and translation of<br>assets and liabilities denominated in foreign currencies ..... | 39,095,638    | 18    |
| Net increase (decrease) in net assets<br>resulting from operations .....  | 50,951,178    | (5)   |
| Distributions to shareholders from:   |               |       |
| Net investment income .....   | (7,570,574)   | (11)  |
| Tax return of capital .....   | --            | (36)  |
| Total distributions to shareholders .....   | (7,570,574)   | (47)  |
| Capital share transactions (Note 2) .....   | (41,490,771)  | (1)   |
| Net increase (decrease) in net assets .....   | 1,889,833     | (55)  |
| Net assets:   |               |       |
| Beginning of year .....   | 429,889,230   | 485   |
| End of year .....   | \$431,779,063 | \$429 |
| Undistributed net investment income included in net assets:   |               |       |
| End of year .....   | \$ 470,356    | ===== |

See notes to financial statements.

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TEMPLETON DRAGON FUND, INC.  
Notes to Financial Statements

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Templeton Dragon Fund, Inc. (the Fund), is registered under the Investment Company Act of 1940 as a closed-end, non-diversified investment company. The Fund seeks long-term capital appreciation by investing at least 45% of its total assets in the equity securities of "China companies," as defined in the Fund's prospectus. The following summarizes the Fund's significant accounting policies.

#### A. SECURITY VALUATION

Securities listed or traded on a recognized national exchange or NASDAQ are valued at the latest reported sales price. Over-the-counter securities and listed securities for which no sale is reported are valued within the range of the latest quoted bid and asked prices. Securities for which market quotations are not readily available are valued at fair value as determined by management in accordance with procedures established by the Board of Directors.

#### 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. Purchases and sales of securities and income items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date.

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.

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. FOREIGN CURRENCY CONTRACTS

When the Fund purchases or sells foreign securities it may enter into foreign exchange contracts to minimize foreign exchange risk from the trade date to the settlement date of the transactions. A foreign exchange contract is an agreement between two parties to exchange different currencies at an agreed upon exchange rate on a specified date. Realized and unrealized gains and losses are included in the Statement of Operations.

The risks of these contracts include movement in the values of the foreign currencies relative to the U.S. dollar and the possible inability of the counterparties to fulfill their obligations under the contracts.

#### D. INCOME TAXES

No provision has been made for income taxes because the Fund's policy is to qualify as a regulated investment company under the Internal Revenue Code and to distribute all of its taxable income.



TEMPLETON DRAGON FUND, INC.  
Notes to Financial Statements (CONTINUED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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. Certain income from foreign securities is recorded as soon as information is available to the Fund. Interest income and estimated expenses are accrued daily. Dividend income and distributions to shareholders are recorded on the ex-dividend date.

F. ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 expense during the reporting period. Actual results could differ from those estimates.

2. CAPITAL STOCK

On October 18, 1997, the Board of Directors of the Fund authorized management to implement an open-market share repurchase program pursuant to which the Fund may purchase, from time to time, up to 5.4 million shares of the Fund's common stock in open-market transactions, at the discretion of management (approximately 10% of the shares outstanding at the time the program was initially implemented). In May 2000, the Board of Directors removed the 10% limitation on share repurchases in order to give management greater flexibility to engage in an aggressive share repurchase program. Effective May 10, 2002, the Board of Directors discontinued the repurchase program.

At December 31, 2002, there were 100 million shares authorized (\$.01 par value). Share repurchase transactions were as follows:

|   | YEAR ENDED DECEMBER 31, |             |
|---|-------------------------|-------------|
|   | 2002                    | 2001        |
| Shares repurchased .....  | --                      | 207,100     |
| Amount repurchased .....  | --                      | \$1,688,066 |
| Weighted average discount of market price<br>to net asset value of shares repurchased ... | --                      | 20%         |

On July 11, 2002, the Fund purchased and retired 4,364,926 shares of its outstanding common stock for \$9.45 (equal to 90% of the Fund's net asset value per share as of tender offer expiration date) per share pursuant to a tender offer. The Fund incurred tender costs of \$242,221 which were charged to additional paid-in-capital.

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The Fund's Board of Directors announced that the Fund will commence a second tender offer for a minimum of 10% of the Fund's outstanding shares at no less than 90% of net asset value. The Board of Directors has not set a commencement date for the second tender offer; however, it anticipates that it will commence prior to April 30, 2003.

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TEMPLETON DRAGON FUND, INC.  
Notes to Financial Statements (CONTINUED)

### 3. TRANSACTIONS WITH AFFILIATES

Certain officers of the Fund are also officers or directors of Templeton Asset Management Ltd. (TAML) and Franklin Templeton Services, LLC (FT Services), the Fund's investment manager and administrative manager, respectively.

The Fund pays an investment management fee to TAML of 1.25% per year of the average weekly net assets of the Fund. The Fund pays FT Services an administrative fee of 0.15% per year of the Fund's average weekly net assets, of which 0.10% is paid to Nomura Asset Management, Inc.

### 4. INCOME TAXES

At December 31, 2002, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

|   |                |  |
|---|----------------|--|
| Cost of investments .....                       | \$432,635,036  |  |
| Unrealized appreciation .....                   | 66,688,938     |  |
| Unrealized depreciation .....                   | (59,259,376)   |  |
| Net unrealized appreciation .....               | \$ 7,429,562   |  |
| <br>Distributable earnings - ordinary income .. | <br>\$ 470,356 |  |

The tax character of distributions paid during the years ended December 31, 2002 and 2001, was as follows:

| DISTRIBUTIONS PAID FROM: | 2002        | 2001         |
|--------------------------|-------------|--------------|
| Ordinary income .....    | \$7,570,574 | \$11,028,205 |
| Return of capital .....  | --          | 36,831,606   |
|                          | \$7,570,574 | \$47,859,811 |

Net investment income and net realized gains differ for financial statement and tax purposes primarily due to differing treatments of wash sales and foreign currency transactions.

