

Morgan Stanley China A Share Fund, Inc.  
Form N-CSRS  
September 08, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-21926

Morgan Stanley China A Share Fund, Inc.  
(Exact name of registrant as specified in charter)

522 Fifth Avenue, New York, New York  
(Address of principal executive offices)

10036  
(Zip code)

Arthur Lev

522 Fifth Avenue, New York, New York 10036  
(Name and address of agent for service)

Registrant's telephone number, including area code: 212-296-6990

Date of fiscal year end: December 31, 2011

Date of reporting period: June 30, 2011

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Item 1 - Report to Shareholders

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Morgan Stanley China A Share Fund, Inc.

**Directors**

Michael E. Nugent

Frank L. Bowman

Michael Bozic

Kathleen A. Dennis

James F. Higgins

Dr. Manuel H. Johnson

Joseph J. Kearns

Michael F. Klein

W. Allen Reed

Fergus Reid

**Officers**

Michael E. Nugent

*Chairman of the Board and Director*

Arthur Lev

*President and Principal Executive Officer*

Stefanie V. Chang Yu

*Vice President*

Francis J. Smith

*Treasurer and Principal Financial Officer*

Mary Ann Picciotto

*Chief Compliance Officer*

Mary E. Mullin

*Secretary*

**Investment Adviser and Administrator**

Morgan Stanley Investment Management Inc.

522 Fifth Avenue

New York, New York 10036

**Custodian**

State Street Bank and Trust Company

One Lincoln Street

Boston, Massachusetts 02111

**Stockholder Servicing Agent**

Computershare Trust Company, N.A.

250 Royall Street

Canton, Massachusetts 02021

**Legal Counsel**

Dechert LLP

1095 Avenue of the Americas

New York, New York 10036

**Independent Registered Public Accounting Firm**

Ernst & Young LLP

200 Clarendon Street

Boston, Massachusetts 02116

For additional Fund information, including the Fund's net asset value per share and information regarding the investments comprising the Fund's portfolio, please call toll free 1 (800) 231-2608 or visit our website at [www.morganstanley.com/im](http://www.morganstanley.com/im). All investments involve risks, including the possible loss of principal.

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IU11-01714P-Y06/11

INVESTMENT MANAGEMENT

Morgan Stanley

China A Share Fund, Inc.

(CAF)

Morgan Stanley

Investment Management Inc.

Investment Adviser

**Semi-Annual  
Report**

June 30, 2011

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Morgan Stanley China A Share Fund, Inc.

Overview (unaudited)

Letter to Stockholders

## **Performance**

For the six months ended June 30, 2011, the Morgan Stanley China A Share Fund, Inc. (the "Fund") had total returns of 0.68%, based on net asset value, and -0.18% based on market value per share (including reinvestment of distributions), compared to its benchmarks, the Morgan Stanley Capital International (MSCI) China A Index (the "Index"), which returned -1.29%, and the "China Blended Index", a custom blend of 80% of the MSCI China A Index and 20% of the MSCI China Index, which returned -0.68%. On June 30, 2011, the closing price of the Fund's shares on the New York Stock Exchange was \$27.30, representing a 2.7% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

## **Factors Affecting Performance**

- Since the fourth quarter of 2009, the government's policy has gradually shifted from a pro-growth stance to a tightening mode due to concerns about potential risk in local government financing vehicle (LGFV) loans, escalating asset prices and rising inflation. In late 2009, the A-share market entered into a declining trend in response to the policy shift as well as to tightening domestic liquidity, which caused the market to finish 2010 in negative territory. During the first half of 2011, the government maintained the tightening policy, while LGFV and rising inflation continued to weigh on the market, which caused the market to remain sluggish despite healthy earnings growth.
- The Fund's outperformance for the six-month period mainly came from stock selection in the industrials, consumer discretionary and information technology sectors.
- The Fund utilized P-notes (participation notes) to gain access to China's A-share market, and therefore our P-note exposure was intended to mirror the performance of the underlying stock. There was no leverage associated with the position which was a positive contributor to performance.
- In contrast, the Fund's stock selections in the energy, and health care sectors were the primary performance detractors.

## **Management Strategies**

- The Fund seeks to achieve its investment objective of capital growth by investing, under normal circumstances, at least 80% of its assets in A-shares of Chinese companies listed on the Shanghai and Shenzhen Stock Exchanges, either through a licensed qualified foreign institutional investor or by gaining exposure to the A-share market through the use of derivatives.

