

MALAYSIA FUND INC
Form N-CSRS
August 29, 2011

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 811-05082

The Malaysia 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: 212-296-6990

Date of fiscal year end: December 31, 2011

Date of reporting period: June 30, 2011

Item 1 - Report to Shareholders

The Malaysia Fund, Inc.

Directors

Michael E. Nugent

Frank L. Bowman

Michael Bozic

Kathleen A. Dennis

James F. Higgins

Dr. Manuel H. Johnson

Joseph J. Kearns

Michael F. Klein

W. Allen Reed

Fergus Reid

Officers

Michael E. Nugent

Chairman of the Board and Director

Arthur Lev

*President and Principal
Executive Officer*

Stefanie V. Chang Yu

Vice President

Francis J. Smith

Treasurer and Principal Financial Officer

Mary Ann Picciotto

Chief Compliance Officer

Mary E. Mullin

Secretary

Investment Adviser and Administrator

Morgan Stanley Investment Management Inc.

522 Fifth Avenue

New York, New York 10036

Custodian

State Street Bank and Trust Company

One Lincoln Street

Boston, Massachusetts 02111

Stockholder Servicing Agent

Computershare Trust Company, N.A.

250 Royall Street

Canton, Massachusetts 02021

Legal Counsel

Dechert LLP

1095 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

The Malaysia Fund, Inc. (MAY)

Morgan Stanley

Investment Management Inc.

Investment Adviser

**Semi-Annual
Report**

June 30, 2011

The Malaysia Fund, Inc.

Overview (unaudited)

Letter to Stockholders

Performance

For the six months ended June 30, 2011, the Malaysia Fund, Inc. (the "Fund") had total returns of 4.17%, based on net asset value, and 2.75%, based on market value per share (including reinvestment of distributions), compared to its benchmark, the Kuala Lumpur Stock Exchange Composite (KLSE) Index (the "Index"), expressed in U.S. dollars, which returned 6.16%. On June 30, 2011, the closing price of the Fund's shares on the New York Stock Exchange was \$11.25, representing a 9.6% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

Factors Affecting Performance

- Like its Association of Southeast Asian Nations (ASEAN) peers, the Malaysian economy rebounded strongly in 2010 after a significant slowdown in 2009. Since the beginning of 2011, the economy has continued on its upward trajectory, though at a slower pace. According to consensus estimates, the Malaysian economy is currently expected to grow in the 4% to 5% region in 2011.
- Economic growth has been hampered thus far in 2011 by overall uncertainty on global economic growth and a strong Malaysian ringgit. These negatives for the domestic economy have been offset by the ongoing government-sponsored infrastructure projects and domestic consumption growth. As in most other emerging market economies, inflationary pressures in Malaysia are mounting but have remained well within the central bank's comfort zone. While domestic consumption remains buoyant amid low real interest rates, the prospects of the export sector will determine how growth in 2011 plays out. Malaysia's gross domestic product (GDP) sensitivity to exports is reasonably high and therefore the global growth outlook does impact the country's economic projections.
- Structurally, the country's economic managers have been espousing the benefits of their Economic Transformation Programs (ETP). These programs are aimed at addressing Malaysia's longstanding status as a net exporter of capital by curbing this capital outflow. So far, the response has been positive and 2011 has seen reasonable increase in foreign direct investment, though limited to a few sectors. While we appreciate the steps taken so far through the ETP, like many investors, we would like to see continued support for these plans. The re-election of the current prime minister and his economic managers for another five-year term would go a long way in supporting the ETP and possible re-rating of the whole economy.
- The Fund's underperformance relative to the Index over the six months under review came largely from stock selection, with sector allocation contributing to a lesser degree.
- Regarding sector/industry allocation, the Fund's performance suffered from its exposure to airlines and its underweight position in an oil and gas company, both reflecting our negative view on energy. The Fund also saw relative underperformance through its underweight position in telecommunications, a sector which constitutes a large part of the Index and outperformed the overall market. The Fund benefited from its underweight positions in utilities and consumer staples, as both sectors underperformed the overall market.

The Malaysia Fund, Inc.

Overview (unaudited)

Letter to Stockholders (cont'd)

- Among stocks, overweight positions in a bank, an airline, an infrastructure conglomerate, and an automaker all detracted from relative performance. The Fund's underweight positions in a finance company also contributed to underperformance as a takeover bid for the company was announced, which caused the stock price to rally. However, the Fund's performance did benefit from its overweight positions in a real estate developer and a power producer.