At December 31, 2002, the Fund had tax basis capital losses which may be carried

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over to offset future capital gains. Such losses expire as follows:

|                                      |              |
|--------------------------------------|--------------|
| Capital loss carryovers expiring in: |              |
| 2006 .....                           | \$ 992,610   |
| 2007 .....                           | 49,694,430   |
| 2009 .....                           | 47,221,414   |
|                                      | -----        |
|                                      | \$97,908,454 |
|                                      | =====        |

5. INVESTMENT TRANSACTIONS

Purchases and sales of securities (excluding short-term securities) for the year ended December 31, 2002 aggregated 67,593,405 and 96,374,874, respectively.

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TEMPLETON DRAGON FUND, INC.  
Notes to Financial Statements (CONTINUED)

6. INVESTMENTS IN FRANKLIN INSTITUTIONAL FIDUCIARY TRUST MONEY MARKET PORTFOLIO

The Fund may invest in the Franklin Institutional Fiduciary Trust Money Market Portfolio (the Sweep Money Fund), an open-end investment company managed by Franklin Advisers Inc. (an affiliate of the Fund's investment manager). Management fees paid by the Fund are reduced on assets invested in the Sweep Money Fund, in an amount not to exceed the management fees paid by the Sweep Money Fund. The Fund earned \$278,336 of dividend income from investment in the Sweep Money Fund.

7. HOLDING OF 5% VOTING SECURITIES OF PORTFOLIO COMPANIES

The Investment Company Act of 1940 defines "affiliated companies" to include investments in portfolio companies in which the Fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" at December 31, 2002 were as shown below.

| NAME OF ISSUER            | NUMBER OF<br>SHARES HELD<br>DEC. 31, 2001 | GROSS<br>ADDITIONS | GROSS<br>REDUCTIONS | NUMBER OF<br>SHARES HELD<br>DEC. 31, 2002 | VALUE<br>DEC. 31, 2002 |
|---------------------------|---|--------------------|---------------------|---|------------------------|
| NON-CONTROLLED AFFILIATES |   |                    |                     |   |                        |
| Angang New Steel          |   |                    |                     |   |                        |
| Company Ltd., H .....     | 58,332,000                                | --                 | --                  | 58,332,000                                | \$ 8,377,649           |
| Sinopec Beijing Yanhua    |   |                    |                     |   |                        |
| Petrochemical             |   |                    |                     |   |                        |
| Co. Ltd. ....             | 77,872,000                                | --                 | (5,656,113)         | 72,215,887                                | 8,704,782              |
| Tsingtao Brewery Co.      |   |                    |                     |   |                        |
| Ltd., H .....             | 40,502,000                                | --                 | (558,000)           | 39,944,000                                | 20,104,278             |
| Zhejiang Expressway       |   |                    |                     |   |                        |
| Co. Ltd., H .....         | 86,468,000                                | --                 | (26,394,000)        | 60,074,000                                | *                      |

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TOTAL NON-CONTROLLED  
AFFILIATES .....

-----  
\$37,186,709  
=====

\*As of December 31, 2002 no longer an affiliate.

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TEMPLETON DRAGON FUND, INC.  
Notes to Financial Statements (CONTINUED)

8. SUBSEQUENT EVENT

On January 29, 2003, the Fund, its investment manager, and Templeton China World Fund, Inc. (together with the Fund, hereinafter referred to as the "Funds," and collectively with the investment manager, the "Plaintiffs") filed a verified complaint in the United States District Court for the District of Maryland, Northern Division, naming as defendants President and Fellows of Harvard College ("Harvard"), Harvard Management Company, Inc., which is an investment advisor to Harvard, and Steven Alperin, a vice president of Harvard Management (collectively, the "Defendants") (Case No. JFM 03-CV-275). The complaint alleges that the Defendants repeatedly violated several provisions of the Federal securities laws and the rules of the Securities and Exchange Commission (the "SEC"), including by failing to make timely and required disclosures in SEC filings with respect to Harvard's acquisitions and holdings of shares of each of the Funds, by acquiring shares while Harvard was prohibited from doing so because Harvard had not filed appropriate disclosure schedules with the SEC, by making false or misleading statements in connection with Harvard's solicitation of proxies from the shareholders of Templeton China World Fund in connection with its 2003 annual meeting of shareholders, and by illegally profiting from short-swing trading in the shares of the Funds. Plaintiffs request that the Court grant several forms of equitable relief, including disgorgement to the Funds of any illegal short-swing profits. On February 7, 2003, the Defendants counterclaimed, alleging that the Plaintiffs and each Fund's directors violated certain provisions of the federal securities laws and SEC rules, including by making false or misleading statements and by breaching their fiduciary duties to the Funds and their shareholders. The Defendants also have asserted counterclaims under Maryland state law alleging the investment manager and each Fund's Directors breached their fiduciary duties owed to the Funds and their shareholders. In their counterclaims, Defendants request the Court to grant several forms of monetary and non-monetary relief. Management of the Fund does not anticipate that this litigation will have a material adverse impact on the Fund. Management of the Fund believes that the counterclaims alleged by the Defendants are without merit and intends to vigorously defend against them.

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TEMPLETON DRAGON FUND, INC.  
INDEPENDENT AUDITORS' REPORT  
To the Board of Directors and Shareholders of  
Templeton Dragon Fund, Inc.

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In our opinion, the accompanying statement of assets and liabilities, including the statement of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Templeton Dragon Fund, Inc. (the "Fund") at December 31, 2002, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the four 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 auditing standards generally accepted in the United States of America, which 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 at December 31, 2002 by correspondence with the custodian, provide a reasonable basis for our opinion. The financial highlights for each of the periods prior to January 1, 1999 were audited by other independent accountants whose report dated January 28, 1999 expressed an unqualified opinion on those statements.

