

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.

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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:

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**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<br>(000) |
|--|--------------|----------------|
| <b>COMMON STOCKS (83.0%)</b>                                   |              |                |
| <b>(Unless otherwise noted)</b>                                |              |                |
| <b>Beverages (3.3%)</b>  |              |                |
| Kweichow Moutai Co., Ltd.                                      | 830,660      | \$ 16,794      |
| <b>Commercial Banks (19.9%)</b>                                |              |                |
| 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        |
| <b>Independent Power Producers &amp; Energy Traders (1.7%)</b> |              |                |
| Datang International Power Generation Co., Ltd., H             | 14,762,000   | 8,766          |
| <b>Insurance (2.7%)</b>  |              |                |
| China Life Insurance Co., Ltd.                                 | 4,010,958    | 13,997         |
| <b>Machinery (8.4%)</b>  |              |                |
| Guangxi Liugong Machinery Co., Ltd.                            | (a)7,261,062 | 20,392         |
| Zhengzhou Yutong Bus Co., Ltd.                                 | 11,569,074   | 22,398         |
|  |              | 42,790         |
| <b>Marine (5.4%)</b>   |              |                |
| China COSCO Holdings Co., Ltd.                                 | 4,775,982    | 13,762         |
| China Shipping Development Co., Ltd.                           | 4,724,317    | 13,709         |
|  |              | 27,471         |
| <b>Metals &amp; Mining (13.0%)</b>                             |              |                |
| 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         |
| <b>Oil, Gas &amp; Consumable Fuels (14.7%)</b>                 |              |                |
| 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         |
| <b>Real Estate (2.2%)</b>                                      |              |                |
| China Merchants Property Development Co., Ltd.                 | 5,182,362    | 11,296         |
| <b>Road &amp; Rail (5.1%)</b>                                  |              |                |
| Daqin Railway Co., Ltd.  | 13,042,000   | 25,896         |
| <b>Specialty Retail (0.5%)</b>                                 |              |                |
| GOME Electrical Appliances Holdings Ltd.                       | 5,624,000    | 2,669          |
| <b>Transportation Infrastructure (6.1%)</b>                    |              |                |
| Guangzhou Baiyun International Airport Co., Ltd.               | 8,393,618    | 12,576         |
| Jiangxi Ganyue Expressway Co., Ltd.                            | 13,207,886   | 18,865         |
|  |              | 31,441         |
| <b>TOTAL COMMON STOCKS</b>                                     |              |                |
| <b>(COST \$371,492)</b>  |              | 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   |
| <b>TOTAL INVESTMENTS (83.3%)</b><br>(Cost \$373,147)   |              | 426,479 |
| <b>OTHER ASSETS IN EXCESS OF LIABILITIES (16.7%)</b>   |              | 85,514  |
| <b>NET ASSETS (100%)</b>   | \$           | 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

|   | <b>June 30, 2008</b> |
|---|----------------------|
|   | <b>(unaudited)</b>   |
|   | <b>(000)</b>         |
| <b>Statement of Assets and Liabilities</b>  |                      |
| <b>Assets:</b>  |                      |
| 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                    |
| <b>Total Assets</b>   | <b>517,682</b>       |
| <b>Liabilities:</b>   |                      |
| Payable For:  |                      |
| Investment Advisory Fees  | 5,306                |
| Custodian Fees  | 282                  |
| Administration Fees   | 36                   |
| Other Liabilities   | 65                   |
| <b>Total Liabilities</b>  | <b>5,689</b>         |
| <b>Net Assets</b>   |                      |
| Applicable to 13,102,109 Issued and Outstanding \$0.01 Par Value Shares (100,000,000 Shares Authorized) | \$ 511,993           |
| <b>Net Asset Value Per Share</b>  | <b>\$ 39.08</b>      |
| <b>Net Assets Consist of:</b>   |                      |
| 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               |
| <b>Net Assets</b>   | <b>\$ 511,993</b>    |
| @ Amount is less than \$500.  |                      |

## Morgan Stanley China A Share Fund, Inc.

## Financial Statements

|  | <b>Six Months Ended<br/>June 30, 2008<br/>(unaudited)<br/>(000)</b> |
|--|---|
| <b>Statement of Operations</b>   |   |
| <b>Investment Income</b>   |   |
| Dividends from Securities of Unaffiliated Issuers                                    | \$ 5,274  |
| Dividends from Security of Affiliated Issuer   | 260   |
| Interest from Securities of Unaffiliated Issuers                                     | 180   |
| <b>Total Investment Income</b>   | <b>5,714</b>  |
| <b>Expenses</b>  |   |
| 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  |
| <b>Total Expenses</b>  | <b>6,383</b>  |
| Rebate from Morgan Stanley Affiliated Cash Sweep (Note G)                            | (7)   |
| <b>Net Expenses</b>  | <b>6,376</b>  |
| <b>Net Investment Income (Loss)</b>  | <b>(662)</b>  |
| <b>Net Realized Gain (Loss) on:</b>  |   |
| Investments  | 153,773   |
| Foreign Currency Transactions  | 686   |
| <b>Net Realized Gain (Loss)</b>  | <b>154,459</b>  |
| <b>Change in Unrealized Appreciation (Depreciation) on:</b>                          |   |
| Investments  | (538,584)   |
| Foreign Currency Translations  | 2,902   |
| <b>Change in Unrealized Appreciation (Depreciation)</b>                              | <b>(535,682)</b>  |
| <b>Net Realized Gain (Loss) and Change in Unrealized Appreciation (Depreciation)</b> | <b>(381,223)</b>  |
| <b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>               | <b>\$ (381,885)</b>   |