Management Strategies

- The Fund seeks long-term capital appreciation and integrates top-down sector allocation and bottom-up stock selection with a growth bias. The team utilizes a rigorous fundamental research approach that considers dynamics, valuation, and sentiment and focuses on companies with strong management and solid earnings.
- From a sector perspective, we remain positively tilted toward the financial sector (especially real estate), consumer discretionary, consumer services and construction. We remain underweight in the defensive utilities and telecommunications sectors.
- For 2011, we are focused on stocks with low exposure to export markets and some pricing power within the domestic space. We continue to look for stocks that we believe are likely to benefit from the unraveling of the ETP. We also like stocks that we think have the ability to become ASEAN champions within their field of expertise.

Sincerely,

Arthur Lev
President and Principal Executive Officer July 2011

The Malaysia Fund, Inc.

June 30, 2011 (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 Adviser (as defined herein) 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 (as defined herein), 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 Adviser under the administration agreement, including accounting, clerical, bookkeeping, compliance, business management and planning, and the provision of supplies, office space and utilities at the Adviser's expense. (The Adviser and Sub-Adviser 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 administrative and advisory 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 and supported its decision to approve the Management Agreement.

Performance, Fees and Expenses of the Fund

The Board reviewed the performance, fees and expenses of the Fund compared to its peers, as determined by Lipper, and to appropriate benchmarks where applicable. The Board discussed with the Adviser the performance goals and the actual results achieved in managing the Fund. When considering a fund's performance, the Board and the Adviser place emphasis on trends and longer-term returns (focusing on one-year, three-year and five-year performance, as of December 31, 2010, or since inception, as applicable). When a fund underperforms its benchmark and/or its peer group average, the Board and the Adviser discuss the causes of such underperformance and, where necessary, they discuss specific changes to investment strategy or investment personnel. The Board noted that the Fund's performance was better than its peer group average for the one-, three- and five-year periods. The Board discussed with the Adviser the level of the advisory and administration fees (together, the "management fee") for this Fund relative to comparable funds and/or other accounts advised by the Adviser and/or compared to its peers as determined by Lipper. In addition to the management fee, the Board also reviewed the Fund's total expense ratio. The Board noted that the Fund's management fee and total expense ratio were lower than its peer group average. After discussion, the Board concluded that the Fund's performance, management fee and total expense ratio were competitive with its peer group average.

Economies of Scale

The Board considered the size and growth prospects of the Fund and how that relates to the Fund's total expense ratio and particularly the Fund's management fee rate, which includes breakpoints. In conjunction with its review of the Adviser's profitability, the Board discussed with the Adviser how a change in assets can affect the efficiency or effectiveness of managing the Fund and whether the management fee level is appropriate relative to current and projected asset levels and/or whether the management fee structure reflects economies of scale as asset levels change.

The Board considered that, with respect to closed-end funds, the assets are not likely to grow

The Malaysia Fund, Inc.

June 30, 2011 (unaudited)

Investment Advisory Agreement Approval (cont'd)

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 its 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. The Board has determined that its review of the analysis of the Adviser's expenses and profitability supports its decision to approve the Management Agreement.

Other Benefits of the Relationship

The Board considered other benefits to the Adviser and its affiliates derived from their relationship with the Fund and other funds advised by the Adviser. These benefits may include, among other things, "float" benefits derived from handling of checks for purchases and sales, research received by the Adviser generated from commission dollars spent on funds' portfolio trading and fees for distribution and/or shareholder servicing. The Board reviewed with the Adviser each of these arrangements and the reasonableness of the Adviser's costs relative to the services performed. The Board has determined that its review of the other benefits received by the Adviser or its affiliates supports its decision to approve the Management Agreement.

Resources of the Adviser and Historical Relationship Between the Fund and the Adviser

The Board considered whether the Adviser is financially sound and has the resources necessary to perform its obligations under the Management Agreement. 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 the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement and 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. In reaching this conclusion the Board did not give particular weight to any single factor referenced above. The Board considered these factors over the course of numerous meetings, some of which were in executive session with only the independent

Board members and their counsel present. It is possible that individual Board members may have weighed these factors differently in reaching their individual decisions to approve the Management Agreement.

The Malaysia Fund, Inc.

