

MALAYSIA FUND INC  
Form N-CSRS  
September 10, 2012

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: 201-830-8802

Date of fiscal year end: December 31, 2012

Date of reporting period: June 30, 2012

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Item 1 - Report to Shareholders

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**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*

**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.

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](http://www.morganstanley.com/im). All investments involve risks, including the possible loss of principal.

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IU12-01770P-Y06/12

INVESTMENT MANAGEMENT

The Malaysia Fund, Inc. NYSE: MAY

**Morgan Stanley**

**Investment Management Inc.**

**Adviser**

**Semi-Annual  
Report**

**June 30, 2012**

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**The Malaysia Fund, Inc.**

**June 30, 2012**

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## The Malaysia Fund, Inc.

### Overview

Letter to Stockholders (unaudited)

### Performance

For the six months ended June 30, 2012, The Malaysia Fund, Inc. (the "Fund") had total returns of 1.74%, based on net asset value, and 8.26%, based on market value per share (including reinvestment of distributions), compared to its benchmark, the FTSE Bursa Malaysia KLCI Total Return Index (the "Index")\* expressed in U.S. dollars, which returned 5.97%. On June 30, 2012, the closing price of the Fund's shares on the New York Stock Exchange was \$9.01, representing a 3.6% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

### Factors Affecting Performance

- Malaysia's economy is expected to grow by 4% to 5% in 2012, according to consensus estimates. Although Malaysia's sensitivity to global growth sits behind that of Singapore and Thailand, it still remains high, especially through its heavy exposure to exports. As such, growth in Malaysian gross domestic product (GDP) depends on developments in the global economic environment. Having said that, should we see significant further deterioration in global growth, Malaysia would likely be able to use monetary and fiscal stimulus to support the economy.
- Domestically, consumption remains buoyant, supported by low real interest rates and credit growth. Political elections are expected to be held by mid-2013 and some pre-election cash handouts should provide further support to consumers.
- Overall, Malaysia's balance sheet remains strong but it has been consistently running a mild fiscal deficit. Although it is not a red flag as yet, we are somewhat concerned about its spending pattern. We do not expect any major change until after a new government is in place.
- Structurally, the country's economic managers continue to focus on delivering the various key performance indicators under 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. We saw positive momentum on economic reforms during 2011, but suspect that the pace could moderate over the next 12 months until the election is completed. While we appreciate the steps taken so far towards structural reform, like many investors, we would like to see continued support for these plans.
- On the political front, the uncertainty around the timing and eventual outcome of general elections in 2012 or 2013 is likely to continue playing havoc with the Malaysian equity market in the short term. Most investors are in a "wait and see" mode ahead of the upcoming elections and the results could determine whether the ETP will be continued.
- The Fund's underperformance relative to the Index over the six months under review came mostly from sector allocation, whereas stock selection was a positive contributor to performance.

## The Malaysia Fund, Inc.

### Overview

#### Letter to Stockholders (unaudited) (cont'd)

- Regarding sector/industry allocation, the Fund's performance suffered from its overweight exposure to property and underweight in telecommunications. However, the Fund's slight overweight in auto-related sectors and underweight exposure to food and beverage, as well as banks, added to relative performance versus the Index.
- Stock selection in real estate and utilities contributed the most to performance, whereas stock selection in industrials especially in the capital goods, transportation and automotive sub-sectors was the largest detractor.

### 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 believed to have strong management and solid earnings.
- From a sector perspective, we are looking toward sectors that we believe could benefit from a pre-election spending spree. We also expect the government infrastructure programs to continue and therefore are exploring the construction sector. Should the ETP continue, we could see further privatization of government assets and we will remain selective on these investment opportunities. We are also interested in inefficient government-run entities that may see corporatization of their management teams and therefore some value creation in the coming years.

Sincerely,

Arthur Lev  
President and Principal Executive Officer July 2012

\*The FTSE Bursa Malaysia KLCI Total Return Index is a free-float adjusted and liquidity-screened index comprised of the largest 30 companies listed on the Main Board of the Bursa Malaysia by full market capitalization that meet the eligibility requirements of the FTSE Bursa Malaysia Ground Rules. The FTSE Bursa Malaysia KLCI Total Return Index measures the total return on the underlying constituents, combining both capital performance and reinvested gross dividend income. The index is calculated in USD. It is not possible to invest directly in an index.

## **The Malaysia Fund, Inc.**

**June 30, 2012**

Investment Advisory Agreement Approval (unaudited)

### **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, 2011, 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



## **The Malaysia Fund, Inc.**

**June 30, 2012**

### **Investment Advisory Agreement Approval (unaudited) (cont'd)**

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 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.