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

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**Morgan Stanley China A Share Fund, Inc.**

Financial Statements

| <b>Statements of Changes in Net Assets</b>  | <b>Six Months Ended<br/>June 30, 2008<br/>(unaudited)<br/>(000)</b> | <b>Year Ended<br/>December 31, 2007<br/>(000)</b> |
|---|---|---|
| <b>Increase (Decrease) in Net Assets</b>  |   |   |
| 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   |
| <b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>  | <b>(381,885)</b>  | <b>669,712</b>                                    |
| Distributions from and/or in Excess of:   |   |   |
| Net Investment Income   |   | (2,052)   |
| Net Realized Gain   |   | (123,762)   |
| Total Distributions   |   | (125,814)   |
| <b>Total Increase (Decrease)</b>  | <b>(381,885)</b>  | <b>543,898</b>                                    |
| Net Assets:   |   |   |
| Beginning of Period   | 893,878   | 349,980   |
| <b>End of Period (Including Undistributed Net Investment Income (Accumulated Net Investment Loss) of \$(664) and \$(2), respectively)</b> | <b>\$ 511,993</b>   | <b>\$ 893,878</b>                                 |

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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<br>June 30, 2008<br>(unaudited) | Year Ended<br>December 31, 2007 | Period from<br>September 28, 2006 <sup>^</sup><br>to December 31, 2006 |
|--|--|---------------------------------|--|
| <b>Net Asset Value, Beginning of Period</b>                    | \$ 68.22   | \$ 26.71                        | \$ 19.10   |
| Net Investment Income (Loss)                                   | (0.05)   | (0.31)                          | (0.05)   |
| Net Realized and Unrealized Gain<br>(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)                          |  |
| <b>Net Asset Value, End of Period</b>                          | \$ 39.08   | \$ 68.22                        | \$ 26.71   |
| <b>Per Share Market Value, End of Period</b>                   | \$ 36.42   | \$ 50.51                        | \$ 31.00   |
| <b>TOTAL INVESTMENT RETURN:</b>                                |  |                                 |  |
| Market Value   | (27.89)%*  | 99.63%                          | 55.00%*  |
| Net Asset Value (1)  | (42.71)%*  | 212.93%                         | 39.84%*  |
| <b>RATIOS, SUPPLEMENTAL DATA:</b>                              |  |                                 |  |
| <b>Net Assets, End of Period<br/>(Thousands)</b>               | \$ 511,993                                       | \$ 893,878                      | \$ 349,980   |
| Ratio of Expenses to Average Net<br>Assets                     | 1.81%+**   | 1.73%+                          | 1.98%**  |
| Ratio of Net Investment Income (Loss)<br>to Average Net Assets | (0.19)%+**                                       | (0.58)%+                        | (0.93)%**  |
| Portfolio Turnover Rate  | 29%*   | 64%                             | 14%*   |

(1) Total investment return based on net asset value per share reflects the effects of changes in net asset value on the performance of the Fund during each period, and assumes dividends and distributions, if any, were reinvested. This percentage is not an indication of the performance of a stockholder's investment in the Fund based on market value due to differences between the market price of the stock and the net asset value of the Fund.

<sup>^</sup> Commencement of Operations

Per share amount is based on average shares outstanding.

\* Not Annualized

\*\* Annualized

+ Reflects rebate of certain Fund expenses in connection with the investments in Morgan Stanley Institutional Liquidity Money Market Portfolio Institutional Class during the period. As a result of such rebate, the expenses as a percentage of its net assets were effected by less than 0.005%.

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

**Morgan Stanley China A Share Fund, Inc.**

June 30, 2008 (unaudited)

## Notes to Financial Statements

The Morgan Stanley China A Share Fund, Inc. (the Fund) was incorporated in Maryland on July 6, 2006 and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund's investment objective is to seek capital growth. The Fund seeks to achieve its investment objective primarily through investments in A-shares of Chinese companies listed on the Shanghai and Shenzhen Stock Exchanges. The prices of A-shares are quoted in Renminbi, and currently only Chinese domestic investors and certain Qualified Foreign Institutional Investors (QFII) are allowed to trade A-shares.

