

Edgar Filing: Morgan Stanley China A Share Fund, Inc. - Form N-Q

Morgan Stanley China A Share Fund, Inc.
Form N-Q
May 30, 2013

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

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-21926

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

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

10036
(Zip code)

Arthur Lev

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

Registrant's telephone number, including area code: 201-830-8894

Date of fiscal year December 31, 2013
end:

Date of reporting period: March 28, 2013

Item 1. Schedule of Investments.

The Fund's schedule of investments as of the close of the reporting period prepared pursuant to Rule 12-12 of Regulation S-X is as follows:

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Morgan Stanley China A Share Fund, Inc.

Portfolio of Investments

First Quarter Report

March 28, 2013 (unaudited)R

	Shares	Value (000)
Common Stocks (99.4%)		
Automobiles (8.2%)		
SAIC Motor Corp., Ltd., Class A	17,324,446	\$ 42,459
Beverages (6.3%)		
Tsingtao Brewery Co., Ltd., Class A	5,422,542	32,469
Capital Markets (4.0%)		
CITIC Securities Co., Ltd., Class A	8,767,777	17,312
Haitong Securities Co., Ltd. (a)(b)	2,246,800	3,085
		20,397
Chemicals (2.1%)		
Qinghai Salt Lake Industry Co., Ltd., Class A	2,310,068	10,557
Commercial Banks (9.8%)		
Agricultural Bank of China Ltd., Class A	23,764,369	10,325
Bank of China Ltd., Class A	23,938,818	11,171
China Construction Bank Corp., Class A	26,159,218	19,195
China Merchants Bank Co., Ltd., Class A	5,122,832	10,000
		50,691
Construction & Engineering (4.1%)		
China State Construction Engineering Corp., Ltd., Class A	39,732,824	21,355
Construction Materials (3.2%)		
Anhui Conch Cement Co., Ltd.	5,969,327	16,330
Electrical Equipment (0.8%)		
TBEA Co., Ltd., Class A	4,019,869	4,315
Food & Staples Retailing (3.5%)		
Zhongbai Holdings Group Co., Ltd., Class A (b)	18,517,457	17,760
Health Care Providers & Services (2.9%)		
Shanghai Pharmaceuticals Holding Co., Ltd., Class A	7,026,680	15,163
Hotels, Restaurants & Leisure (2.0%)		
Tsui Wah Holdings Ltd. (b)	20,720,000	10,490
Household Durables (3.9%)		
Gree Electric Appliances, Inc., Class A	4,336,621	20,196
Information Technology Services (2.8%)		
Hand Enterprise Solutions Co., Ltd.	3,727,978	14,266
Insurance (12.4%)		
China Pacific Insurance Group Co., Ltd., Class A (b)	15,485,321	45,626

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Ping An Insurance Group Co. of China Ltd., Class A	2,744,083	18,127
		63,753
Media (1.2%)		
Bona Film Group Ltd. ADR (b)	1,370,800	6,306
Metals & Mining (1.5%)		
Shandong Nanshan Aluminum Co., Ltd., Class A	7,549,110	7,690

	Shares	Value (000)
Oil, Gas & Consumable Fuels (5.8%)		
China Petroleum & Chemical Corp., Class A	8,775,043	\$ 10,477
China Shenhua Energy Co., Ltd., Class A	5,510,439	19,322
		29,799
Pharmaceuticals (8.6%)		
China Resources Sanjiu Medical & Pharmaceutical Co., Ltd., Class A	8,490,676	44,159
Real Estate Management & Development (4.7%)		
China Vanke Co., Ltd., Class A	9,091,865	16,035
Shanghai Shimao Co., Ltd., Class A	5,337,249	8,236
		24,271
Road & Rail (0.9%)		
Daqin Railway Co., Ltd.	3,759,600	4,495
Software (4.7%)		
Yonyou Software Co., Ltd., Class A	12,903,284	24,314
Specialty Retail (3.0%)		
Suning Appliance Co., Ltd., Class A	15,033,196	15,386
Textiles, Apparel & Luxury Goods (2.0%)		
XTEP International Holdings	26,825,000	10,402
Transportation Infrastructure (1.0%)		
Jiangsu Expressway Co., Ltd.	5,798,434	5,011
Total Common Stocks (Cost \$506,798)		512,034
Participation Note (0.1%)		
UBS AG, UFIDA Software Co., Ltd., Class A, Equity Linked Notes, Zero Coupon, 9/30/13		
(b) (Cost \$805)	35,922	677
Short-Term Investment (0.5%)		
Investment Company (0.5%)		
Morgan Stanley Institutional Liquidity Funds - Money Market Portfolio - Institutional Class (c) (Cost \$2,339)	2,338,870	2,339
Total Investments (100.0%) (Cost \$509,942) +		515,050
Liabilities in Excess of Other Assets () (d)		(54)
Net Assets (100.0%)	\$	514,996

