

Morgan Stanley China A Share Fund, Inc.
Form N-CSR
March 09, 2015

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, 2014

Item 1 - Report to Shareholder

Morgan Stanley China A Share Fund, Inc.

Directors

Frank L. Bowman

Michael Bozic

Kathleen A. Dennis

Nancy C. Everett

Jakki L. Haussler

James F. Higgins

Dr. Manuel H. Johnson

Joseph J. Kearns

Michael F. Klein

Michael E. Nugent

W. Allen Reed

Fergus Reid

Officers

Michael E. Nugent

Chairperson of the Board

John H. Gernon

*President and Principal
Executive Officer*

Stefanie V. Chang Yu

Chief Compliance Officer

Joseph C. Benedetti

Vice President

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

23 Church Street

16-01 Capital Square, Singapore 049481

Custodian

State Street Bank and Trust Company

One Lincoln Street

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

Kramer Levin Naftalis & Frankel LLP

1177 Avenue of the Americas

New York, New York 10036

Independent Registered Public Accounting Firm

Ernst & Young LLP

200 Clarendon Street

Boston, Massachusetts 02116

For additional Fund information, including the Fund's net asset value per share and information regarding the investments comprising the Fund's portfolio, please call toll free 1 (800) 231-2608 or visit our website at www.morganstanley.com/im. 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, 2014

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Morgan Stanley China A Share Fund, Inc.

December 31, 2014

Table of Contents

Letter to Stockholders	3
Portfolio of Investments	6
Statement of Assets and Liabilities	8
Statement of Operations	9
Statements of Changes in Net Assets	10
Financial Highlights	11
Notes to Financial Statements	12
Report of Independent Registered Public Accounting Firm	22
Portfolio Management	23
Investment Policy	24
Dividend Reinvestment Plan	29
U.S. Privacy Policy	30
Director and Officer Information	34

Morgan Stanley China A Share Fund, Inc.

December 31, 2014

Letter to Stockholders (unaudited)

Performance

For the year ended December 31, 2014, the Morgan Stanley China A Share Fund, Inc. (the "Fund") had total returns of 45.69%, based on net asset value, and 34.85% based on market value per share (including reinvestment of distributions), compared to its benchmarks, the MSCI China A Index (the "Index")*, which returned 46.53%, 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 38.44%. On December 31, 2014, the closing price of the Fund's shares on the New York Stock Exchange was \$30.37, representing a 12.5% discount to the Fund's net asset value per share. Past performance is no guarantee of future results. Please keep in mind that high double-digit returns are highly unusual and cannot be sustained.

Factors Affecting Performance

- During 2014, China's gross domestic product (GDP) growth rate was relatively stable at 7.4% in the first quarter, 7.5% in the second quarter, 7.3% in the third quarter and 7.3% in the fourth quarter.⁽ⁱ⁾
- Money supply growth (as measured by M2, which includes cash, checking and savings deposits, money market funds, and other time deposits) dipped to a low of 12.1% in March.⁽ⁱⁱ⁾ Subsequently, the central bank introduced some targeted monetary easing measures and M2 growth rebounded to a relatively high level at 14.7% in June. After the peak, the growth rate gradually declined back to 12.2% in December. In November, the People's Bank of China (PBOC) announced an interest rate cut in an attempt to lower funding costs.
- The properties market weakened from the end of the first quarter until the middle of June. Although home sales rebounded during the second half of the year due to some policy easing, uncertainty remains relatively high. Given that new home supply will likely be high in 2015, more policy easing measures are likely to be introduced to help boost demand for properties.
- Growth in the shadow banking sector in which trust funds and off-balance sheet interbank activities are used to create credit slowed after regulators made efforts to rein them in. However, shadow banking remains a concern for the regulators and will likely limit the magnitude of monetary easing, even though the inflation rate has been benign.
- The renminbi currency depreciated by approximately 2.5% from the beginning of the year to the end of December.⁽ⁱⁱⁱ⁾ As China's economy has been transforming from export-driven to more domestic-demand-driven, the impact of volatility in the exchange rate on the Chinese economy should moderate, and the central bank will likely gradually increase flexibility in the foreign exchange system that could allow the exchange rate to be determined by supply and demand in the market more freely.
- The Shanghai Composite Index stayed within a very narrow range of 2,000 to 2,100 for most of the first half of 2014, with low volatility for many single stocks as well.^(iv) During the second half of the year, the market rallied by nearly 55% from the end of June to the end of December in local currency terms, driven by strong market sentiment due to factors such as monetary easing, an interest rate cut, the reversal of home purchase restrictions, the launch of Shanghai-Hong Kong Stock Connect (which links