PricewaterhouseCoopers LLP  
San Francisco, California  
January 30, 2003, except as to Note 8  
the date of which is February 14, 2003

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TEMPLETON DRAGON FUND, INC.  
Annual Meeting of Shareholders, May 3, 2002

An Annual Meeting of Shareholders of the Fund was held at the Fund's offices, 500 E. Broward Blvd., Ft. Lauderdale, Florida, on May 3, 2002 and reconvened on May 29, 2002. The purpose of the meeting was to elect five Directors of the Fund, to approve an Agreement and Plan of Reorganization that provides for the reorganization of the Fund from a Maryland corporation to a Delaware business trust, to approve amendments to certain of the Fund's fundamental investment restrictions (including three Sub-Proposals) and to approve the elimination of certain of the Fund's fundamental investment restrictions. At the meeting held on May 3, 2002, the following persons were elected by the shareholders to serve as Directors of the Fund: Harris J. Ashton, Nicholas F. Brady, Frank J. Crothers, S. Joseph Fortunato and Constantine D. Tseretopoulos.\* At the reconvened meeting held on May 29, 2002, Shareholders approved an Agreement and Plan of Reorganization that provides for the reorganization of the Fund from a Maryland corporation to a Delaware business trust, amendments to certain of the Fund's fundamental investment restrictions (including three Sub-Proposals), and the elimination of certain of the Fund's fundamental investment restrictions. No other business was transacted at the meetings.

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The results of the voting at the meetings are as follows:

Proposal 1. The election of five (5) Directors:

| TERM EXPIRING 2004:      | FOR        | % OF<br>OUTSTANDING<br>SHARES | % OF<br>VOTED<br>SHARES | WITHHELD  | % OF<br>OUTSTANDING<br>SHARES |
|--------------------------|------------|-------------------------------|-------------------------|-----------|-------------------------------|
| -----                    |            |                               |                         |           |                               |
| INDEPENDENT DIRECTORS    |            |                               |                         |           |                               |
| Harris J. Ashton .....   | 27,809,350 | 57.06%                        | 78.76%                  | 7,501,357 | 15.39%                        |
| Frank J. Crothers .....  | 28,330,328 | 58.12%                        | 80.23%                  | 6,980,379 | 14.32%                        |
| S. Joseph Fortunato .... | 27,833,625 | 57.11%                        | 78.82%                  | 7,477,082 | 15.34%                        |
| Constantine              |            |                               |                         |           |                               |
| D. Tseretopoulos .....   | 28,262,543 | 57.99%                        | 80.04%                  | 7,048,164 | 14.46%                        |
| INTERESTED DIRECTOR      |            |                               |                         |           |                               |
| Nicholas F. Brady .....  | 27,872,807 | 57.19%                        | 78.94%                  | 7,437,900 | 15.26%                        |

\* Andrew H. Hines, Jr., Edith E. Holiday, Betty P. Krahmer, Gordon S. Macklin and Fred R. Millsap Independent Directors and Martin L. Flanagan and Charles B. Johnson currently serve as Interested of office continued after the Annual Meeting of Shareholders.

Proposal 2. To approve an Agreement and Plan of Reorganization that provides for the reorganization of the Fund from a Maryland corporation to a Delaware business trust:

|                        | SHARES VOTED | % OF<br>OUTSTANDING<br>SHARES | % OF VOTES<br>CAST ON<br>PROPOSAL |
|------------------------|--------------|-------------------------------|-----------------------------------|
| -----                  |              |                               |                                   |
| For .....              | 28,816,142   | 59.12%                        | 77.35%                            |
| Against .....          | 7,842,816    | 16.09%                        | 21.05%                            |
| Abstain .....          | 595,807      | 1.22%                         | 1.60%                             |
| Broker Non-Votes ..... | 4,232,811    | 8.68%                         | --                                |
| -----                  |              |                               |                                   |
| TOTAL .....            | 41,487,576   | 85.11%                        | 100.00%                           |

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TEMPLETON DRAGON FUND, INC.  
Annual Meeting of Shareholders, May 3, 2002 (CONTINUED)

Proposal 3. To approve amendments to certain of the Fund's fundamental investment restrictions (includes three (3) Sub-Proposals):

Proposal 3a. To amend the Fund's fundamental investment restriction regarding industry concentration:

|  | SHARES VOTED | % OF<br>OUTSTANDING<br>SHARES | % OF VOTES<br>CAST ON<br>PROPOSAL |
|--|--------------|-------------------------------|-----------------------------------|
|--|--------------|-------------------------------|-----------------------------------|

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|                        |            |        |         |
|------------------------|------------|--------|---------|
| For .....              | 33,958,996 | 69.67% | 91.15%  |
| Against .....          | 2,589,426  | 5.31%  | 6.95%   |
| Abstain .....          | 706,438    | 1.45%  | 1.90%   |
| Broker Non-Votes ..... | 4,232,716  | 8.68%  | --      |
| TOTAL .....            | 41,487,576 | 85.11% | 100.00% |

Proposal 3b. To amend the Fund's fundamental investment restriction regarding borrowing and issuing senior securities:

|                        | SHARES VOTED | % OF<br>OUTSTANDING<br>SHARES | % OF VOTES<br>CAST ON<br>PROPOSAL |
|------------------------|--------------|-------------------------------|-----------------------------------|
| For .....              | 25,406,494   | 52.13%                        | 68.20%                            |
| Against .....          | 11,109,963   | 22.79%                        | 29.82%                            |
| Abstain .....          | 738,399      | 1.51%                         | 1.98%                             |
| Broker Non-Votes ..... | 4,232,720    | 8.68%                         | --                                |
| TOTAL .....            | 41,487,576   | 85.11%                        | 100.00%                           |