The Fund is authorized to issue 100,000,000 shares of \$0.01 par value common stock. The Fund had no operations until September 13, 2006, other than matters relating to its organization and registration and sale and issuance to Morgan Stanley Investment Management Inc. (the Adviser or MS Investment Management) of 5,236 shares of common stock at an aggregate purchase price of \$100,000. The Adviser, on behalf of the Fund, has incurred all of the Fund's organizational costs of \$11,000. The Adviser also has agreed to pay the amount by which the offering costs of the Fund (other than the sales load) exceeded \$0.04 per share of the Fund's common shares. The aggregate offering expenses (other than the sales load) was estimated to be \$600,000 (including amounts to be paid by the Adviser). On September 28, 2006, the Fund sold 12,201,371 common shares in an initial public offering. Proceeds to the Fund were \$232,558,131 after deducting underwriting commissions and \$488,055 of offering expenses. On October 6, 2006, the Fund sold 895,502 common shares pursuant to an over allotment agreement with the underwriters for net proceeds of \$17,068,268 after deducting underwriting commissions and \$35,820 of offering expenses.

The Adviser has obtained a QFII license pursuant to which it is authorized to invest in China A-shares and other permitted China securities on behalf of the Fund up to its specified investment quota of \$200,000,000, as updated, modified or renewed from time to time (the A-share Quota). There is no guarantee that the A-share Quota will not be modified in the future.

**A. Accounting Policies:** The following significant accounting policies are in conformity with U.S. generally accepted accounting principles. Such policies are consistently followed by the Fund in the preparation of its financial statements. U.S. generally accepted accounting principles may require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from those estimates.

**1. Security Valuation:** Securities listed on a foreign exchange are valued at their closing price except as noted below. Unlisted securities and listed securities not traded on the valuation date for which market quotations are readily available are valued at the mean between the current bid and asked prices obtained from reputable brokers. Equity securities listed on a U.S. exchange are valued at the latest quoted sales price on the valuation date. Equity securities listed or traded on NASDAQ, for which market quotations are available, are valued at the NASDAQ Official Closing Price. Debt securities purchased with remaining maturities of 60 days or less are valued at amortized cost, if it approximates market value.

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All other securities and investments for which market values are not readily available, including restricted securities, and those securities for which it is inappropriate to determine prices in accordance with the aforementioned procedures, are valued at fair value as determined in good faith under procedures adopted by the Board of Directors (the Directors), although the actual calculations may be done by others. Factors considered in making this determination may include, but are not limited to, information obtained by contacting the issuer, analysts, or the appropriate stock exchange (for exchange-traded securities), analysis of the issuer's financial statements or other available documents and, if necessary, available information concerning other securities in similar circumstances.

Most foreign markets close before the New York Stock Exchange (NYSE). Occasionally, developments that could affect the closing prices of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the foreign market on which the securities trade) and the close of business on the NYSE. If these developments are expected to materially affect the value of the securities, the valuations may be adjusted to reflect the estimated fair value as of the close of the NYSE, as determined in good faith under procedures established by the Directors.

**2. Foreign Currency Translation:** The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars at the mean of the bid and asked prices of such currencies against U.S. dollars last quoted by a major bank as follows:

**Morgan Stanley China A Share Fund, Inc.**

June 30, 2008 (unaudited)

## Notes to Financial Statements (cont d)

- investments, other assets and liabilities at the prevailing rates of exchange on the valuation date;
- investment transactions and investment income at the prevailing rates of exchange on the dates of such transactions.

Although the net assets of the Fund are presented at the foreign exchange rates and market values at the close of the period, the Fund does not isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of the securities held at period end. Similarly, the Fund does not isolate the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of securities sold during the period. Accordingly, realized and unrealized foreign currency gains (losses) on investments in securities are included in the reported net realized and unrealized gains (losses) on investment transactions and balances.

Net realized gains (losses) on foreign currency transactions represent net foreign exchange gains (losses) from sales and maturities of foreign currency exchange contracts, disposition of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amount of investment income and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized currency gains (losses) from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of unrealized appreciation (depreciation) on investments and foreign currency translations in the Statement of Assets and Liabilities. The change in net unrealized currency gains (losses) on foreign currency translations for the period is reflected in the Statement of Operations.

A significant portion of the Fund's net assets consist of securities of issuers located in China which are denominated in foreign currencies. Changes in currency exchange rates will affect the value of and investment income from such securities. In general, Chinese securities are subject to greater price volatility, limited capitalization and liquidity, and higher rates of inflation than securities of companies based in the United States. In addition, Chinese securities may be subject to substantial governmental involvement in the economy and greater social, economic and political uncertainty. Such securities may be concentrated in a limited number of countries and regions and may vary throughout the year.

**3. Derivatives:** The Fund may use derivatives to achieve its investment objectives. The Fund may engage in transactions in futures contracts on foreign currencies, stock indices, as well as in options, swaps and structured products. Consistent with the Fund's investment objectives and policies, the Fund may use derivatives for non-hedging as well as hedging purposes.

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Following is a description of derivative instruments that the Fund has utilized and their associated risks:

**Foreign Currency Exchange Contracts:** The Fund may enter into foreign currency exchange contracts generally to attempt to protect securities and related receivables and payables against changes in future foreign exchange rates and, in certain situations, to gain exposure to a foreign currency. A foreign currency exchange contract is an agreement between two parties to buy or sell currency at a set price on a future date. The market value of the contract will fluctuate with changes in currency exchange rates. The contract is marked-to-market daily and the change in market value is recorded by the Fund as unrealized gain or loss. The Fund records realized gains or losses when the contract is closed equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. Risk may arise upon entering into these contracts from the potential inability of counterparties to meet the terms of their contracts and is generally limited to the amount of unrealized gain on the contracts, if any, at the date of default. Risks may also arise from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. At June 30, 2008, the Fund did not have any outstanding foreign currency exchange contracts.