June 30, 2011 (unaudited)

Portfolio of Investments

	Shares	Value (000)
COMMON STOCKS (101.0%)		
Airlines (2.0%)		
Malaysian Airline System Bhd (a)	3,740,400	\$ 1,911
Automobiles (2.7%)		
TAN Chong Motor Holdings Bhd	1,615,200	2,539
Commercial Banks (20.0%)		
CIMB Group Holdings Bhd	3,135,492	9,286
Malayan Banking Bhd	1,728,075	5,122
Public Bank Bhd	980,292	4,320
		18,728
Construction & Engineering (9.5%)		
Gamuda Bhd	3,066,400	3,914
IJM Corp. Bhd	2,339,930	5,000
		8,914
Construction Materials (1.4%)		
Lafarge Malayan Cement Bhd	519,400	1,280
Diversified Financial Services (6.2%)		
AMMB Holdings Bhd	2,686,200	5,796
Electric Utilities (2.0%)		
Tenaga Nasional Bhd	855,162	1,919
Food Products (4.8%)		
Kuala Lumpur Kepong Bhd	611,700	4,490
Health Care Equipment & Supplies (5.3%)		
Top Glove Corp. Bhd	2,855,200	4,965
Hotels, Restaurants & Leisure (12.4%)		
Genting Bhd	1,949,800	7,263
Genting Malaysia Bhd	3,679,800	4,395
		11,658
Industrial Conglomerates (3.8%)		
Sime Darby Bhd	1,173,410	3,588
Marine (3.0%)		
MISC Bhd	1,174,860	2,865
Multi-Utilities (4.2%)		
YTL Corp. Bhd	7,661,965	3,942
Multiline Retail (2.8%)		
Parkson Holdings Bhd	1,317,154	2,629
Real Estate Management & Development (15.0%)		
IGB Corp. Bhd	3,914,481	2,776
SP Setia Bhd	3,595,722	4,981

	Shares	Value (000)
UEM Land Holdings Bhd (a)	6,735,950	\$ 6,278
		14,035
Wireless Telecommunication Services (5.9%)		
Axiata Group Bhd	2,631,925	4,370
DiGi.Com Bhd	121,800	1,172
		5,542
TOTAL COMMON STOCKS (Cost \$42,350)		94,801
	No. of Warrants	
WARRANTS (0.6%)		
Construction & Engineering (0.2%)		
Gamuda Bhd, expires 5/25/15 (a)	383,250	180
Hotels, Restaurants & Leisure (0.1%)		
IJM Land Bhd, expires 9/11/13 (a)	204,060	98
Real Estate Management & Development (0.3%)		
SP Setia Bhd, expires 1/21/13 (a)	697,537	261
TOTAL WARRANTS (Cost \$55)		539
	Shares	
SHORT-TERM INVESTMENT (0.1%)		
Investment Company (0.1%)		
Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (See Note F) (Cost \$47)	47,416	47
TOTAL INVESTMENTS (101.7%) (Cost \$42,452) (b)		95,387
LIABILITIES IN EXCESS OF OTHER ASSETS (-1.7%)		
		(1,561)
NET ASSETS (100.0%)		\$ 93,826

(a) Non-income producing security.

(b) The approximate market value and percentage of net assets, \$94,801,000 and 101.0%, 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.

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

The Malaysia Fund, Inc.

June 30, 2011 (unaudited)

Portfolio of Investments (cont'd)

Fair Value Measurement Information:

The following is a summary of the inputs used to value the Fund's net assets as of June 30, 2011. (See Note A-3 to the financial statements for further information regarding fair value measurement.)

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				
Airlines	\$	\$ 1,911	\$	\$ 1,911
Automobiles		2,539		2,539
Commercial Banks		18,728		18,728
Construction & Engineering		8,914		8,914
Construction Materials		1,280		1,280
Diversified Financial Services		5,796		5,796
Electric Utilities		1,919		1,919
Food Products		4,490		4,490
Health Care Equipment & Supplies		4,965		4,965
Hotels, Restaurants & Leisure		11,658		11,658
Industrial Conglomerates		3,588		3,588
Marine		2,865		2,865
Multi-Utilities		3,942		3,942
Multiline Retail		2,629		2,629
		14,035		14,035

Real Estate Management & Development		
Wireless Telecommunication Services	5,542	5,542
Total Common Stocks	94,801	94,801

Fair Value Measurement Information: (cont'd)

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
Assets: (cont'd)				
Warrants	\$ 539	\$	\$	\$ 539
Short-Term Investments				
Investment Company	47			