Morgan Stanley China A Share Fund, Inc.

Overview (unaudited)

Letter to Stockholders (cont'd)

- Over the course of the period, the Fund held overweight positions in the consumer staples, health care and consumer discretionary sectors. We believe China is likely to change its economic growth structure over the next decade, i.e. from one that is more investment and export driven to a more domestic consumption driven one. In addition, we believe that rapid income growth and continuous urbanization should not only boost volume growth but also lead to ongoing demand as consumers trade up to more expensive items and brands. Specifically, we like consumer staples with strong brand recognition and pricing power, and consumer retailers with competitive distribution networks.
- We are positive on the health care sector as we believe expanding social medical coverage and facilities construction are likely to boost Chinese health care spending in the future.
- We held an underweight position in the materials sector on the expectation of a slowdown in fixed-asset investment resulting from the government's tightening.

Sincerely,

Arthur Lev  
President and Principal Executive Officer July 2011

Morgan Stanley China A Share Fund, Inc.

June 30, 2011 (unaudited)

Investment Advisory Agreement Approval

### **Nature, Extent and Quality of Services**

The Board reviewed and considered the nature and extent of the investment advisory services provided by the Adviser (as defined herein) under the advisory agreement, including portfolio management, investment research and equity and fixed income securities trading. The Board reviewed similar information and factors regarding the Sub-Adviser (as defined herein), to the extent applicable. The Board also reviewed and considered the nature and extent of the non-advisory, administrative services provided by the Fund's Adviser under the administration agreement, including accounting, clerical, bookkeeping, compliance, business management and planning, and the provision of supplies, office space and utilities at the Adviser's expense. (The Adviser and Sub-Adviser together are referred to as the "Adviser" and the advisory, sub-advisory and administration agreements together are referred to as the "Management Agreement.") The Board also compared the nature of the services provided by the Adviser with similar services provided by non-affiliated advisers as reported to the Board by Lipper, Inc. ("Lipper").

The Board reviewed and considered the qualifications of the portfolio managers, the senior administrative managers and other key personnel of the Adviser who provide the administrative and advisory services to the Fund. The Board determined that the Adviser's portfolio managers and key personnel are well qualified by education and/or training and experience to perform the services in an efficient and professional manner. The Board concluded that the nature and extent of the advisory and administrative services provided were necessary and appropriate for the conduct of the business and investment activities of the Fund and supported its decision to approve the Management Agreement.

### **Performance, Fees and Expenses of the Fund**

The Board reviewed the performance, fees and expenses of the Fund compared to its peers, as determined by Lipper, and to appropriate benchmarks where applicable. The Board discussed with the Adviser the performance goals and the actual results achieved in managing the Fund. When considering a fund's performance, the Board and the Adviser place emphasis on trends and longer-term returns (focusing on one-year, three-year and five-year performance, as of December 31, 2010, or since inception, as applicable). When a fund underperforms its benchmark and/or its peer group average, the Board and the Adviser discuss the causes of such underperformance and, where necessary, they discuss specific changes to investment strategy or investment personnel. The Board noted that the Fund's performance was better than its peer group average since the end of September 2006, the month of the Fund's inception, but below its peer group average for the one- and three-year periods. The Board discussed with the Adviser the level of the advisory and administration fees (together, the "management fee") for this Fund relative to comparable funds and/or other accounts advised by the Adviser and/or compared to its peers as determined by Lipper. In addition to the management fee, the Board also reviewed the Fund's total expense ratio. The Board noted that the management fee was higher than its peer group average and the total expense ratio was higher but close to its peer group average. After discussion, the Board concluded that (i) the Fund's performance was acceptable, (ii) the Fund's management fee, although higher than its peer group average, was acceptable given the quality and nature of services provided, and (iii) the Fund's total expense ratio was competitive with its peer group average.



Morgan Stanley China A Share Fund, Inc.

June 30, 2011 (unaudited)

Investment Advisory Agreement Approval (cont'd)

### **Economies of Scale**

The Board considered the size and growth prospects of the Fund and how that relates to the Fund's total expense ratio and particularly the Fund's management fee rate, which does not include breakpoints. In conjunction with its review of the Adviser's profitability, the Board discussed with the Adviser how a change in assets can affect the efficiency or effectiveness of managing the Fund and whether the management fee level is appropriate relative to current and projected asset levels and/or whether the management fee structure reflects economies of scale as asset levels change. The Board considered that, with respect to closed-end funds, the assets are not likely to grow with new sales or grow significantly as a result of capital appreciation. The Board concluded that economies of scale for the Fund were not a factor that needed to be considered at the present time.