Morgan Stanley China A Share Fund, Inc.

December 31, 2014

Letter to Stockholders (unaudited) (cont'd)

the two stock exchanges, providing global investors greater access to both markets), state-owned enterprise reform, an increase in margin lending activities and strong post-initial public offering (IPO) performance for recent IPOs.

- The anti-graft campaign that began in the second half of 2013 continued during 2014, and will likely continue for longer at a measured pace. As a result of the campaign, high-end consumption fell sharply initially and then stabilized. Overall consumption growth remained robust with retail sales growth at around 12.0% in 2014, a decline from 13.6% in 2013.⁽ⁱⁱⁱ⁾
- For the 12-month period, the Fund's overweight position in the financials sector during the second half of the year and underweight exposures to the information technology (IT) and materials sectors contributed to performance. On the other hand, overweight positions in health care, consumer staples and consumer discretionary, and an underweight in utilities detracted from performance.
- At the stock level, active weights in IT, industrials, consumer staples, consumer discretionary, and materials stocks were the primary contributors to performance. This was partially offset by stock selection in health care, energy and financial stocks, which detracted.
- 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

- Over the course of the period, the Fund held overweight positions in the consumer discretionary, health care and consumer staples sectors. We believe China's economic growth structure is likely to change over the next decade, i.e., from more investment- and export-driven to more domestic consumption-driven. In addition, we believe that rapid income growth and continuous urbanization should not only boost volume growth but also lead to ongoing demand, as consumers trade up to more expensive items and brands. Specifically, we like consumer discretionary and consumer staples companies that we believe have strong brand recognition and pricing power, and consumer retailers with competitive distribution networks.
- We are positive on the health care sector, as we believe expanding social medical coverage and facilities construction are likely to boost Chinese health care spending in the future. In particular, we like pharmaceutical companies with a strong brand image, superior quality control and strong distribution networks that can capture market share in a highly fragmented market.
- We are also positive on selected IT companies, as we believe many Chinese corporations have been growing on a scale that requires capital expenditures to upgrade their IT systems to optimize operations and cost management. However, by our measures, valuations for many stocks in this sector are demanding and are priced based on blue-sky scenarios that are difficult to achieve. As such, we continue to be disciplined in stock selection.

Morgan Stanley China A Share Fund, Inc.

December 31, 2014

Letter to Stockholders (unaudited) (cont'd)

- We are positive on insurers and brokers, but are more cautious on banks, as we think the ongoing financial reforms could create growth opportunities for brokers and insurers at the expense of banks' profitability. Yet, after the recent rally, valuations for most brokers appear too demanding for our valuation-sensitive approach.
- The Fund held underweight positions in the industrials and materials sectors on concerns over sluggish demand, overcapacity, margin pressures, an expected slowdown in fixed-asset investment and weak overseas demand. We continue to monitor Chairman Xi's proposed "Silk Road Economic Belt" plan, connecting Asia and Europe via Central Asia like the historic Silk Road trade route that once connected China to the Mediterranean. While such a project could involve considerable infrastructure construction and potentially reduce the overcapacity in the industrials and materials sectors, the details remain to be seen.
- We are negative on the utilities and telecommunications sectors, as we believe they have limited growth potential, tight profit margins, and high capital expenditures.

Sincerely,

John H. Gernon
President and Principal Executive Officer January 2015

*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.