Proposal 3c. To amend the Fund's fundamental investment restriction regarding investments in commodities:

|                        | SHARES VOTED | % OF<br>OUTSTANDING<br>SHARES | % OF VOTES<br>CAST ON<br>PROPOSAL |
|------------------------|--------------|-------------------------------|-----------------------------------|
| For .....              | 24,586,388   | 50.44%                        | 65.99%                            |
| Against .....          | 11,949,755   | 24.52%                        | 32.08%                            |
| Abstain .....          | 718,716      | 1.47%                         | 1.93%                             |
| Broker Non-Votes ..... | 4,232,717    | 8.68%                         | --                                |
| TOTAL .....            | 41,487,576   | 85.11%                        | 100.00%                           |

Proposal 4. To approve the elimination of certain of the Fund's fundamental investment restrictions:

|                        | SHARES VOTED | % OF<br>OUTSTANDING<br>SHARES | % OF VOTES<br>CAST ON<br>PROPOSAL |
|------------------------|--------------|-------------------------------|-----------------------------------|
| For .....              | 27,971,892   | 57.38%                        | 75.08%                            |
| Against .....          | 8,568,375    | 17.58%                        | 23.00%                            |
| Abstain .....          | 714,592      | 1.47%                         | 1.92%                             |
| Broker Non-Votes ..... | 4,232,717    | 8.68%                         | --                                |
| TOTAL .....            | 41,487,576   | 85.11%                        | 100.00%                           |

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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

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automatically be a participant in the Plan (other than shareholders holding their shares through Japan Securities Clearing Corporation, who will not be enrolled in the Plan unless certain conditions are met and they elect to participate), 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 broker-dealer 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.

Participants should contact Mellon Investor Services LLC, P.O. Box 3338, South Hackensack, NJ 07606-1938, to receive the Plan brochure.

To receive dividends or distributions in cash, the shareholder must notify Mellon Securities Trust Company (the "Plan Agent") at the address above or the institution in whose name the shares are held. The Plan Agent must receive written notice within 10 business days before the record date for the distribution.

Whenever the Fund declares dividends in either cash or common stock 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 stock 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 payments to the Plan Agent, 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 shall be made by check or money order payable to "Mellon Securities Trust Company" and sent to Mellon Investor Services LLC, P.O. Box 382009, Pittsburgh, PA 15250-8009, Attn: Templeton Dragon Fund, Inc. The Plan Agent shall 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 in the open market.

The automatic reinvestment of dividends and/or capital gains does not relieve the participant of any income tax which 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 Agent sent to Mellon Investor Services LLC, P.O. Box 3338, South Hackensack, NJ 07606-1938. Upon withdrawal, the participant will receive, without charge, stock certificates issued in the participant's name for all full shares held by the Plan Agent; or, if the participant wishes, the Plan Agent will sell the participant's shares and send the proceeds, less a service charge of \$5.00 and less trading fees.

Whenever shares are purchased on the New York Stock Exchange or otherwise on the open market, each participant will pay a pro rata portion of trading fees. Trading fees will be deducted from amounts to be invested.



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### TRANSFER AGENT

Mellon Investor Services LLC  
85 Challenger Road  
Ridgefield Park, NJ 07660  
1-800/416-5585  
www.melloninvestor.com

### SHAREHOLDER INFORMATION

Shares of Templeton Dragon Fund, Inc. are traded daily on the New York Stock Exchange under the symbol "TDF". The Fund's shares are also listed and traded in Japan on the Osaka Securities Exchange. 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 distributions and shareholder accounts, call 1-800-416-5585. Registered shareholders can now access their Fund account on-line with INVESTOR SERVICE DIRECT SM. For information go to Mellon Investor Services' web site at <https://vault.melloninvestor.com/isd> 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 1-800-DIAL BEN (R) (1-800-342-5236). 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 the 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.  
Tax Designation (unaudited)

At December 31, 2002, more than 50% of the Templeton Dragon Fund, Inc.'s total

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assets were invested in securities of foreign issuers. In most instances, foreign taxes were withheld from dividends paid to the Fund on these investments. The Fund intends to make an election under Section 853 of the Internal Revenue Code. This election will allow shareholders to treat their proportionate share of foreign taxes paid by the Fund as having been paid directly by them.

The following table provides a breakdown by country of foreign source income and foreign taxes paid, as designated by the Fund, to shareholders of record on December 31, 2002.

| COUNTRY   | FOREIGN TAX PAID<br>PER SHARE | FOREIGN SOURCE<br>INCOME PER SHARE |
|-----------|-------------------------------|------------------------------------|
| China     | \$0.0000                      | \$0.0942                           |
| Hong Kong | 0.0000                        | 0.0757                             |
| Taiwan    | 0.0092                        | 0.0129                             |
| TOTAL     | \$0.0092                      | \$0.1828                           |
|           | =====                         | =====                              |

In January 2003, shareholders will receive Form 1099-DIV which will include their share of taxes withheld and foreign source income during the calendar year 2002. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their individual income tax returns.

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### BOARD MEMBERS AND OFFICERS

The name, age and address of the officers and board members, as well as their affiliations, positions held with the Fund, principal occupations during the past five years and number of U.S. registered portfolios overseen in the Franklin Templeton Investments fund complex are shown below. Each board member will serve until that person's successor is elected and qualified.