### **Profitability of the Adviser and Affiliates**

The Board considered information concerning the costs incurred and profits realized by the Adviser and its affiliates during the last year from their relationship with the Fund and during the last two years from their relationship with the Morgan Stanley Fund Complex and reviewed with the Adviser the cost allocation methodology used to determine the profitability of the Adviser and affiliates. The Board has determined that its review of the analysis of the Adviser's expenses and profitability supports its decision to approve the Management Agreement.

### **Other Benefits of the Relationship**

The Board considered other benefits to the Adviser and its affiliates derived from their relationship with the Fund and other funds advised by the Adviser. These benefits may include, among other things, "float" benefits derived from handling of checks for purchases and sales, research received by the Adviser generated from commission dollars spent on funds' portfolio trading and fees for distribution and/or shareholder servicing. The Board reviewed with the Adviser each of these arrangements and the reasonableness of the Adviser's costs relative to the services performed. The Board has determined that its review of the other benefits received by the Adviser or its affiliates supports its decision to approve the Management Agreement.

### **Resources of the Adviser and Historical Relationship Between the Fund and the Adviser**

The Board considered whether the Adviser is financially sound and has the resources necessary to perform its obligations under the Management Agreement. The Board also reviewed and considered the historical relationship between the Fund and the Adviser, including the organizational structure of the Adviser, the policies and procedures formulated and adopted by the Adviser for managing the Fund's operations and the Board's confidence in the competence and integrity of the senior managers and key personnel of the Adviser. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement and that it is beneficial for the Fund to continue its relationship with the Adviser.

### **Other Factors and Current Trends**

The Board considered the controls and procedures adopted and implemented by the Adviser and monitored by the Fund's Chief Compliance Officer and concluded that the conduct of business by the Adviser indicates a good faith

effort on its part to adhere to high ethical standards in the conduct of the Fund's business.

Morgan Stanley China A Share Fund, Inc.

June 30, 2011 (unaudited)

Investment Advisory Agreement Approval (cont'd)

**General Conclusion**

After considering and weighing all of the above factors, the Board concluded that it would be in the best interest of the Fund and its shareholders to approve renewal of the Management Agreement for another year. In reaching this conclusion the Board did not give particular weight to any single factor referenced above. The Board considered these factors over the course of numerous meetings, some of which were in executive session with only the independent Board members and their counsel present. It is possible that individual Board members may have weighed these factors differently in reaching their individual decisions to approve the Management Agreement.



Morgan Stanley China A Share Fund, Inc.

June 30, 2011 (unaudited)

Portfolio of Investments

	Shares	Value (000)
<b>COMMON STOCKS (99.5%)</b>		
<b>Auto Components (5.1%)</b>		
Huayu Automotive Systems Co., Ltd., Class A	18,069,668	\$ 31,203
<b>Beverages (13.6%)</b>		
Tsingtao Brewery Co., Ltd., Class A	11,498,529	60,801
Wuliangye Yibin Co., Ltd., Class A	4,047,490	22,384
		83,185
<b>Chemicals (4.1%)</b>		
Qinghai Salt Lake Potash Co., Ltd., Class A (a)	2,764,868	25,310
<b>Commercial Banks (12.1%)</b>		
Agricultural Bank of China Ltd.	26,651,300	11,548
Bank of Communications Co., Ltd., Class A	15,899,884	13,634
China Merchants Bank Co., Ltd., Class A	13,623,633	27,459
China Minsheng Banking Corp. Ltd., Class A	14,863,300	13,180
Shanghai Pudong Development Bank, Class A	5,526,820	8,431
		74,252
<b>Construction Materials (1.9%)</b>		
Gansu Qilianshan Cement Group Co., Ltd., Class A (a)	4,069,486	11,511
<b>Electrical Equipment (2.1%)</b>		
XJ Electric Co., Ltd., Class A (a)	2,747,823	13,114
<b>Food &amp; Staples Retailing (4.5%)</b>		
Wuhan Zhongbai Group Co., Ltd., Class A (a)	14,635,200	27,894
<b>Health Care Equipment &amp; Supplies (1.3%)</b>		
Shandong Pharmaceutical Glass Co., Ltd., Class A	3,812,757	7,715
<b>Health Care Providers &amp; Services (7.7%)</b>		
Shanghai Pharmaceutical Co., Ltd., Class A	18,081,404	47,078
<b>Household Durables (4.7%)</b>		
	7,890,236	28,737