ⁱ National Bureau of Statistics

ⁱⁱ Data from the People's Bank of China

ⁱⁱⁱ Source: Bloomberg L.P.

^{iv} Data from Bloomberg L.P.

Morgan Stanley China A Share Fund, Inc.**December 31, 2014**

Portfolio of Investments

	Shares	Value (000)
COMMON STOCKS (100.8%)		
Automobiles (3.4%)		
SAIC Motor Corp., Ltd., Class A	7,450,294	\$ 25,896
Banks (15.7%)		
China Merchants Bank Co., Ltd., Class A	20,318,213	54,162
Industrial & Commercial Bank of China Ltd., Class A	82,930,703	65,030
		119,192
Beverages (12.2%)		
Kweichow Moutai Co., Ltd., Class A	720,675	22,072
Tsingtao Brewery Co., Ltd., Class A	7,802,549	52,630
Wuliangye Yibin Co., Ltd., Class A	5,089,029	17,614
		92,316
Capital Markets (1.4%)		
Haitong International Securities Group Ltd. (a)	16,190,000	10,225
Construction & Engineering (2.8%)		
China State Construction Engineering Corp., Ltd., Class A	18,199,659	21,367
Construction Materials (1.5%)		
Anhui Conch Cement Co., Ltd., Class A	3,127,848	11,180
Food & Staples Retailing (2.8%)		
Zhongbai Holdings Group Co., Ltd., Class A	14,835,288	21,258
Health Care Providers & Services (3.5%)		
Shanghai Pharmaceuticals Holding Co., Ltd., Class A	10,031,192	26,706
Hotels, Restaurants & Leisure (1.6%)		
Tsui Wah Holdings Ltd. (a)	35,342,000	12,472
Household Durables (9.1%)		
Qingdao Haier Co., Ltd., Class A	22,956,345	68,943
Insurance (14.9%)		
China Life Insurance Co., Ltd., Class A	6,499,000	36,128
China Life Insurance Co., Ltd. H Shares (a)	2,031,000	7,967
China Pacific Insurance Group Co., Ltd., Class A	13,188,825	69,293

	113,388	
	Shares	Value (000)
Media (0.8%)		
Bona Film Group Ltd. ADR (b)	847,202	\$ 5,998
Metals & Mining (1.9%)		
Baoshan Iron & Steel Co., Ltd., Class A	12,838,800	14,555
Oil, Gas & Consumable Fuels (6.2%)		
China Petroleum & Chemical Corp., Class A	28,306,700	29,620
China Shenhua Energy Co., Ltd., Class A	5,385,392	17,614
		47,234
Pharmaceuticals (9.7%)		
China Resources Sanjiu Medical & Pharmaceutical Co., Ltd., Class A	20,280,555	73,983
Real Estate Management & Development (7.2%)		
China Overseas Grand Oceans Group Ltd. (a)	45,301,000	22,906
China Vanke Co., Ltd., Class A	13,968,471	31,523
		54,429
Semiconductors & Semiconductor Equipment (0.6%)		
Sanan Optoelectronics Co., Ltd., Class A	2,117,653	4,855
Software (0.7%)		
Yonyou Software Co., Ltd., Class A	1,398,047	5,293
Specialty Retail (1.1%)		
Suning Commerce Group Co., Ltd., Class A (b)	5,788,796	8,362
Textiles, Apparel & Luxury Goods (0.8%)		
XTEP International Holdings Ltd. (a)	15,174,500	6,093
Transportation Infrastructure (2.9%)		
Shanghai International Airport Co., Ltd., Class A	6,876,041	21,780
TOTAL COMMON STOCKS (Cost \$605,850)		765,525

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

Morgan Stanley China A Share Fund, Inc.**December 31, 2014**

Portfolio of Investments (cont'd)

	Shares	Value (000)
SHORT-TERM INVESTMENT (0.0%)		
Investment Company (0.0%)		
Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (See Note E) (Cost \$123)	123,150	\$ 123
TOTAL INVESTMENTS (100.8%)		765,648
(Cost \$605,973) (c)		
LIABILITIES IN EXCESS OF OTHER ASSETS (-0.8%)		(6,319)
NET ASSETS (100.0%)		\$759,329

(a) Security trades on the Hong Kong exchange.