**Structured Securities:** The Fund may invest in interests in entities organized and operated solely for the purpose of restructuring the investment characteristics of sovereign debt obligations. This type of restructuring involves the deposit with or purchase by an entity of specified instruments and the issuance by that entity of one or more classes of securities ( Structured Securities ) backed by, or representing interests in, the underlying instruments. Structured Securities generally will expose the Fund to credit risks of the underlying instruments as well as of the

**Morgan Stanley China A Share Fund, Inc.**

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## Notes to Financial Statements (cont d)

issuer of the Structured Security. Structured Securities are typically sold in private placement transactions with no active trading market. Investments in Structured Securities may be more volatile than their underlying instruments, however, any loss is limited to the amount of the original investment.

**Over-the-Counter Trading:** Securities and other derivative instruments that may be purchased or sold by the Fund may consist of instruments not traded on an exchange. The risk of nonperformance by the obligor on such an instrument may be greater, and the ease with which the Fund can dispose of or enter into closing transactions with respect to such an instrument may be less, than in the case of an exchange-traded instrument. In addition, significant spreads may exist between bid and ask prices for derivative instruments that are not traded on an exchange. Derivative instruments not traded on exchanges are also not subject to the same type of government regulation as exchange traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions.

**4. New Accounting Pronouncement:** On March 19, 2008, Financial Accounting Standards Board released Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities ( SFAS 161 ). SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The application of SFAS 161 is required for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. At this time, management is evaluating the implications of SFAS 161 and its impact on the financial statements has not yet been determined.

**5. Fair Value Measurement:** The Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( SFAS 157 ), effective January 1, 2008. In accordance with SFAS 157, fair value is defined as the price that the Fund would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. SFAS 157 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Fund's investments. The inputs are summarized in the three broad levels listed below.

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Level 1 quoted prices in active markets for identical securities

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of June 30, 2008 in valuing the Fund's investments carried at value:

| <b>Valuation Inputs</b>                       | <b>Investments<br/>in Securities<br/>(000)</b> | <b>Other<br/>Financial<br/>Instruments<br/>(000)</b> |
|---|--|--|
| Level 1 - Quoted Prices                       | \$ 424,824                                     | \$   |
| Level 2 - Other Significant Observable Inputs | 1,655  |  |
| Level 3 - Significant Unobservable Inputs     |  |  |
| Total   | \$ 426,479                                     | \$   |

At June 30, 2008, there were no Level 3 Portfolio investments for which significant unobservable inputs were used to determine fair value.

6. **Other:** Security transactions are accounted for on the date the securities are purchased or sold. Investments in new Indian securities are made by making applications in the public offerings. The issue price, or a portion thereof, is

**Morgan Stanley China A Share Fund, Inc.**

June 30, 2008 (unaudited)

## Notes to Financial Statements (cont d)

paid at the time of application and is reflected as share application money on the Statement of Assets and Liabilities, if any. Upon allotment of the securities, this amount plus any remaining amount of issue price is recorded as cost of investments. Realized gains (losses) on the sale of investment securities are determined on the specific identified cost basis. Interest income is recognized on the accrual basis. Dividend income and distributions are recorded on the ex-dividend date (except certain dividends which may be recorded as soon as the Fund is informed of such dividends) net of applicable withholding taxes.

**B. Investment Advisory Fees:** The Adviser provides investment advisory services to the Fund under the terms of an Investment Advisory and Management Agreement (the Agreement). Under the Agreement, the Adviser is paid a fee computed weekly and payable monthly at an annual rate of 1.50% of the Fund's average weekly net assets.

The Adviser has entered into a Sub-Advisory Agreement with Morgan Stanley Investment Management Company (the Sub-Adviser), a wholly-owned subsidiary of Morgan Stanley. The Sub-Adviser, subject to the control and supervision of the Fund, its Officers, Directors and the Adviser, and in accordance with the investment objectives, policies and restrictions of the Fund, makes certain day-to-day investment decisions and places certain purchase and sale orders. The Adviser pays the Sub-Adviser on a monthly basis a portion of the net advisory fees the Adviser receives from the Fund.

**C. Administration Fees:** MS Investment Management also serves as Administrator to the Fund pursuant to an Administration Agreement. Under the Administration Agreement, the administration fee is 0.08% of the Fund's average weekly net assets. Under a sub-administration agreement between the Administrator and JPMorgan Investor Services Co. (JPMIS), a corporate affiliate of JPMorgan Chase Bank, N.A., JPMIS provides certain administrative services to the Fund. For such services, the Administrator pays JPMIS a portion of the fee the Administrator receives from the Fund. Administration costs (including out-of-pocket expenses) incurred in the ordinary course of providing services under the administration agreement, except pricing services and extraordinary expenses, are covered under the administration fee.

