

Morgan Stanley China A Share Fund, Inc.
Form N-CSR
March 07, 2017

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)

John H. Gernon

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

Registrant's telephone number, including area code: 212-296-0289

Date of fiscal year December 31,
end:

Date of reporting period: December 31, 2016

Item 1 - Report to Shareholders

Morgan Stanley China A Share Fund, Inc.

Directors

Frank L. Bowman

Kathleen A. Dennis

Nancy C. Everett

Jakki L. Haussler

Dr. Manuel H. Johnson

Joseph J. Kearns

Michael F. Klein

Patricia Maleski

Michael E. Nugent,
Chair of the Board

W. Allen Reed

Fergus Reid

Officers

John H. Gernon

*President and Principal
Executive Officer*

Timothy J. Knierim

Chief Compliance Officer

Francis J. Smith

*Treasurer and Principal
Financial Officer*

Mary E. Mullin

Secretary

Adviser and Administrator

Morgan Stanley Investment Management Inc.

522 Fifth Avenue

New York, New York 10036

Sub-Adviser

Morgan Stanley Investment Management Company

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Custodian

State Street Bank and Trust Company

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Boston, Massachusetts 02111

Stockholder Servicing Agent

Computershare Trust Company, N.A.

211 Quality Circle, Suite 210

College Station, Texas 77845

Legal Counsel

Dechert LLP

1095 Avenue of the Americas

New York, New York 10036

Counsel to the Independent Directors

Perkins Coie LLP

30 Rockefeller Plaza

New York, New York 10112

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. All investments involve risks, including the possible loss of principal.

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INVESTMENT MANAGEMENT

Morgan Stanley
Investment Management Inc.
Adviser

Morgan Stanley China A Share Fund, Inc.
NYSE: CAF

Annual Report

December 31, 2016

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Morgan Stanley China A Share Fund, Inc.

December 31, 2016

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Morgan Stanley China A Share Fund, Inc.

December 31, 2016

Letter to Stockholders (unaudited)

Performance

For the year ended December 31, 2016, the Morgan Stanley China A Share Fund, Inc. (the "Fund") had total returns of -7.64%, based on net asset value, and -10.98% based on market value per share (including reinvestment of distributions), compared to its benchmarks, the MSCI China A Index (the "Index")*, which returned -19.11% 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 -15.24%. On December 31, 2016, the closing price of the Fund's shares on the New York Stock Exchange was \$16.99, representing a 18.2% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

Factors Affecting Performance

- The year started in a big "risk-off" mode as Chinese stock market circuit breakers were triggered on the first day of trading. Both the Shanghai and Shenzhen markets were down 23% and 27% in local currency, respectively, for the month of January alone.¹ The fears over a potential U.S. recession added more anxiety to the already precarious sentiment. While both indexes managed to rise from the February lows, they ended the year down 12.31% and 14.72%, respectively, despite the macro data showing improvements throughout the year on back of the government stimulus.
- The main contributors to the Fund's relative performance during the period were stock selection and an overweight exposure to health care and the consumer staples sectors. We continue to remain positive on the outlook for the health care sector given the low coverage even while the population is aging quickly. We continue to prefer those pharmaceutical companies with strong brand power and distribution networks to take advantage of the still highly fragmented market.
- Stock selection in the industrials sector also contributed, along with an overweight allocation to the consumer staples sector. Stock selection in the consumer discretionary and financials sectors also contributed. For the consumer sectors overall, we remain positive on the structural trend of rising income and increasing urbanization. Our focus on and preference for companies with strong brand equity remains, given consumers' increasing brand awareness.
- Detracting from relative performance were the Fund's underweight positions in the financials, telecommunication services, energy, and materials sectors. For the financials sector, we remain selectively positive on the insurers, while remaining cautious on brokers and banks.
- The renminbi currency had a large impact on the U.S. dollar return for the year, given the renminbi's near 7% depreciation.² The pace of depreciation accelerated into the second half of the year, following the 2.4% depreciation in the first half of 2016. In fact, the depreciation in the second half of 2016 almost equaled the 4.6% depreciation in all of 2015. As we've noted in previous commentaries, the actual impact to the Chinese economy has been lessening as it continues to transform to a domestic-demand driven economy. While the weakness of Chinese renminbi attracted considerable attention, the renminbi's value against the foreign exchange basket remained relatively stable over most of the second half of 2016.

Morgan Stanley China A Share Fund, Inc.

December 31, 2016

Letter to Stockholders (unaudited) (cont'd)

- The Fund occasionally utilizes P-notes (participation notes) to gain access to China's A-share market. P-note exposure is intended to mirror the performance of the underlying stock. There is no leverage associated with P-notes.