(b) Non-income producing security.

(c) The approximate fair value and percentage of net assets, \$759,527,000 and 100.0%, respectively, represent the securities that have been fair valued under the fair valuation policy for international investments as described in Note A-1 within the Notes to the Financial Statements.

ADR American Depositary Receipt.

Portfolio Composition

Classification	Percentage of Total Investments
Other*	25.5%
Banks	15.6
Insurance	14.8
Beverages	12.1
Pharmaceuticals	9.7
Household Durables	9.0
Real Estate Management & Development	7.1
Oil, Gas & Consumable Fuels	6.2
Total Investments	100.0%

* Industries and/or investment types representing less than 5% of total investments.

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

Morgan Stanley China A Share Fund, Inc.**December 31, 2014**

Financial Statements

	December 31, 2014
	(000)
Statement of Assets and Liabilities	
Assets:	
Investments in Securities of Unaffiliated Issuers, at Value (Cost \$605,850)	\$ 765,525
Investment in Security of Affiliated Issuer, at Value (Cost \$123)	123
Total Investments in Securities, at Value (Cost \$605,973)	765,648
Foreign Currency, at Value (Cost \$21,116)	21,163
Cash	@
Receivable for Investments Sold	11,064
Receivable from Affiliate	1
Other Assets	23
Total Assets	797,899
Liabilities:	
Dividends Declared	20,779
Deferred Capital Gain Country Tax	8,651
Payable for Investments Purchased	7,898
Payable for Advisory Fees	888
Payable for Custodian Fees	150
Payable for Professional Fees	70
Payable for Administration Fees	47
Payable for Stockholder Servicing Agent Fees	1
Other Liabilities	86
Total Liabilities	38,570
Net Assets	
Applicable to 21,881,465 Issued and Outstanding \$0.01 Par Value Shares (100,000,000 Shares Authorized)	\$ 759,329
Net Asset Value Per Share	\$ 34.70
Net Assets Consist of:	
Common Stock	\$ 219
Paid-in-Capital	505,499
Accumulated Undistributed Net Investment Income	111
Accumulated Undistributed Net Realized Gain	93,824
Unrealized Appreciation (Depreciation) on:	
Investments	159,675
Foreign Currency Translations	1
Net Assets	\$ 759,329

@ Amount is less than \$500.

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

Morgan Stanley China A Share Fund, Inc.**December 31, 2014**

Financial Statements (cont'd)

	Year Ended December 31, 2014 (000)
Statement of Operations	
Investment Income:	
Dividends from Securities of Unaffiliated Issuers (Net of \$1,677 of Foreign Taxes Withheld)	\$ 15,904
Interest from Unaffiliated Issuers (Net of \$4 of Foreign Taxes Withheld)	32
Dividends from Security of Affiliated Issuer (Note E)	2
Total Investment Income	15,938
Expenses:	
Advisory Fees (Note B)	8,281
Custodian Fees (Note D)	907
Administration Fees (Note C)	442
Professional Fees	162
Stockholder Reporting Expenses	81
Directors' Fees and Expenses	13
Stockholder Servicing Agent Fees	9
Other Expenses	58
Total Expenses	9,953
Rebate from Morgan Stanley Affiliate (Note E)	(3)
Net Expenses	9,950
Net Investment Income	5,988
Realized Gain (Loss):	
Investments Sold (Net of \$4,700 of Capital Gain Country Tax)	115,607
Foreign Currency Transactions	(182)
Net Realized Gain	115,425
Change in Unrealized Appreciation (Depreciation):	
Investments	124,474
Foreign Currency Translations	68
Net Change in Unrealized Appreciation (Depreciation)	124,542
Net Realized Gain and Change in Unrealized Appreciation (Depreciation)	239,967
Net Increase in Net Assets Resulting from Operations	\$ 245,955