**D. Custodian Fees:** JPMorgan Chase Bank, N.A., (the Custodian) and its affiliates serve as Custodian for the Fund. The Custodian holds cash, securities, and other assets of the Fund as required by the 1940 Act. Custody fees are payable monthly based on assets held in custody, investment purchases and sales activity and account maintenance fees, plus reimbursement for certain out-of-pocket expenses.

The Fund has entered into an arrangement with its Custodian whereby credits realized on uninvested cash balances were used to offset a portion of the Fund's expenses. These custodian credits are shown as Expense Offset on the Statement of Operations.

**E. Federal Income Taxes:** It is the Fund's intention to continue to qualify as a regulated investment company and distribute all of its taxable income. Accordingly, no provision for Federal income taxes is required in the financial statements. The Fund files tax returns with the U.S. Internal Revenue Service and various states. Generally, the tax authorities can examine all tax returns filed for the last three years.

The Fund may be subject to taxes imposed by countries in which it invests. Such taxes are generally based on income and/ or capital gains earned or repatriated. Taxes are accrued and applied to net investment income, net realized gains and net unrealized appreciation as such income and/or gains are earned.

The Fund adopted the provisions of the Financial Accounting Standards Board's (FASB) Interpretation number 48 *Accounting for Uncertainty in Income Taxes (the Interpretation)*, on June 30, 2007. The Interpretation is to be applied to all open tax years as of the date of effectiveness. As of June 30, 2008, this did not result in an impact to the Fund's financial statements.

The tax character of distributions paid may differ from the character of distributions shown on the Statements of Changes in Net Assets due to short-term capital gains being treated as ordinary income for tax purposes. The tax character of distributions paid during fiscal 2007 and 2006 was as follows:

| <b>2007 Distributions<br/>Paid From:<br/>(000)</b> |                                       | <b>2006 Distributions<br/>Paid From:<br/>(000)</b> |                                       |
|--|---------------------------------------|--|---------------------------------------|
| <b>Ordinary<br/>Income</b>                         | <b>Long-term<br/>Capital<br/>Gain</b> | <b>Ordinary<br/>Income</b>                         | <b>Long-term<br/>Capital<br/>Gain</b> |
| \$125,814  | \$                                    | \$   | \$                                    |

The amount and character of income and capital gain distributions to be paid by the Fund are determined in accordance with Federal income tax regulations, which may differ from U.S. generally accepted accounting principles. These book/tax differences are considered either temporary or permanent in nature.

**Morgan Stanley China A Share Fund, Inc.**

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**Notes to Financial Statements (cont d)**

Temporary differences are attributable to differing book and tax treatments for the timing of the recognition of gains (losses) on certain investment transactions and the timing of the deductibility of certain expenses.

Permanent differences, primarily due to differing treatments of gains (losses) related to basis adjustments on certain equity securities designated as issued by passive foreign investment companies, foreign currency transactions, distribution reclass and net operating loss, resulted in the following reclassifications among the components of net assets at December 31, 2007:

|  | <b>Increase (Decrease)</b>                                    |                                      |
|--|---|--------------------------------------|
| <b>Accumulated<br/>Undistributed<br/>(Distributions in<br/>Excess of) Net<br/>Investment<br/>Income (Loss)<br/>(000)</b> | <b>Accumulated<br/>Net Realized<br/>Gain (Loss)<br/>(000)</b> | <b>Paid-in<br/>Capital<br/>(000)</b> |
| \$5,673  | \$(5,673)   | \$                                   |

At December 31, 2007, the components of distributable earnings on a tax basis were as follows:

|  |   |
|--|---|
| <b>Undistributed<br/>Ordinary Income<br/>(000)</b> | <b>Undistributed<br/>Long-term Capital Gain<br/>(000)</b> |
| \$13,455   | \$39,312  |

At June 30, 2008, the U.S. Federal income tax cost basis of investments was approximately \$373,147,000 and, accordingly, net unrealized appreciation for U.S. Federal income tax purposes was \$53,332,000 of which \$135,544,000 related to appreciated securities and \$82,212,000 related to depreciated securities.

Under the Income Tax Law of the People's Republic of China Concerning Foreign Investment Enterprises and Foreign Enterprises, which took effect in China in 1991, the Fund's income from dividends and profit distributions of companies from Chinese sources is generally subject to Chinese withholding tax at a rate of 20%, absent an applicable tax treaty. This withholding tax rate was reduced by subsequent notice from 20% to 10% for specified types of income recognized after January 1, 2000, including interest, absent an applicable tax treaty. The practice of the Chinese tax authorities suggests a 10% withholding tax rate has been accepted for capital gain income. Unless another exception applies, dividends and gains recognized by a foreign enterprise in connection with the holding or disposition of Chinese securities would generally be subject to a 10% withholding tax. An additional notice issued on July 21, 1993 by the State Tax Bureau provides, inter alia, that dividends