#### INDEPENDENT BOARD MEMBERS

| NAME, AGE AND ADDRESS  | POSITION | LENGTH OF<br>TIME SERVED | NUMBER OF<br>PORTFOLIOS IN FUND<br>COMPLEX OVERSEEN<br>BY BOARD MEMBER* | OTHER DIRECTORSHIPS                    |
|--|----------|--------------------------|---|--|
| HARRIS J. ASHTON (70)<br>500 East Broward Blvd.<br>Suite 2100<br>Fort Lauderdale,<br>FL 33394-3091 | Director | Since 1994               | 133   | Director, Bar-S F<br>(meat packing com |

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PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Director of various companies; and FORMERLY, 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).

|   |          |            |    |      |
|---|----------|------------|----|------|
| FRANK J. CROTHERS (58)  | Director | Since 1998 | 17 | None |
| 500 East Broward Blvd.<br>Suite 2100<br>Fort Lauderdale,<br>FL 33394-3091 |          |            |    |      |

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Chairman, Atlantic Equipment & Power Ltd.; Vice Chairman, Caribbean Utilities Co. Ltd.; Director Power Company Ltd.; Director, Caribbean Electric Utility Services Corporation (Chairman until 2002); various other business and nonprofit organizations.

|   |          |            |     |      |
|---|----------|------------|-----|------|
| S. JOSEPH FORTUNATO (70)  | Director | Since 1994 | 134 | None |
| 500 East Broward Blvd.<br>Suite 2100<br>Fort Lauderdale,<br>FL 33394-3091 |          |            |     |      |

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Attorney; and FORMERLY, member of the law firm of Pitney, Hardin, Kipp & Szuch.

|  |          |            |    |      |
|--|----------|------------|----|------|
| ANDREW H. HINES, JR. (79)  | Director | Since 1994 | 27 | None |
| 500 East Broward Blvd.<br>Suite 2100<br>Fort Lauderdale, FL 33394-3091 |          |            |    |      |

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Consultant, Triangle Consulting Group; and FORMERLY, Executive-in-residence, Eckerd College (1991-2002); Chairman and Director, Precise Power Corporation (1990-1997); Director, Checkers Drive-In Restaurant, Inc. (1994-1997); and Chairman of the Board and Chief Executive Officer, Florida Progress Corporation (holding company in the energy area) (1982-1990) and director of various of its subsidiaries.

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| NAME, AGE AND ADDRESS   | POSITION | LENGTH OF TIME SERVED | NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY BOARD MEMBER* | OTHER DIRECTORSHIPS   |
|---|----------|-----------------------|--|---|
| <hr/>   |          |                       |  |   |
| EDITH E. HOLIDAY (50)   | Director | Since 1996            | 82   | Director, Amerada Hess Corporation (exploration and refining of oil and gas); Hercules Incorporated (chemicals) |
| 500 East Broward Blvd.<br>Suite 2100<br>Fort Lauderdale,<br>FL 33394-3091 |          |                       |  |   |

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fibers and resins); Beverly Enterprises (health care); H.J. Company (processed and allied products International Metal Inc. (manufacture a distribution of titanium); and Canadian National Railway (railroad).

PRINCIPAL OCCUPATION DURING 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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|                       |          |            |    |      |
|-----------------------|----------|------------|----|------|
| BETTY P. KRAHMER (73) | Director | Since 1994 | 21 | None |
|-----------------------|----------|------------|----|------|

500 East Broward Blvd.  
Suite 2100  
Fort Lauderdale,  
FL 33394-3091

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Director or trustee of various civic associations; and FORMERLY, Economic Analyst, U.S. government

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|                        |          |            |     |   |
|------------------------|----------|------------|-----|---|
| GORDON S. MACKLIN (74) | Director | Since 1994 | 133 | Director, White Mountains Insurance Group, Ltd. (holding company); Biosciences Corporation MedImmune, Inc. (biotechnology); Overstock.com (Internet services); and Space Inc. (aerospace services). |
|------------------------|----------|------------|-----|---|

500 East Broward Blvd.  
Suite 2100  
Fort Lauderdale, FL 33394-3091

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Deputy Chairman, White Mountains Insurance Group, Ltd. (holding company); and FORMERLY, Chairman, White River Corporation (financial services) (until 1998) and Hambrecht & Quist Group (investment (until 1992)); and President, National Association of Securities Dealers, Inc. (until 1987).

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|                       |          |            |    |      |
|-----------------------|----------|------------|----|------|
| FRED R. MILLSAPS (73) | Director | Since 1994 | 27 | None |
|-----------------------|----------|------------|----|------|

500 East Broward Blvd.  
Suite 2100  
Fort Lauderdale,  
FL 33394-3091

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Director of various business and nonprofit organizations; and manager of personal investments (1978-present); and formerly, Chairman and Chief Executive Officer, Landmark Banking Corporation (1969-1978); Financial Vice President, Florida Power and Light (1965-1969); and Vice President, Federal Reserve Bank of Atlanta (1958-1965).

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|                |          |            |    |      |
|----------------|----------|------------|----|------|
| CONSTANTINE D. | Director | Since 1998 | 17 | None |
|----------------|----------|------------|----|------|

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TSERETOPOULOS (48)  
500 East Broward Blvd.  
Suite 2100  
Fort Lauderdale,  
FL 33394-3091

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Physician, 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).

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INTERESTED BOARD MEMBERS AND OFFICERS

| NAME, AGE AND ADDRESS   | POSITION | LENGTH OF TIME SERVED | NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY BOARD MEMBER* | OTHER DIRECTORSHIPS   |
|---|----------|-----------------------|--|---|
| **NICHOLAS F. BRADY (72)<br>500 East Broward Blvd.<br>Suite 2100<br>Fort Lauderdale,<br>FL 33394-3091 | Director | Since 1994            | 21   | Director, Amerada H Corporation (explor and refining of oil gas); C2, Inc. (ope and investment busi and H.J. Heinz Comp (processed foods an allied products). |

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Chairman, Templeton Emerging Markets Investment Trust PLC, Darby Overseas Investments, Ltd., Darby Emerging Markets Investments LDC and Darby Technology Ventures Group, LLC (investment firms) (1994-present); Director, Templeton Capital Advisors Ltd. and Franklin Templeton Investment Fund; and FORMERLY, Secretary of the United States Department of the Treasury (1988-1993); Chairman of the Board, Dillon, Read & Co., Inc. (investment banking) (until 1988); and U.S. Senator, New Jersey (April 1982-December 1982).

|   |                                   |            |   |      |
|---|-----------------------------------|------------|---|------|
| **MARTIN L. FLANAGAN (42)<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Director<br>and Vice<br>President | Since 1994 | 4 | None |
|---|-----------------------------------|------------|---|------|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

President, Member - Office of the President, Chief Financial Officer and Chief Operating Officer, Franklin Resources, Inc.; Senior Vice President and Chief Financial Officer, Franklin Mutual Advisers, LLC; Executive Vice President, Chief Financial Officer and Director, Templeton Worldwide, Inc.; Executive Vice President and Chief Operating Officer, Templeton Investment Counsel, LLC; President and Director, Franklin Advisers, Inc.; Executive Vice President, Franklin Investment Advisory Services, Inc. and Franklin Templeton Investor Services, LLC; Chief Financial Officer, Franklin Advisory Services, LLC; Chairman, Franklin Templeton Services, LLC; officer and/or director of some of the other subsidiaries of Franklin Resources, Inc.; and officer of 49 of the investment companies in Franklin Templeton Investments.