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

Morgan Stanley China A Share Fund, Inc.**December 31, 2014**

Financial Statements (cont'd)

	Year Ended December 31, 2014 (000)	Year Ended December 31, 2013 (000)
Statements of Changes in Net Assets		
Increase (Decrease) in Net Assets:		
Operations:		
Net Investment Income	\$ 5,988	\$ 2,372
Net Realized Gain	115,425	23,894
Net Change in Unrealized Appreciation (Depreciation)	124,542	18,481
Net Increase in Net Assets Resulting from Operations	245,955	44,747
Distributions from and/or in Excess of:		
Net Investment Income	(5,739)	(2,399)
Net Realized Gain	(31,845)	(58)
Total Distributions	(37,584)	(2,457)
Total Increase	208,371	42,290
Net Assets:		
Beginning of Period	550,958	508,668
End of Period (Including Accumulated Undistributed Net Investment Income of \$111 and \$29)	\$ 759,329	\$ 550,958

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

Morgan Stanley China A Share Fund, Inc.**December 31, 2014**

Financial Highlights

Selected Per Share Data and Ratios

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Net Asset Value, Beginning of Period	\$ 25.18	\$ 23.25	\$ 22.46	\$ 27.87	\$ 32.53
Net Investment Income (Loss)†	0.27	0.11	(0.02)	(0.30)	(0.21)
Net Realized and Unrealized Gain (Loss)	10.97	1.93	2.85	(4.74)	(1.74)
Total from Investment Operations	11.24	2.04	2.83	(5.04)	(1.95)
Distributions from and/or in excess of:					
Net Investment Income	(0.26)	(0.11)			
Net Realized Gain	(1.46)	(0.00)‡	(2.04)	(0.37)	(1.72)
Total Distributions	(1.72)	(0.11)	(2.04)	(0.37)	(1.72)
Dilutive Effect of Shares Issued through Rights Offering and Offering Costs				‡	(0.99)
Net Asset Value, End of Period	\$ 34.70	\$ 25.18	\$ 23.25	\$ 22.46	\$ 27.87
Per Share Market Value, End of Period	\$ 30.37	\$ 23.81	\$ 24.05	\$ 19.35	\$ 27.35
TOTAL INVESTMENT RETURN:					
Market Value	34.85%	(0.49)%	36.27%	(27.94)%	(7.55)%
Net Asset Value(1)	45.69%	8.85%	13.09%	(17.63)%	(9.15)%
RATIOS, SUPPLEMENTAL DATA:					
Net Assets, End of Period (Thousands)	\$759,329	\$550,958	\$508,668	\$491,374	\$609,835
	1.80%+	1.78%+	1.87%+	2.13%+	1.78%+

Ratio of Expenses to Average Net Assets					
Ratio of Net Investment Income (Loss) to Average Net Assets	1.09%+	0.46%+	(0.08)%+	(1.14)%+	(0.74)%+
Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets	0.00%§	0.00%§	0.00%§	0.00%§	0.00%§
Portfolio Turnover Rate	98%	95%	93%	77%	94%

(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 per share of the Fund.

† Per share amount is based on average shares outstanding.

‡ Amount is less than \$0.005 per share.

+ The Ratios of Expenses and Net Investment Income (Loss) reflect the rebate of certain Fund expenses in connection with the investments in Morgan Stanley affiliates during the period. The effect of the rebate on the ratios is disclosed in the above table as "Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets."

§ Amount is less than 0.005%.

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

Morgan Stanley China A Share Fund, Inc.

December 31, 2014

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 "Act"). The Fund's investment objective is to seek 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. 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. To the extent that the Fund invests in derivative or other instruments that are structured to be positively correlated and linked to China A shares, such investments will be counted for purposes of the Fund's policy as stated above. To the extent the Fund makes such investments, the Fund will be subject to the risks of such derivative or other instruments as described herein.