received by foreign investors in respect of their holdings of B shares issued by Chinese companies will not be subject to income tax until a new tax law is promulgated. Any gains (whether of a capital or trading nature) realized by the Fund from the sale of any B shares are not currently subject to any income tax in China. However, pursuant to the same notice, if such gains were realized by the Fund through a permanent establishment or office in China, it will form part of the taxable profit of such permanent establishment or office, although losses realized will also be available to offset such gains. In view of this notice and the absence of any guidance regarding the taxation of QFII transactions, withholding agents for QFII accounts (such as the Sub-Custodian) have generally not withheld taxes on dividend payments on, or gains derived with respect to the sale of, A Shares. This practice of treating QFII investments in A Shares the same as other foreign enterprise investments in B Shares for tax purposes is not based on any published legal authority. There can be no assurance that the Chinese tax authorities will treat foreign enterprise investments in A Shares through an A-share Quota in the same manner as foreign enterprise investments in B Shares. In the event they do not, dividends and gains with respect to A Share investments would likely be subject to the 10% withholding tax described above, possibly with retroactive effect.

Effective from May 30, 2007, a Chinese stamp tax is generally imposed on the purchase and sale of shares of publicly-traded Chinese companies at a rate of 0.3% of the purchase/sales consideration. The Chinese stamp duty rate for share transfer of non listed equity interests of People's Republic of China companies documents is 0.05% payable by both the seller and buyer. In this regard, the total stamp duty is 0.10%. The Adviser will be subject to this tax on each trade it makes in a Chinese-listed security.

The tax law and regulations of China are subject to change, and may be changed with retrospective effect. The interpretation and applicability of tax law and regulations by tax authorities are not as consistent and transparent as those of more developed nations, and may vary from region to region. Accordingly, China taxes and duties payable by the Adviser as the QFII, which are to be reimbursed by the Fund to the extent attributable to the assets held through the A-share Quota, may change at any time.

**F. Contractual Obligations:** The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the

**Morgan Stanley China A Share Fund, Inc.**

June 30, 2008 (unaudited)

**Notes to Financial Statements (cont d)**

Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

**G. Security Transactions and Transactions with Affiliates:** The Fund invests in the Institutional Class of the Morgan Stanley Institutional Liquidity Money Market Portfolio, an open-end management investment company managed by the Adviser. Investment Advisory fees paid by the Fund are reduced by an amount equal to its pro-rata share of advisory and administration fees paid by the Morgan Stanley Institutional Liquidity Money Market Portfolio. For the six months June 30, 2008, advisory fees paid were reduced by approximately \$7,000 relating to the Fund's investment in the Morgan Stanley Institutional Liquidity Money Market Portfolio.

A summary of the Fund's transactions in shares of the affiliated issuer during the six months June 30, 2008 is as follows:

| <b>Market Value<br/>December 31,<br/>2007<br/>(000)</b> | <b>Purchases<br/>at Cost<br/>(000)</b> | <b>Sales<br/>Proceeds<br/>(000)</b> | <b>Dividend<br/>Income<br/>(000)</b> | <b>Market Value<br/>June 30,<br/>2008<br/>(000)</b> |
|---|--|-------------------------------------|--------------------------------------|---|
| \$520   | \$128,376                              | \$127,241                           | \$260                                | \$1,655   |

During the six months ended June 30, 2008, the Fund made purchases and sales totaling approximately \$190,581,000 and \$392,182,000 respectively, of investment securities other than long-term U.S. Government securities and short-term investments. There were no purchases or sales of long-term U.S. Government securities.

During the six months ended June 30, 2008, the Fund paid approximately \$302,000 in brokerage commissions to China International Capital Corporation (Hong Kong) Limited (CICC), an affiliated broker/dealer.

**H. Other:** On June 19, 2007, the Directors approved a procedure whereby the Fund may, when appropriate, purchase shares in the open market or in privately negotiated transactions at a price not above market value or net asset value, whichever is lower at the time of the purchase. During the six months ended June 30, 2008, the Fund did not repurchase any of its shares.

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**I. Supplemental Proxy Information:** On June 19, 2008, an annual meeting of the Fund's stockholders was held for the purpose of voting on the following matter, the results of which were as follows:

Election of Directors by all stockholders:

|                    | <b>For</b> | <b>Withhold</b> |
|--------------------|------------|-----------------|
| Kathleen A. Dennis | 10,949,865 | 273,623         |
| Joseph J. Kearns   | 10,950,387 | 273,101         |
| Michael E. Nugent  | 10,951,228 | 272,260         |
| Fergus Reid        | 10,950,898 | 272,590         |

**Morgan Stanley China A Share Fund, Inc.**

June 30, 2008 (unaudited)

## Notes to Financial Statements (cont d)

### **For More Information About Portfolio Holdings**

The Fund provides a complete schedule of portfolio holdings in its semi-annual and annual reports within 60 days of the end of the Fund's second and fourth fiscal quarters. The semi-annual reports and the annual reports are filed electronically with the Securities and Exchange Commission (SEC) on Form N-CSRS and Form N-CSR, respectively. Morgan Stanley also delivers the semi-annual and annual reports to Fund stockholders and makes these reports available on its public website, [www.morganstanley.com/msim](http://www.morganstanley.com/msim). Each Morgan Stanley fund also files a complete schedule of portfolio holdings with the SEC for the Fund's first and third fiscal quarters on Form N-Q. Morgan Stanley does not deliver the reports for the first and third fiscal quarters to stockholders, nor are the reports posted to the Morgan Stanley public website. You may, however, obtain the Form N-Q filings (as well as the Form N-CSR and N-CSRS filings) by accessing the SEC's website, [www.sec.gov](http://www.sec.gov). You may also review and copy them at the SEC's public reference room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling the SEC at 1(800) SEC-0330. You can also request copies of these materials, upon payment of a duplicating fee, by electronic request at the SEC's e-mail address ([publicinfo@sec.gov](mailto:publicinfo@sec.gov)) or by writing the public reference section of the SEC, Washington, DC 20549-0102.