Management Strategies

- Our base case outlook for China in 2017 remains one of more stability after a period of increased volatility in 2015 and the first half of 2016. Year-on-year gross domestic product, revenue and earnings growth in the first half of 2017 will likely appear relatively strong given a low base in the first half of 2016. For the second half of 2017, approaching the 19th National Congress of the Communist Party of China, we expect policies will be carefully managed to foster a benign macro environment.
- For the stock market itself, lower margin lending, depleted over-the-counter margin lending, along with stable trading volume could be positive. Insurance companies deploying strong inflows into the equity market could be another positive as the investments from insurance companies may be more stable than those by retail investors. While there has been some press coverage of some insurance companies using leveraged investment vehicles, the number of these insurance companies is small and regulators should be able to oversee these institutions. This is in stark contrast to the difficulty in managing the margin lending to retail investors. The government market-stabilization fund's holdings in many companies may provide stability to the overall equity market.
- While the pace of the housing price increases was very strong in some cities, such as Shenzhen, Tianjin, Nanjing, and Hangzhou, home prices in other major cities, such as Beijing, Shanghai, and Guangzhou, remained within the historical, albeit high, rate of increases, ranging between 15% and 20%.³ For some of the cities seeing significant price rises, government regulations have been introduced to control home purchases and down payment levels. These policies seem to be having some impact. In many of the Tier 2 and Tier 3 cities, such as Dalian and Shenyang, the sales volume is still rising 10% to 20%, but the selling prices have remained flat. Some of the Tier 3 and Tier 4 cities are seeing both declining average selling prices and declining sales volumes. Our view remains that the overall nationwide housing market should remain manageable.
- Many public-private partnership (PPP) infrastructure projects were signed in late 2015. These projects generally have longer lead times given the more complex legal structures than the traditional build-transfer and build-operate-transfer projects. Many of these projects started in late third quarter.
- On the political front, personnel changes are inevitable during the party congress scheduled for the fall of 2017, but we believe that President Xi will likely be appointed for a second term and we look for a relatively smooth transition. Major risks remain capital outflows and leveraged wealth management products, but we believe the likelihood of blow-ups seems relatively low.
- Our view on China's external macro environment has remained unchanged since the U.S. election, given the lack of transparency on the new U.S. policy direction. This uncertainty will likely make it more challenging for global leaders to reach agreements over fiscal, monetary and trade policies. The Trump administration's focus on increasing infrastructure spending could raise demand

Morgan Stanley China A Share Fund, Inc.

December 31, 2016

Letter to Stockholders (unaudited) (cont'd)

for certain commodities. Meanwhile, moving production bases back to the U.S. could raise production costs for U.S. brands. In that scenario, some of the Chinese brands could leverage their cost advantage. We continue to monitor the policies closely.

- Over the course of the period, the Fund held overweight positions in health care, consumer discretionary, consumer staples and industrials, the sectors which we believe could benefit from the economic transformation toward a more domestic-consumption driven economy. The Fund held underweight positions in the financials, information technology, materials, real estate and utilities sectors.

Sincerely,

John H. Gernon
President and Principal Executive Officer January 2017

*The MSCI China A Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of the China A share market. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends. It is not possible to invest directly in an index.

**The MSCI China Index is designed to measure equity market performance of China. The performance of the Index is listed in U.S. dollars and assumes reinvestment of net dividends. It is not possible to invest directly in an index.

¹ Source for China market data: Bloomberg L.P.

² Source for currency data: Bloomberg L.P.

³ Source for all housing market data: Soufun, CEIC, Morgan Stanley Research

Morgan Stanley China A Share Fund, Inc.**December 31, 2016**

Portfolio of Investments

	Shares	Value (000)
COMMON STOCKS (99.4%)		
Automobiles (3.3%)		
SAIC Motor Corp., Ltd., Class A	4,483,276	\$ 15,128
Banks (9.6%)		
China Construction Bank Corp., Class A	18,938,502	14,825
Industrial & Commercial Bank of China Ltd., Class A	45,541,000	28,899
		43,724
Beverages (5.0%)		
Jiangsu Yanghe Brewery Joint-Stock Co. Ltd., Class A	1,326,972	13,481
Tsingtao Brewery Co., Ltd., Class A	2,208,600	9,356
		22,837
Capital Markets (3.5%)		
CITIC Securities Co., Ltd., Class A	4,905,646	11,337
CITIC Securities Co., Ltd. H Shares (a)	2,315,500	4,706
		16,043
Chemicals (1.8%)		
Kingenta Ecological Engineering Group Co., Ltd., Class A	7,142,700	8,120
Construction Materials (1.6%)		
Anhui Conch Cement Co., Ltd., Class A	2,906,695	7,094
Electrical Equipment (4.1%)		
Henan Pinggao Electric Co., Ltd., Class A	2,437,269	5,478
NARI Technology Co., Ltd., Class A	2,547,900	6,097
XJ Electric Co., Ltd., Class A	2,689,545	7,024
		18,599
Electronic Equipment, Instruments & Components (1.5%)		
GoerTek, Inc., Class A	1,842,100	7,030
Food & Staples Retailing (1.2%)		
Zhongbai Holdings Group Co., Ltd., Class A (b)	4,021,288	5,370
Food Products (2.9%)		
Inner Mongolia Yili Industrial Group Co., Ltd., Class A	5,158,287	13,064
Health Care Providers & Services (3.5%)		
	4,889,518	13,762