The adviser, Morgan Stanley Investment Management Inc. (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"). The Adviser has received an increase of \$250,000,000 to its A-share Quota, of which approximately \$138,000,000 was utilized through a rights offering in August 2010. There is no guarantee that the A-share Quota will not be modified in the future.

Securities purchased by the Adviser and/or the sub-adviser, Morgan Stanley Investment Management Company (the "Sub-Adviser"), in its capacity as a QFII, on behalf of the Fund, are credited to a securities trading account in China. All capital gains and income that the Fund earns on investments in China A-shares are held in that account, and may only be repatriated if approved by the State Administration of Foreign Exchange ("SAFE"). There is no guarantee that SAFE will approve such repatriation. Failure to gain approval from SAFE on a timely

basis could adversely affect the Fund's ability to distribute taxable income and capital gains and cause the Fund to become liable for the payment of U.S. Federal income tax. See Note F. Federal Income Taxes.

A. Significant Accounting Policies: The following significant accounting policies are in conformity with U.S. generally accepted accounting principles ("GAAP"). Such policies are consistently followed by the Fund in the preparation of its financial statements. GAAP 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: (1) An equity portfolio security listed or traded on an exchange is valued at its latest reported sales price (or at the exchange official closing price if such exchange reports an official closing price), if there were no sales on a given day, the security is valued at the mean between the last reported bid and asked prices; (2) all other equity portfolio securities for which over-the-counter ("OTC") market quotations are readily available are valued at its latest reported sales price. In cases where a security is traded on more than one exchange, the security is valued on the exchange designated as the primary market; (3) when market quotations are not readily available, including circumstances under which the Adviser or Sub-Adviser determines that the closing price, last sale price or the mean between the last reported bid and asked prices are not reflective of a security's market value, portfolio securities are valued at their fair value as determined in good faith under procedures established by and under the general supervision of the Fund's Board of Directors (the "Directors"). Occasionally, developments affecting 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 of the

Morgan Stanley China A Share Fund, Inc.

December 31, 2014

Notes to Financial Statements (cont'd)

New York Stock Exchange ("NYSE"). If developments occur during such periods that are expected to materially affect the value of such securities, such valuations may be adjusted to reflect the estimated fair value of such securities as of the close of the NYSE, as determined in good faith by the Directors or by the Adviser using a pricing service and/or procedures approved by the Directors; (4) quotations of foreign portfolio securities, other assets and liabilities and forward contracts stated in foreign currency are translated into U.S. dollar equivalents at the prevailing market rates prior to the close of the NYSE; (5) investments in mutual funds, including the Morgan Stanley Institutional Liquidity Funds, are valued at the net asset value as of the close of each business day; and (6) short-term debt securities with remaining maturities of 60 days or less at the time of purchase may be valued at amortized cost, unless the Adviser determines such valuation does not reflect the securities' market value, in which case these securities will be valued at their fair market value determined by the Adviser.

The Directors have the ultimate responsibility of determining the fair value of the investments. Under procedures approved by the Directors, the Fund's Adviser has formed a Valuation Committee whose members are approved by the Directors. The Valuation Committee provides administration and oversight of the Fund's valuation policies and procedures, which are reviewed at least annually by the Directors. These procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

The Fund has procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available. Under these procedures, the Valuation Committee convenes on a regular and ad hoc basis to review such securities and considers a number of

factors, including valuation methodologies and significant unobservable valuation inputs, when arriving at fair value. The Valuation Committee may employ a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The Valuation Committee employs various methods for calibrating these valuation approaches including a regular review of valuation methodologies, key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

2. Fair Value Measurement: Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ ("ASC") 820, "Fair Value Measurement" ("ASC 820"), defines fair value as the value 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. ASC 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in valuing 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 valuing an asset or liability developed based on the best information available in the

Morgan Stanley China A Share Fund, Inc.

December 31, 2014

Notes to Financial Statements (cont'd)

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.

- Level 1 unadjusted quoted prices in active markets for identical investments
- 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. 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

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities and the determination of the significance of a particular input to the fair value measurement in its entirety require