In addition to filing a complete schedule of portfolio holdings with the SEC each fiscal quarter, the Fund makes portfolio holdings information available by periodically providing the information on its public website, [www.morganstanley.com/msim](http://www.morganstanley.com/msim).

The Fund provides a complete schedule of portfolio holdings on the public website on a calendar-quarter basis approximately 31 calendar days after the close of the calendar quarter. The Fund also provides Top 10 holdings information on the public website approximately 15 business days following the end of each month. You may obtain copies of the Fund's monthly or calendar-quarter website postings, by calling 1(800) 231-2608.

### **Proxy Voting Policy and Procedures and Proxy Voting Record**

A copy of (1) the Fund's policies and procedures with respect to the voting of proxies relating to the Fund's portfolio securities; and (2) how the Fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30, is available without charge, upon request, by calling 1 (800) 548-7786 or by visiting our website at [www.morganstanley.com/msim](http://www.morganstanley.com/msim). This information is also available on the SEC's website at [www.sec.gov](http://www.sec.gov).

**Morgan Stanley China A Share Fund, Inc.**

## Dividend Reinvestment Plan

Pursuant to the Dividend Reinvestment (the Plan), each stockholder will be deemed to have elected, unless Computershare Trust Company, N.A. (the Plan Agent) is otherwise instructed by the stockholder in writing, to have all distributions automatically reinvested in Fund shares.

Dividend and capital gain distributions will be reinvested on the reinvestment date in full and fractional shares. If the market price per share equals or exceeds net asset value per share on the reinvestment date, the Fund will issue shares to participants at net asset value or, if net asset value is less than 95% of the market price on the reinvestment date, shares will be issued at 95% of the market price. If net asset value exceeds the market price on the reinvestment date, participants will receive shares valued at market price.

The Plan Agent's fees for the reinvestment of dividends and distributions will be paid by the Fund. However, each participant's account will be charged a pro rata share of brokerage commissions incurred on any open market purchases effected on such participant's behalf. Although stockholders in the Plan may receive no cash distributions, participation in the Plan will not relieve participants of any income tax which may be payable on such dividends or distributions.

In the case of stockholders, such as banks, brokers or nominees, that hold shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the stockholder as representing the total amount registered in the stockholder's name and held for the account of beneficial owners who are participating in the Plan.

Stockholders who do not wish to have distributions automatically reinvested should notify the Plan Agent in writing. There is no penalty for non-participation or withdrawal from the Plan, and stockholders who have previously withdrawn from the Plan may rejoin at any time. Requests for additional information or any correspondence concerning the Plan should be directed to the Plan Agent at:

Morgan Stanley China A Share Fund, Inc.

Computershare Trust Company, N.A.

P.O. Box 43010

Providence, Rhode Island 02940-3010

1(800) 231-2608

**Morgan Stanley China A Share Fund, Inc.**

# Morgan Stanley Institutional Closed-End Funds

## An Important Notice Concerning Our

### U.S. Privacy Policy (unaudited)

We are required by federal law to provide you with a copy of our Privacy Policy annually.

The following Policy applies to current and former individual investors in Morgan Stanley Institutional closed-end funds. This Policy is not applicable to partnerships, corporations, trusts or other non-individual clients or account holders. Please note that we may amend this Policy at any time, and will inform you of any changes to this Policy as required by law.

#### **We Respect Your Privacy**

We appreciate that you have provided us with your personal financial information. We strive to maintain the privacy of such information while we help you achieve your financial objectives. This Policy describes what non-public personal information we collect about you, why we collect it, and when we may share it with others. We hope this Policy will help you understand how we collect and share non-public personal information that we gather about you. Throughout this Policy, we refer to the non-public information that personally identifies you or your accounts as personal information.

#### **1. What Personal Information Do We Collect About You?**

To serve you better and manage our business, it is important that we collect and maintain accurate information about you. We may obtain this information from applications and other forms you submit to us, from your dealings with us, from consumer reporting agencies, from our Web sites and from third parties and other sources.

For example:

- We may collect information such as your name, address, e-mail address, telephone/fax numbers, assets, income and investment objectives through applications and other forms you submit to us.