Shanghai Pharmaceuticals Holding Co., Ltd., Class A		
Shanghai Pharmaceuticals Holding Co., Ltd. H Shares (a)	834,200	1,913
		15,675
	Shares	Value (000)
Hotels, Restaurants & Leisure (9.0%)		
China CYTS Tours Holding Co., Ltd., Class A	2,868,372	\$ 8,655
China International Travel Service Corp., Ltd., Class A	2,447,899	15,287
Shenzhen Overseas Chinese Town Co., Ltd., Class A	14,615,500	14,617
Tsui Wah Holdings Ltd.	13,386,000	2,244
		40,803
Household Durables (4.0%)		
Qingdao Haier Co., Ltd., Class A	12,692,845	18,045
Independent Power and Renewable Electricity Producers (2.3%)		
China National Nuclear Power Co., Ltd., Class A	20,000	20
China Resources Power Holdings Co., Ltd. (a)	3,762,000	5,977
China Yangtze Power Co., Ltd., Class A	2,453,058	4,469
		10,466
Insurance (3.8%)		
China Pacific Insurance Group Co., Ltd., Class A	4,356,600	17,409
Machinery (1.5%)		
Han's Laser Technology Industry Group Co. Ltd., Class A	2,160,700	7,027
Media (3.3%)		
China South Publishing & Media Group Co., Ltd., Class A	6,181,561	14,819
Multi-line Retail (1.1%)		
Wangfujing Group Co., Ltd., Class A	2,122,371	4,972
Oil, Gas & Consumable Fuels (3.4%)		
China Petroleum & Chemical Corp., Class A	19,951,816	15,532
Pharmaceuticals (13.1%)		
China Resources Pharmaceutical Group Ltd. (a)(b)(c)	5,479,500	6,183
China Resources Sanjiu Medical & Pharmaceutical Co., Ltd., Class A	8,180,373	29,110
Yunnan Baiyao Group Co., Ltd., Class A	2,229,360	24,428
		59,721

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

Morgan Stanley China A Share Fund, Inc.**December 31, 2016**

Portfolio of Investments (cont'd)

	Shares	Value (000)
Real Estate Management & Development (3.9%)		
China Merchants Shekou Industrial Zone Holdings Co. Ltd., Class A	1,908,700	\$ 4,502
China Overseas Grand Oceans Group Ltd. (a)(b)	14,983,000	4,888
Poly Real Estate Group Co., Ltd., Class A	6,279,200	8,249
		17,639
Road & Rail (2.1%)		
Daqin Railway Co., Ltd., Class A	9,282,900	9,457
Software (1.7%)		
Aisino Corp., Class A	2,735,890	7,854
Transportation Infrastructure (12.2%)		
Jiangsu Expressway Co., Ltd., Class A	28,692,900	35,301
Shanghai International Airport Co., Ltd., Class A	1,768,397	6,748
Shenzhen Airport Co., Class A	11,555,201	13,302
		55,351
TOTAL COMMON STOCKS (Cost \$465,257)		451,779
SHORT-TERM INVESTMENT (0.1%)		
Investment Company (0.1%)		
Morgan Stanley Institutional Liquidity Funds Government Portfolio Institutional Class (See Note E) (Cost \$493)	493,432	493
TOTAL INVESTMENTS (99.5%) (Cost \$465,750) (d)		452,272
OTHER ASSETS IN EXCESS OF LIABILITIES (0.5%)		2,401
NET ASSETS (100.0%)		\$454,673

(a) Security trades on the Hong Kong exchange.

(b) Non-income producing security.

(c) 144A security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.

(d) At December 31, 2016, the aggregate cost for federal income tax purposes is approximately \$475,414,000. The aggregate gross unrealized appreciation is approximately \$14,352,000 and the aggregate gross unrealized depreciation is approximately \$37,494,000, resulting in net unrealized

depreciation of approximately \$23,142,000.

Portfolio Composition

Classification	Percentage of Total Investments
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