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|   |  |  |     |      |
|---|--|--|-----|------|
| **CHARLES B. JOHNSON (69)<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Director,<br>Vice<br>President<br>and<br>Chairman<br>of the<br>Board | Director and<br>Vice President<br>since 1994 and<br>Chairman of<br>the Board<br>since 1995 | 133 | None |
|---|--|--|-----|------|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Chairman of the Board, Chief Executive Officer, Member - Office of the Chairman and Director, Franklin Resources, Inc.; Vice President, Franklin Templeton Distributors, Inc.; Director, Fiduciary Trust Company International; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc.; and officer of 45 of the investment companies in Franklin Templeton Investments.

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|  |                   |            |                   |      |
|--|-------------------|------------|-------------------|------|
| HARMON E. BURNS (57)<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice<br>President | Since 1996 | Not<br>Applicable | None |
|--|-------------------|------------|-------------------|------|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Vice Chairman, Member - Office of the Chairman and Director, Franklin Resources, Inc.; Vice President and Director, Franklin Templeton Distributors, Inc.; Executive Vice President, Franklin Advisers, Director, Franklin Investment Advisory Services, Inc.; and officer and/or director or trustee, as case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 48 of the investment companies in Franklin Templeton Investments.

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|  |                   |            |                   |      |
|--|-------------------|------------|-------------------|------|
| JEFFREY A. EVERETT (38)<br>PO Box N-7759<br>Lyford Cay,<br>Nassau, Bahamas | Vice<br>President | Since 2001 | Not<br>Applicable | None |
|--|-------------------|------------|-------------------|------|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

President and Director, Templeton Global Advisors Limited; officer of 15 of the investment companies in Franklin Templeton Investments; and FORMERLY, Investment Officer, First Pennsylvania Investment Research (until 1989).

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| NAME, AGE AND ADDRESS  | POSITION   | LENGTH OF<br>TIME SERVED | NUMBER OF<br>PORTFOLIOS IN FUND<br>COMPLEX OVERSEEN<br>BY BOARD MEMBER* | OTHER DIRECTORSHIP |
|--|--|--------------------------|---|--------------------|
| JIMMY D. GAMBILL (55)<br>500 East Broward Blvd.<br>Suite 2100<br>Fort Lauderdale,<br>FL 33394-3091 | Senior Vice<br>President<br>and Chief<br>Executive<br>Officer -<br>Finance and | Since 2002               | Not Applicable  | None               |

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### Administration

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

President, Franklin Templeton Services, LLC; Senior Vice President, Templeton Worldwide, Inc.; and officer of 50 of the investment companies in Franklin Templeton Investments.

|  |           |            |                |      |
|--|-----------|------------|----------------|------|
| DAVID P. GOSS (55)                               | Vice      | Since 2000 | Not Applicable | None |
| One Franklin Parkway<br>San Mateo, CA 94403-1906 | President |            |                |      |

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Associate General Counsel, Franklin Resources, Inc.; President, Chief Executive Officer and Director, Property Resources, Inc. and Franklin Properties, Inc.; officer and/or director of some of the other subsidiaries of Franklin Resources, Inc.; officer of 50 of the investment companies in Franklin Templeton Investments; and FORMERLY, President, Chief Executive Officer and Director, Property Resources Equity Trust (until 1999) and Franklin Select Realty Trust (until 2000).

|  |                               |   |                |      |
|--|-------------------------------|---|----------------|------|
| BARBARA J. GREEN (55)                            | Vice                          | Vice  | Not Applicable | None |
| One Franklin Parkway<br>San Mateo, CA 94403-1906 | President<br>and<br>Secretary | President<br>since<br>2000 and<br>Secretary<br>since 1996 |                |      |

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Vice President and Deputy General Counsel, Franklin Resources, Inc.; Senior Vice President, Templeton Worldwide, Inc.; and officer of one of the other subsidiaries of Franklin Resources, Inc. and of 50 of the investment companies in Franklin Templeton Investments; and FORMERLY, Deputy Director, Division of Investment Management, Executive Assistant and Senior Advisor to the Chairman, Counselor to the Chairman, Special Counsel and Attorney Fellow, U.S. Securities and Exchange Commission (1986-1995); Attorney, Rogers & Wells (until 1986); and Judicial Clerk, U.S. District Court (District of Massachusetts) (until 1979).

|  |           |            |                |      |
|--|-----------|------------|----------------|------|
| RUPERT H. JOHNSON, JR. (62)                      | Vice      | Since 1996 | Not Applicable | None |
| One Franklin Parkway<br>San Mateo, CA 94403-1906 | President |            |                |      |

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Vice Chairman, Member - Office of the Chairman and Director, Franklin Resources, Inc.; Vice President and Director, Franklin Templeton Distributors, Inc.; Director, Franklin Advisers, Inc. and Franklin Investment Advisory Services, 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 48 of the investment companies in Franklin Templeton Investments.