- We may obtain information about account balances, your use of account(s) and the types of products and services you prefer to receive from us through your dealings and transactions with us and other sources.
- We may obtain information about your creditworthiness and credit history from consumer reporting agencies.
- We may collect background information from and through third-party vendors to verify representations you have made and to comply with various regulatory requirements.
- If you interact with us through our public and private Web sites, we may collect information that you provide directly through online communications (such as an e-mail address). We may also collect information about your Internet service provider, your domain name, your computer's operating system and Web browser, your use of our Web sites and your product and service preferences, through the use of cookies. Cookies recognize your computer each time you return to one of our sites, and help to improve our sites' content and personalize your experience on our sites by, for example, suggesting offerings that may interest you. Please consult the Terms of Use of these sites for more details on our use of cookies.

## **2. When Do We Disclose Personal Information We Collect About You?**

To provide you with the products and services you request, to serve you better and to manage our business, we may disclose personal information we collect about you to our affiliated companies and to non-affiliated third parties as required or permitted by law.

**A. Information We Disclose to Our Affiliated Companies.** We do not disclose personal information that we collect about you to our affiliated companies except to enable them to provide services on our behalf or as otherwise required or permitted by law.

Morgan Stanley China A Share Fund, Inc.

## Morgan Stanley Institutional Closed-End Funds

### An Important Notice Concerning Our

### U.S. Privacy Policy (cont d)

**B. Information We Disclose to Third Parties.** We do not disclose personal information that we collect about you to non-affiliated third parties except to enable them to provide services on our behalf, to perform joint marketing agreements with other financial institutions, or as otherwise required or permitted by law. For example, some instances where we may disclose information about you to nonaffiliated third parties include: for servicing and processing transactions, to offer our own products and services, to protect against fraud, for institutional risk control, to respond to judicial process or to perform services on our behalf. When we share personal information with these companies, they are required to limit their use of personal information to the particular purpose for which it was shared and they are not allowed to share personal information with others except to fulfill that limited purpose.

#### **3. How Do We Protect the Security and Confidentiality of Personal Information We Collect About You?**

We maintain physical, electronic and procedural security measures to help safeguard the personal information we collect about you. We have internal policies governing the proper handling of client information. Third parties that provide support or marketing services on our behalf may also receive personal information, and we require them to adhere to confidentiality standards with respect to such information.

Morgan Stanley China A Share Fund, Inc.

**Directors**

Michael E. Nugent

Kevin Klingert  
*Vice President*

Frank L. Bowman

Dennis F. Shea  
*Vice President*

Michael Bozic

Kathleen A. Dennis

Amy R. Doberman  
*Vice President*

James F. Higgins

Stefanie V. Chang Yu  
*Vice President*

Dr. Manuel H. Johnson

Joseph J. Kearns

James W. Garrett  
*Treasurer and Chief  
Financial Officer*

Michael F. Klein

W. Allen Reed

Carsten Otto  
*Chief Compliance Officer*

Fergus Reid

Mary E. Mullin  
*Secretary*

**Officers**

Michael E. Nugent

*Chairman of the Board and  
Director*

Ronald E. Robison

*President and Principal  
Executive Officer*

**Investment Adviser and Administrator**

Morgan Stanley Investment Management Inc.

522 Fifth Avenue

New York, New York 10036

**Custodian**

JPMorgan Chase Bank, N.A.

270 Park Avenue

New York, New York 10017

**Stockholder Servicing Agent**

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Computershare Trust Company, N.A.

250 Royall Street  
Canton, Massachusetts 02021

**Legal Counsel**

Clifford Chance US LLP  
31 West 52<sup>nd</sup> Street  
New York, New York 10019-6131

**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 1(800) 231-2608 or visit our website at [www.morganstanley.com/msim](http://www.morganstanley.com/msim). All investments involve risks, including the possible loss of principal.

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Item 2. Code of Ethics.

Not applicable for semiannual reports.

Item 3. Audit Committee Financial Expert.

Not applicable for semiannual reports.

Item 4. Principal Accountant Fees and Services

Not applicable for semiannual reports.

Item 5. Audit Committee of Listed Registrants.

Not applicable for semiannual reports.

Item 6. Schedule of Investments

(a) Refer to Item 1.

(b) Not used.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

Not applicable for semiannual reports.

Item 8. Portfolio Managers of Closed-End Management Investment Companies

Applicable only to annual reports filed by closed-end funds.

Item 9. Closed-End Fund Repurchases

None

Item 10. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 11. Controls and Procedures

(a) The Fund's principal executive officer and principal financial officer have concluded that the Fund's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Fund in this Form N-CSR was recorded, processed, summarized and reported within the time periods specified in the Securities

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and Exchange Commission's rules and forms, based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.

(b) There were no changes in the registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

### Item 12. Exhibits

(a) Code of Ethics - Not applicable for semiannual reports.

(b) A separate certification for each principal executive officer and principal financial officer of the registrant are attached hereto as part of EX-99.CERT.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Morgan Stanley China A Share Fund, Inc.

By: /s/ Ronald E. Robison  
Name: Ronald E. Robison  
Title: Principal Executive Officer  
Date: August 15, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Ronald E. Robison  
Name: Ronald E. Robison  
Title: Principal Executive Officer  
Date: August 15, 2008

By: /s/ James W. Garrett  
Name: James W. Garrett  
Title: Principal Financial Officer  
Date: August 15, 2008

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