

Morgan Stanley China A Share Fund, Inc.
Form N-CSRS
September 05, 2008

[ANNOTATED FORM N-CSR FOR ANNUAL REPORTS]

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, NY
(Address of principal executive offices)

10036
(Zip code)

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

Registrant's telephone number, including area code: 1-800-231-2608

Date of fiscal year end: 12/31

Date of reporting period: 6/30/08

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington,

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DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. Section 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

The Fund's semi-annual report transmitted to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940 is as follows:

2008 Semi-Annual Report

June 30, 2008

Morgan Stanley

China A Share Fund, Inc. (CAF)

Morgan Stanley

Investment Management Inc.

Investment Adviser

Morgan Stanley China A Share Fund, Inc.

Overview (unaudited)

Letter to Stockholders

Performance

For the six months ended June 30, 2008, the Morgan Stanley China A Share Fund, Inc. (the Fund) had total returns, based on net asset value and market value per share (including reinvestment of distributions), of -42.71%, net of fees and -27.89%, respectively, compared to its benchmark, the Morgan Stanley Capital International (MSCI) China A Share Index (the Index) which returned -42.76%. On June 30, 2008, the closing price of the Fund's shares on the New York Stock Exchange was \$36.42, representing a 6.8% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

Factors Affecting Performance

- The A-share market suffered a significant correction with a return of -43% in the first half of 2008. The market's performance was driven by concerns over economic tightening, corporate earnings downgrades and the floating of lock-up shares (that is, non-tradable shares converting to tradable shares after the expiration of a lock-up period).
- The Fund's overweight position in cash and exposures to the energy and the financial sectors were large positive contributors to performance.
- By contrast, holdings in the industrials and materials sectors detracted from returns.

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.

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- Over the course of the period, the Fund had overweight positions in the coal, bank and industrial sectors. The position in coal was driven by our expectations for demand growth to outpace production growth in the next 12 to 16 months, due to buoyant power generation growth and ongoing industry consolidation.
- Our positive view of the bank sector is based on solid asset growth, continuous net interest margin expansion, lower effective income tax, and stable credit cost as non-performing loans are still on a declining trend.
- In industrials, the Fund's portfolio included globally competitive equipment manufacturers that we believe are poised to benefit from China's increasing competitiveness in the capital goods arena. The Fund's industrial holdings also included railway stocks, which could benefit from capacity expansion and increasing demand, and bulk shipping stocks, which have benefited from a strong BDI index (Baltic Exchange Dry Index) driven by China's robust demand for global commodities.

Sincerely,

Ronald E. Robison

President and Principal Executive Officer

July 2008

Morgan Stanley China A Share Fund, Inc.

June 30, 2008 (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 Investment Adviser 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, 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 Administrator under the Administration Agreement, including accounting, clerical, bookkeeping, compliance, business management and planning, and the provision of supplies, office space and utilities at the Investment Adviser's expense. (The Investment Adviser, Sub-Adviser and Administrator 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 advisory and administrative 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. The Board also concluded that the overall quality of the advisory and administrative services was satisfactory.

Performance Relative to Comparable Funds Managed by Other Advisers

On a regular basis, the Board reviews the performance of all funds in the Morgan Stanley Fund Complex, including the Fund, compared to their peers, paying specific attention to the underperforming funds. In addition, the Board specifically reviewed the Fund's performance for the one-year period ended December 31, 2007, and for the period from September 28, 2006 (inception) through December 31, 2007, as shown in a report provided by Lipper (the Lipper Report), compared to the performance of comparable funds selected by Lipper (the performance peer group). The Board also discussed with the Adviser the performance goals and the actual results achieved in managing the Fund. The Board concluded that the Fund's performance was competitive with that of its performance peer group.

Fees Relative to Other Proprietary Funds Managed by the Adviser with Comparable Investment Strategies

The Board noted that the Adviser did not manage any other proprietary funds with investment strategies comparable to those of the Fund.

Fees and Expenses Relative to Comparable Funds Managed by Other Advisers

The Board reviewed the advisory and administrative fee (together, the management fee) rate and total expense ratio of the Fund as compared to the average management fee rate and average total expense ratio for funds, selected by Lipper (the expense peer group), managed by other advisers with investment strategies comparable to those of the Fund, as shown in the Lipper Report. The Board concluded that the Fund's management fee rate was acceptable as the total expense ratio was competitive with its expense peer group.

Breakpoints and Economies of Scale

The Board reviewed the structure of the Fund's management fee schedule under the Management Agreement and noted that it does not include any breakpoints. The Board considered that the Fund is a closed-end fund and, therefore, that the Fund's 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 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. Based on its review of the information it received, the Board concluded that the profits earned by the Adviser and affiliates were not excessive in light of the advisory, administrative and other services provided to the Fund.

Morgan Stanley China A Share Fund, Inc.