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| NAME, AGE AND ADDRESS | POSITION | LENGTH OF<br>TIME SERVED | NUMBER OF<br>PORTFOLIOS IN FUND<br>COMPLEX OVERSEEN<br>BY BOARD MEMBER* | OTHER DIRECTORSHIP |
|-----------------------|----------|--------------------------|---|--------------------|
|-----------------------|----------|--------------------------|---|--------------------|

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|   |                   |            |                |      |
|---|-------------------|------------|----------------|------|
| JOHN R. KAY (62)<br>500 East Broward Blvd.<br>Suite 2100<br>Fort Lauderdale,<br>FL 33394-3091 | Vice<br>President | Since 1994 | Not Applicable | None |
|---|-------------------|------------|----------------|------|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Vice President, Templeton Worldwide, Inc.; Assistant Vice President, Franklin Templeton Distributors, Inc.; Senior Vice President, Franklin Templeton Services, LLC; and officer of one of the other subsidiaries of Franklin Resources, Inc. and of 20 of the investment companies in Franklin Templeton Investments; and FORMERLY, Vice President and Controller, Keystone Group, Inc.

|   |  |            |                |   |
|---|--|------------|----------------|---|
| MICHAEL O. MAGDOL (65)<br>600 5th Avenue<br>Rockefeller Center<br>New York, NY 10048-0772 | Vice<br>President<br>- AML<br>Compliance | Since 2002 | Not Applicable | Director, FTI<br>Banque, Arch<br>Chemicals,<br>Inc. and<br>Lingnan<br>Foundation. |
|---|--|------------|----------------|---|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Vice Chairman, Chief Banking Officer and Director, Fiduciary Trust Company International; officer and/or director, as the case may be of some of the other subsidiaries of Franklin Resources, Inc.; and officer of 47 of the investment companies in Franklin Templeton Investments.

|  |  |  |                |      |
|--|--|--|----------------|------|
| MARK MOBIUS (66)<br>Two Exchange Square,<br>39th Floor, Suite 3905-08<br>Hong Kong | President<br>and Chief<br>Executive<br>Officer -<br>Investment<br>Management | President<br>since 1994<br>and Chief<br>Executive<br>Officer -<br>Investment<br>Management<br>since 2002 | Not Applicable | None |
|--|--|--|----------------|------|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Portfolio Manager of various Templeton advisory affiliates; Managing Director, Templeton Asset Management Ltd.; Executive Vice President and Director, Templeton Global Advisors Limited; officer of six of the investment companies in Franklin Templeton Investments; officer and/or director as the case may be of some of the subsidiaries of Franklin Resources, Inc.; and FORMERLY, President, International Investment Trust Company Limited (investment manager of Taiwan R.O.C. Fund) (1986-1987); and Director, Vickers da Costa, Hong Kong (1983-1986).

|  |  |  |                |      |
|--|--|--|----------------|------|
| BRUCE S. ROSENBERG (41)<br>500 East Broward Blvd.<br>Suite 2100<br>Fort Lauderdale,<br>FL 33394-3091 | Treasurer<br>and Chief<br>Financial<br>Officer | Treasurer<br>since 2000<br>and Chief<br>Financial<br>Officer<br>since 2002 | Not Applicable | None |
|--|--|--|----------------|------|

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Vice President, Franklin Templeton Services, LLC; and officer of some of the subsidiaries of Franklin Resources, Inc. and of 16 of the investment companies in Franklin Templeton Investments.



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| NAME, AGE AND ADDRESS  | POSITION       | LENGTH OF TIME SERVED | NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY BOARD MEMBER* | OTHER DIRECTORSHIP |
|--|----------------|-----------------------|--|--------------------|
| MURRAY L. SIMPSON (65)<br>One Franklin Parkway<br>San Mateo, CA 94403-1906 | Vice President | Since 2000            | Not Applicable   | None               |

PRINCIPAL OCCUPATION DURING PAST 5 YEARS:

Executive Vice President and General Counsel, Franklin Resources, Inc.; officer and/or director of some of the subsidiaries of Franklin Resources, Inc.; officer of 50 of the investment companies in Franklin Templeton Investments; and FORMERLY, Chief Executive Officer and Managing Director, Templeton Franklin Investment Services (Asia) Limited (until 2000); and Director, Templeton Asset Management Ltd. (until 1999).

\*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 adviser or affiliated investment advisers and may also share a common underwriter.

\*\*Charles B. Johnson is considered an interested person of the Fund under the federal securities laws due to his position as an officer and director and major shareholder of Franklin Resources, Inc. (Resources), which is the parent company of the Fund's adviser, and his position within the Fund. Martin L. Flanagan is considered an interested person of the Fund under the federal securities laws due to his position as officer of Resources and his position within the Fund. Nicholas F. Brady is considered an interested person of the Fund under the federal securities laws due to his business affiliations with Resources and Templeton Global Advisors Limited. Mr. Brady and Resources are both limited partners of Darby Overseas Partners, L.P. (Darby Overseas). Mr. Brady is Chairman and shareholder of Darby Overseas Investments, Ltd., which is the corporate general partner of Darby Overseas. In addition, Darby Overseas and Templeton Global Advisors Limited are limited partners of Darby Emerging Markets Fund, L.P. (DEMF). Mr. Brady serves as Chairman of the corporate general partner of DEMF, and Darby Overseas and its general partner own 100% of the stock of the general partner of DEMF. Resources also is an investor in Darby Technology Ventures Group, LLC (DTV) in which Darby Overseas is a significant investor and for which Darby Overseas has the right to appoint a majority of the directors. Templeton Global Advisors Limited also is a limited partner in Darby-BBVA Latin America Private Equity Fund, L.P. (DBVA), a private equity fund in which Darby Overseas is a significant investor, and the general partner of which Darby Overseas controls jointly with an unaffiliated third party. Mr. Brady is also a director of Templeton Capital Advisors Ltd. (TCAL), which serves as investment manager to certain unregistered funds. TCAL and Templeton Global Advisors Limited are both indirect subsidiaries of Resources.