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- R March 28, 2013 represents the last business day of the Fund's quarterly period.
- (a) Security trades on the Hong Kong exchange.
- (b) Non-income producing security.
- (c) The Fund invests in the Morgan Stanley Institutional Liquidity Funds - Money Market Portfolio - Institutional Class (the "Liquidity Funds"), an open-end management investment company managed by the Adviser. Advisory fees paid by the Fund are reduced by an amount equal to the advisory and administrative service fees paid by the Liquidity Funds with respect to assets invested by the Fund in the Liquidity Funds.
- (d) Amount is less than 0.05%.
- + At March 28, 2013, the U.S. Federal income tax cost basis of investments was approximately \$509,942,000 and, accordingly, net unrealized appreciation for U.S. Federal income tax purposes was approximately \$5,108,000 of which approximately \$58,408,000 related to appreciated securities and approximately \$53,300,000 related to depreciated securities.
- ADR American Depository Receipt.
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Morgan Stanley China A Share Fund, Inc.

Notes to the Portfolio of Investments • March 28, 2013 (unaudited)

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 market quotations are readily available are valued at the mean between the last reported bid and asked prices. 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) an equity portfolio security traded on foreign exchanges, the latest reported sales price (or the exchange official closing price if such exchange reports an official closing price) or the mean between the last reported bid and asked prices may be used if there were no sales on a particular day or the latest bid price may be used if only bid prices are available; (4) when market quotations are not readily available, including circumstances under which Morgan Stanley Investment Management Inc. (the 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 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 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; (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 having a maturity date of more than sixty days at the time of purchase are valued on a mark-to-market basis until sixty days prior to maturity and thereafter at amortized cost based on their value on the 61st day. Short-term debt securities having a maturity date of sixty days or less at the time of purchase are valued at amortized cost, which approximates fair value.

Under procedures approved by the Directors, the Fund's Adviser has formed a Valuation Committee. The Valuation Committee provides administration and oversight of the Fund's valuation policies and procedures, which are reviewed at least annually by the Directors. Among other things, 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.

Fair Value Measurement: Financial Accounting Standards Board (FASB) Accounting Standards CodificationTM (ASC) 820, Fair Value Measurements and Disclosures (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 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 requires judgment and considers factors specific to each security.

The following is a summary of the inputs used to value the Fund's investments as of March 28, 2013.

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
Assets:				
Common Stocks				
Automobiles	\$ 42,459	\$	\$	42,459
Beverages	32,469			32,469
Capital Markets	20,397			20,397
Chemicals	10,557			10,557
Commercial Banks	50,691			50,691
Construction & Engineering	21,355			21,355
Construction Materials	16,330			16,330
Electrical Equipment	4,315			4,315
Food & Staples Retailing	17,760			17,760
Health Care Providers & Services	15,163			15,163
Hotels, Restaurants & Leisure	10,490			10,490
Household Durables	20,196			20,196
Information Technology Services	14,266			14,266

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Insurance	63,753	63,753
Media	6,306	6,306
Metals & Mining	7,690	7,690
Oil, Gas & Consumable Fuels	29,799	29,799
Pharmaceuticals	44,159	44,159
Real Estate Management & Development	24,271	24,271
Road & Rail	4,495	4,495
Software	24,314	24,314
Specialty Retail	15,386	15,386
Textiles, Apparel & Luxury Goods	10,402	10,402
Transportation Infrastructure	5,011	5,011
Total Common Stocks	512,034	512,034
Participation Note	677	677
Short-Term Investment - Investment Company	2,339	2,339
Total Assets	\$ 514,373	\$ 677

Transfers between investment levels may occur as the markets fluctuate and/or the availability of data used in an investment's valuation changes. The Fund recognizes transfers between the levels as of the end of the period. As of March 28, 2013, securities with a total value of approximately \$454,546,000 transferred from Level 2 to Level 1. At December 31, 2012, the fair value of certain securities were adjusted due to developments which occurred between the time of the close of the foreign markets on which they trade and the close of business on the NYSE which resulted in their Level 2 classification.

Item 2. 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-Q was recorded, processed, summarized and reported within the time periods specified in the Securities 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 Fund's internal control over financial reporting that occurred during the registrant's fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

Item 3. Exhibits.

(a) A separate certification for each principal executive officer and principal financial officer of the registrant are attached hereto.

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.

Morgan Stanley China A Share Fund, Inc.

/s/ Arthur Lev
Arthur Lev
Principal Executive Officer
May 21, 2013

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.

/s/ Arthur Lev
Arthur Lev
Principal Executive Officer
May 21, 2013

/s/ Francis Smith
Francis Smith
Principal Financial Officer
May 21, 2013