June 30, 2008 (unaudited)

Investment Advisory Agreement Approval (cont'd)

Fall-Out Benefits

The Board considered so-called "fall-out benefits" derived by the Adviser and affiliates from their relationship with the Fund and the Morgan Stanley Fund Complex, such as commissions on the purchase and sale of Fund shares and "float" benefits derived from handling of checks for purchases and sales of Fund shares, through a broker-dealer affiliate of the Adviser and "soft dollar" benefits (discussed in the next section). The Board also considered that, from time to time, the Adviser may, directly or indirectly, effect trades on behalf of certain Morgan Stanley Funds through various electronic communications networks or other alternative trading systems in which the Adviser's affiliates have ownership interests and/or board seats. The Board concluded that the sales commissions were competitive with those of other broker-dealers and the fall-out benefits were relatively small.

Soft Dollar Benefits

The Board considered whether the Adviser realizes any benefits as a result of brokerage transactions executed through "soft dollar" arrangements. Under such arrangements, brokerage commissions paid by the Fund and/or other funds managed by the Adviser would be used to pay for research that a securities broker obtains from third parties, or to pay for both research and execution services from securities brokers who effect transactions for the Fund. The Board recognized that the receipt of such research from brokers may reduce the Adviser's costs but concluded that the receipt of such research strengthens the investment management resources of the Adviser, which may ultimately benefit the Fund and other funds in the Morgan Stanley Fund Complex.

Adviser Financially Sound and Financially Capable of Meeting the Fund's Needs

The Board considered whether the Adviser is financially sound and has the resources necessary to perform its obligations under the Management Agreement. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement.

Historical Relationship Between the Fund and the Adviser

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 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.

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.

Morgan Stanley China A Share Fund, Inc.

June 30, 2008 (unaudited)

Portfolio of Investments

	Shares	Value (000)
COMMON STOCKS (83.0%)		
(Unless otherwise noted)		
Beverages (3.3%)		
Kweichow Moutai Co., Ltd.	830,660	\$ 16,794
Commercial Banks (19.9%)		
China Construction Bank Corp.	51,858,930	44,715
China Merchants Bank Co., Ltd.	13,190,296	45,069
Huaxia Bank Co., Ltd.	9,144,819	12,314
		102,098
Independent Power Producers & Energy Traders (1.7%)		
Datang International Power Generation Co., Ltd., H	14,762,000	8,766
Insurance (2.7%)		
China Life Insurance Co., Ltd.	4,010,958	13,997
Machinery (8.4%)		
Guangxi Liugong Machinery Co., Ltd.	(a)7,261,062	20,392
Zhengzhou Yutong Bus Co., Ltd.	11,569,074	22,398
		42,790
Marine (5.4%)		
China COSCO Holdings Co., Ltd.	4,775,982	13,762
China Shipping Development Co., Ltd.	4,724,317	13,709
		27,471
Metals & Mining (13.0%)		
Angang Steel Co., Ltd.	5,286,889	10,051
Baoshan Iron & Steel Co., Ltd.	9,951,915	12,646
Jiaozuo Wanfang Aluminum Manufacturing Co., Ltd.	5,451,456	14,634
Tangshan Iron & Steel Co.	(a)6,523,712	10,136
Wuhan Iron & Steel Co., Ltd.	13,503,975	19,229
		66,696
Oil, Gas & Consumable Fuels (14.7%)		
Anhui Hengyuan Coal Industry & Electricity Power Co., Ltd.	(a)3,467,057	12,898
China Coal Energy Co.	(a)4,572,988	10,661
Henan Shen Huo Coal Industry & Electricity Power Co., Ltd.	2,545,012	12,996
Shanxi Xishan Coal & Electricity Power Co., Ltd.	5,258,000	38,355
		74,910
Real Estate (2.2%)		
China Merchants Property Development Co., Ltd.	5,182,362	11,296
Road & Rail (5.1%)		
Daqin Railway Co., Ltd.	13,042,000	25,896
Specialty Retail (0.5%)		
GOME Electrical Appliances Holdings Ltd.	5,624,000	2,669
Transportation Infrastructure (6.1%)		
Guangzhou Baiyun International Airport Co., Ltd.	8,393,618	12,576
Jiangxi Ganyue Expressway Co., Ltd.	13,207,886	18,865
		31,441
TOTAL COMMON STOCKS		
(COST \$371,492)		424,824

SHORT-TERM INVESTMENT (0.3%)

Investment Company (0.3%)

Morgan Stanley Institutional Liquidity Money Market Portfolio Institutional Class (Cost \$1,655)	(b)1,654,534	1,655
TOTAL INVESTMENTS (83.3%) (Cost \$373,147)		426,479
OTHER ASSETS IN EXCESS OF LIABILITIES (16.7%)		85,514
NET ASSETS (100%)	\$	511,993

(a) Non-income producing.