Note: Charles B. Johnson and Rupert H. Johnson, Jr. are brothers.

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LITERATURE REQUEST

For a brochure and prospectus, which contain more complete information, including charges and expenses, call Franklin Templeton Investments at 1-800/DIAL BEN(R) (1-800/342-5236). Please read the prospectus carefully before investing or sending money. To ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be determined by the presence of a regular beeping tone.

FRANKLIN TEMPLETON INVESTMENTS

GLOBAL GROWTH

Franklin Global Aggressive  
Growth Fund  
Franklin Global Growth Fund  
Franklin Global Health Care Fund  
Mutual Discovery Fund  
Templeton Developing Markets Trust  
Templeton Foreign Fund  
Templeton Foreign Smaller  
Companies Fund  
Templeton Global Opportunities Trust  
Templeton Global Smaller  
Companies Fund  
Templeton Growth Fund  
Templeton International (Ex EM) Fund  
Templeton World Fund

GLOBAL GROWTH & INCOME

Franklin Global Communications Fund  
Mutual European Fund  
Templeton Global Bond Fund

GLOBAL INCOME

Franklin Templeton Hard  
Currency Fund

GROWTH

Franklin Aggressive Growth Fund  
Franklin Biotechnology  
Discovery Fund

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Franklin Blue Chip Fund  
Franklin Capital Growth Fund 1  
Franklin DynaTech Fund  
Franklin Flex Cap Growth Fund 2  
Franklin Gold and Precious  
Metals Fund  
Franklin Growth Fund  
Franklin Large Cap Growth Fund  
Franklin Small-Mid Cap  
Growth Fund  
Franklin Technology Fund  
Franklin U.S. Long-Short Fund 3

### GROWTH & INCOME

Franklin Balance Sheet Investment Fund 4  
Franklin Convertible  
Securities Fund  
Franklin Equity Income Fund  
Franklin Income Fund  
Franklin Large Cap Value Fund  
Franklin MicroCap Value Fund 4  
Franklin Natural Resources Fund  
Franklin Real Estate  
Securities Fund  
Franklin Rising Dividends Fund  
Franklin Small Cap Value Fund  
Franklin Utilities Fund  
Mutual Beacon Fund  
Mutual Financial Services Fund  
Mutual Qualified Fund  
Mutual Shares Fund

### FUND ALLOCATOR SERIES

Franklin Templeton Conservative Target Fund  
Franklin Templeton Growth  
Target Fund  
Franklin Templeton Moderate  
Target Fund

### INCOME

Franklin Adjustable U.S. Government Securities Fund 5  
Franklin's AGE High Income Fund  
Franklin Floating Rate Daily  
Access Fund  
Franklin Floating Rate Trust 6  
Franklin Short-Intermediate  
U.S. Government Securities Fund 5  
Franklin Strategic Income Fund  
Franklin Total Return Fund  
Franklin U.S. Government  
Securities Fund 5  
Franklin Federal Money Fund 5,7  
Franklin Money Fund 5,7

### TAX-FREE INCOME 8

Double Tax-Free Income Fund  
Federal Intermediate-Term Tax-Free Income Fund  
Federal Tax-Free Income Fund  
High Yield Tax-Free  
Income Fund  
Insured Tax-Free Income Fund 9

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Tax-Exempt Money Fund 5,7

STATE-SPECIFIC  
TAX-FREE INCOME 8  
Alabama  
Arizona  
California 10  
Colorado  
Connecticut  
Florida 10  
Georgia  
Kentucky  
Louisiana  
Maryland  
Massachusetts 9  
Michigan 9  
Minnesota 9  
Missouri  
New Jersey  
New York 10  
North Carolina  
Ohio 9  
Oregon  
Pennsylvania  
Tennessee  
Virginia

### INSURANCE FUNDS

Franklin Templeton Variable Insurance Products Trust 11

1. Formerly Franklin Growth and Income Fund. Effective 5/1/02, the fund's name changed; investment goal and strategy remained the same.
2. Formerly Franklin California Growth Fund. Effective 9/1/02, the fund's name changed and its investment criteria was modified to invest a majority of its net assets in California companies, as opposed to at least 80% of net assets.
3. Upon reaching approximately \$350 million in assets, the fund will close to all investors.
4. The fund is only open to existing shareholders as well as select retirement plans.
5. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.
6. The fund is a continuously offered, closed-end fund. Shares may be purchased daily; there is no daily redemption. However, each quarter, pending board approval, the fund will authorize the repurchase of 5%-25% of the outstanding number of shares. Investors may tender all or a portion of their shares during the tender period.
7. No assurance exists that the fund's \$1.00 per share price will be maintained. It is possible to lose money by investing in the fund.
8. For investors subject to the alternative minimum tax, a small portion of these dividends may be taxable. Distributions of capital gains are generally taxable.
9. Portfolio of insured municipal securities.
10. These funds are available in two or more variations, including long-term portfolios, portfolios of insured securities, a high-yield portfolio (CA) and intermediate-term and money market portfolios (CA and NY).
11. The funds of the Franklin Templeton Variable Insurance Products Trust are generally only available as investment options in variable annuity or variable life insurance contracts.

[LOGO OMITTED]  
FRANKLIN (R) TEMPLETON (R)  
INVESTMENTS

100 Fountain Parkway  
P.O. Box 33030  
St. Petersburg, Florida 33733-8030

ANNUAL REPORT  
TEMPLETON DRAGON FUND, INC.

AUDITORS  
PricewaterhouseCoopers LLP  
333 Market Street  
San Francisco, CA 94105

TRANSFER AGENT  
Mellon Investor Services LLC  
85 Challenger Road  
Ridgefield Park, New Jersey 07660  
1-800/416-5585  
[www.melloninvestor.com](http://www.melloninvestor.com)

FUND INFORMATION  
1-800/342-5236

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 the shares of the Fund. To ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be identified by the presence of a regular beeping tone.

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