Gree Electric Appliances, Inc.,  
Class A

	Shares	Value (000)
<b>Insurance (8.3%)</b>		
China Pacific Insurance Group Co., Ltd., Class A	4,745,973	\$ 16,487
Ping An Insurance Group Co. of China Ltd., Class A	4,631,052	34,687 51,174
<b>Internet Software &amp; Services (0.6%)</b>		
Sohu.com, Inc. (a)	51,700	3,736
<b>Machinery (10.0%)</b>		
Changsha Zoomlion Heavy Industry Science and Technology Development Co., Ltd., Class A	5,401,410	12,902
Sany Heavy Industry Co., Ltd., Class A	9,021,405	25,243
Zhengzhou Yutong Bus Co., Ltd., Class A	6,521,430	23,353 61,498
<b>Metals &amp; Mining (1.9%)</b>		
Shandong Nanshan Aluminum Co., Ltd., Class A	7,973,010	11,634
<b>Multiline Retail (1.2%)</b>		
Hefei Department Store Group Co., Ltd., Class A	2,627,518	7,404
<b>Oil, Gas &amp; Consumable Fuels (6.2%)</b>		
China Petroleum & Chemical Corp., Class A	6,751,400	8,604
PetroChina Co., Ltd., Class A	5,254,232	8,863
Shanxi Xishan Coal & Electricity Power Co., Ltd., Class A (a)	5,470,217	20,542 38,009
<b>Real Estate Management &amp; Development (6.7%)</b>		
China Vanke Co., Ltd., Class A	31,430,665	41,110
<b>Road &amp; Rail (3.2%)</b>		
China Railway Tielong Container Logistics Co., Ltd., Class A (a)	12,191,466	19,913
<b>Software (3.2%)</b>		
UFIDA Software Co., Ltd., Class A	6,210,874	19,883
<b>Specialty Retail (1.1%)</b>		
Suning Appliance Co., Ltd., Class A	3,372,074	6,693
<b>TOTAL COMMON STOCKS</b> (Cost \$541,707)		611,053

The accompanying notes are an integral part of the financial statements.



Morgan Stanley China A Share Fund, Inc.

June 30, 2011 (unaudited)

Portfolio of Investments (cont'd)

	Shares	Value (000)
<b>SHORT-TERM INVESTMENT (0.1%)</b>		
<b>Investment Company (0.1%)</b>		
Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (See Note F) (Cost \$494)	493,770	\$ 494
<b>TOTAL INVESTMENTS (99.6%)</b> (Cost \$542,201) (b)		611,547
<b>OTHER ASSETS IN EXCESS OF LIABILITIES (0.4%)</b>		2,428
<b>NET ASSETS (100.0%)</b>		\$ 613,975

(a) Non-income producing security.

(b) The approximate market value and percentage of net assets, \$607,317,000 and 98.9%, respectively, represent the securities that have been fair valued under the fair valuation policy for international investments as described in Note A-1 within the Notes to the Financial Statements.

**Fair Value Measurement Information:**

The following is a summary of the inputs used to value the Fund's net assets as of June 30, 2011. (See Note A-4 to the financial statements for further information regarding fair value measurement.)

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
<b>Assets:</b>				
<b>Common Stocks</b>				
Auto				
Components	\$	\$ 31,203	\$	\$ 31,203
Beverages		83,185		83,185
Chemicals		25,310		25,310
Commercial				
Banks		74,252		74,252
Construction				
Materials		11,511		11,511
		13,114		13,114



Electrical Equipment		
Food & Staples Retailing	27,894	27,894
Health Care Equipment & Supplies	7,715	7,715
Health Care Providers & Services	47,078	47,078

<b>Investment Type</b>	<b>Level 1 Unadjusted quoted prices (000)</b>	<b>Level 2 Other significant observable inputs (000)</b>	<b>Level 3 Significant unobservable inputs (000)</b>	<b>Total (000)</b>
<b>Assets: (cont'd)</b>				
<b>Common Stocks (cont'd)</b>				
Household Durables	\$	\$ 28,737	\$	\$ 28,737
Insurance		51,174		51,174
Internet Software & Services	3,736			3,736
Machinery		61,498		61,498
Metals & Mining		11,634		11,634
Multiline Retail		7,404		7,404
Oil, Gas & Consumable Fuels		38,009		38,009
Real Estate Management & Development				