(b) See Note G within the Notes to Financial Statements regarding investment in Morgan Stanley Institutional Liquidity Money Market Portfolio Institutional Class.

Graphic Presentation of Portfolio Holdings

The following graph depicts the Fund's holdings by industry and/or security type, as a percentage of total investments.

* Industries which do not appear in the above graph, as well as those which represent less than 5% of total investments, if applicable, are included in the category labeled "Other".

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

Morgan Stanley China A Share Fund, Inc.

Financial Statements

	June 30, 2008
	(unaudited)
	(000)
Statement of Assets and Liabilities	
Assets:	
Investments in Securities of Unaffiliated Issuers, at Value (Cost \$371,492)	\$ 424,824
Investment in Security of Affiliated Issuer, at Value (Cost \$1,655)	1,655
Total Investments in Securities, at Value (Cost \$373,147)	426,479
Foreign Currency, at Value (Cost 87,803)	90,699
Dividend Receivable	496
Receivable from Affiliate	@
Other Assets	8
Total Assets	517,682
Liabilities:	
Payable For:	
Investment Advisory Fees	5,306
Custodian Fees	282
Administration Fees	36
Other Liabilities	65
Total Liabilities	5,689
Net Assets	
Applicable to 13,102,109 Issued and Outstanding \$0.01 Par Value Shares (100,000,000 Shares Authorized)	\$ 511,993
Net Asset Value Per Share	\$ 39.08
Net Assets Consist of:	
Common Stock	\$ 131
Paid-in Capital	249,070
Undistributed Net Investment Income (Accumulated Net Investment Loss)	(664)
Accumulated Net Realized Gain (Loss)	207,226
Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Translations	56,230
Net Assets	\$ 511,993
@ Amount is less than \$500.	

Morgan Stanley China A Share Fund, Inc.

Financial Statements

	Six Months Ended June 30, 2008 (unaudited) (000)
Statement of Operations	
Investment Income	
Dividends from Securities of Unaffiliated Issuers	\$ 5,274
Dividends from Security of Affiliated Issuer	260
Interest from Securities of Unaffiliated Issuers	180
Total Investment Income	5,714
Expenses	
Investment Advisory Fees (Note B)	5,306
Custodian Fees (Note D)	667
Administration Fees (Note C)	283
Professional Fees	51
Stockholder Reporting Expenses	35
Directors Fees and Expenses	7
Stockholder Servicing Agent Fees	3
Other Expenses	31
Total Expenses	6,383
Rebate from Morgan Stanley Affiliated Cash Sweep (Note G)	(7)
Net Expenses	6,376
Net Investment Income (Loss)	(662)
Net Realized Gain (Loss) on:	
Investments	153,773
Foreign Currency Transactions	686
Net Realized Gain (Loss)	154,459
Change in Unrealized Appreciation (Depreciation) on:	
Investments	(538,584)
Foreign Currency Translations	2,902
Change in Unrealized Appreciation (Depreciation)	(535,682)
Net Realized Gain (Loss) and Change in Unrealized Appreciation (Depreciation)	(381,223)
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ (381,885)

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

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Morgan Stanley China A Share Fund, Inc.

Financial Statements

Statements of Changes in Net Assets	Six Months Ended June 30, 2008 (unaudited) (000)	Year Ended December 31, 2007 (000)
Increase (Decrease) in Net Assets		
Operations:		
Net Investment Income (Loss)	\$ (662)	\$ (4,049)
Net Realized Gain (Loss)	154,459	176,006
Change in Unrealized Appreciation (Depreciation)	(535,682)	497,755
Net Increase (Decrease) in Net Assets Resulting from Operations	(381,885)	669,712
Distributions from and/or in Excess of:		
Net Investment Income		(2,052)
Net Realized Gain		(123,762)
Total Distributions		(125,814)
Total Increase (Decrease)	(381,885)	543,898
Net Assets:		
Beginning of Period	893,878	349,980
End of Period (Including Undistributed Net Investment Income (Accumulated Net Investment Loss) of \$(664) and \$(2), respectively)	\$ 511,993	\$ 893,878

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

Morgan Stanley China A Share Fund, Inc.

Financial Highlights

Selected Per Share Data and Ratios

	Six Months Ended June 30, 2008 (unaudited)	Year Ended December 31, 2007	Period from September 28, 2006[^] to December 31, 2006
Net Asset Value, Beginning of Period	\$ 68.22	\$ 26.71	\$ 19.10
Net Investment Income (Loss)	(0.05)	(0.31)	(0.05)
Net Realized and Unrealized Gain (Loss) on Investments	(29.09)	51.43	7.66
Total from Investment Operations	(29.14)	51.12	7.61
Distributions from and/or in Excess of:			
Net Investment Income		(0.16)	
Net Realized Gain		(9.45)	
Total Distributions		(9.61)	&nb