**The Malaysia Fund, Inc.**

**June 30, 2012**

Investment Advisory Agreement Approval (unaudited) (cont'd)

**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, 2012 (unaudited)**

Portfolio of Investments

	Shares	Value (000)
<b>COMMON STOCKS (96.2%)</b>		
<b>Airlines (3.7%)</b>		
AirAsia Bhd	1,806,800	\$ 2,044
Malaysian Airline System Bhd (a)	1,235,700	426
		2,470
<b>Automobiles (3.0%)</b>		
TAN Chong Motor Holdings Bhd	1,389,700	1,974
<b>Commercial Banks (20.5%)</b>		
CIMB Group Holdings Bhd	2,574,692	6,161
Malayan Banking Bhd	1,419,075	3,898
Public Bank Bhd	843,392	3,660
		13,719
<b>Construction &amp; Engineering (8.9%)</b>		
Gamuda Bhd	2,638,300	2,916
IJM Corp. Bhd	1,921,430	3,051
		5,967
<b>Construction Materials (1.5%)</b>		
Lafarge Malayan Cement Bhd	446,900	1,029
<b>Diversified Financial Services (6.5%)</b>		
AMMB Holdings Bhd	2,205,800	4,381
<b>Food Products (5.4%)</b>		
Kuala Lumpur Kepong Bhd	502,300	3,645
<b>Hotels, Restaurants &amp; Leisure (12.4%)</b>		
Genting Bhd	1,601,100	4,831
Genting Malaysia Bhd	3,021,700	3,442
		8,273
<b>Industrial Conglomerates (4.7%)</b>		
Sime Darby Bhd	1,009,610	3,151
<b>Marine (1.1%)</b>		
MISC Bhd	504,160	735
<b>Multi-Utilities (6.7%)</b>		
YTL Corp. Bhd	7,031,749	4,493
<b>Multiline Retail (2.5%)</b>		
Parkson Holdings Bhd	1,133,254	1,647
<b>Real Estate Management &amp; Development (12.5%)</b>		
IGB Corp. Bhd	3,367,981	2,855
IJM Land Bhd	175,560	122
SP Setia Bhd	1,476,322	1,767
UEM Land Holdings Bhd (a)	5,531,250	3,647
		8,391



	Shares	Value (000)
<b>Wireless Telecommunication Services (6.8%)</b>		
Axiata Group Bhd	1,834,725	\$ 3,169
DiGi.Com Bhd	1,048,000	1,406
		4,575
<b>TOTAL COMMON STOCKS</b> (Cost \$29,679)		64,450
	No. of Warrants	
<b>WARRANT (0.2%)</b>		
<b>Construction &amp; Engineering (0.2%)</b>		
Gamuda Bhd, expires 5/25/15 (a) (Cost \$10)	329,750	106
	Shares	
<b>SHORT-TERM INVESTMENT (0.4%)</b>		
<b>Investment Company (0.4%)</b>		
Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (See Note F) (Cost \$282)	281,761	282
<b>TOTAL INVESTMENTS (96.8%)</b> (Cost \$29,971) (b)		64,838
<b>OTHER ASSETS IN EXCESS OF LIABILITIES (3.2%)</b>		2,161
<b>NET ASSETS (100.0%)</b>		\$ 66,999

(a) Non-income producing security.

(b) The approximate fair value and percentage of net assets, \$64,450,000 and 96.2%, 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, 2012 (unaudited)**

Portfolio of Investments (cont'd)

**Portfolio Composition**

<b>Classification</b>	<b>Percentage of Total Investments</b>
Commercial Banks	21.2%
Other*	17.6
Real Estate Management & Development	12.9
Hotels, Restaurants & Leisure	12.8
Construction & Engineering	9.2
Wireless Telecommunication Services	7.0
Multi-Utilities	6.9
Diversified Financial Services	6.8
Food Products	5.6
Total Investments	100.0%

\* Industries representing less than 5% of total investments.

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



**The Malaysia Fund, Inc.****June 30, 2012**

Financial Statements

	<b>June 30, 2012</b> <b>(unaudited)</b> <b>(000)</b>
Statement of Assets and Liabilities	
<b>Assets:</b>	
Investments in Securities of Unaffiliated Issuers, at Value (Cost \$29,689)	\$ 64,556
Investment in Security of Affiliated Issuer, at Value (Cost \$282)	282
Total Investments in Securities, at Value (Cost \$29,971)	64,838
Foreign Currency, at Value (Cost \$7,126)	7,055
Receivable for Investments Sold	487
Dividends Receivable	142
Receivable from Affiliate	@
Other Assets	20
<b>Total Assets</b>	<b>72,542</b>
<b>Liabilities:</b>	
Dividends Declared	5,442
Payable for Advisory Fees	49
Payable for Professional Fees	33
Payable for Custodian Fees	4
Payable for Administration Fees	3
Payable for Stockholder Servicing Agent Fees	@
Other Liabilities	12
<b>Total Liabilities</b>	<b>5,543</b>
<b>Net Assets</b>	
Applicable to 7,167,078 Issued and Outstanding \$0.01 Par Value Shares (20,000,000 Shares Authorized)	
	\$ 66,999
<b>Net Asset Value Per Share</b>	<b>\$ 9.35</b>
<b>Net Assets Consist of:</b>	
Common Stock	\$ 72
Paid-in-Capital	29,813
Undistributed Net Investment Income	508
Accumulated Net Realized Gain	1,806
Unrealized Appreciation (Depreciation) on:	
Investments	34,867
Foreign Currency Translations	(67)
<b>Net Assets</b>	<b>\$ 66,999</b>

@ Amount is less than \$500.

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

**The Malaysia Fund, Inc.****June 30, 2012**

Financial Statements (cont'd)

	<b>Six Months Ended June 30, 2012 (unaudited) (000)</b>	
Statement of Operations		
<b>Investment Income:</b>		
Dividends from Securities of Unaffiliated Issuers (Net of \$83 of Foreign Taxes Withheld)	\$	955
Dividends from Security of Affiliated Issuer		@
<b>Total Investment Income</b>		955
<b>Expenses:</b>		
Advisory Fees (Note B)		308
Professional Fees		59
Administration Fees (Note C)		29
Custodian Fees (Note D)		23
Stockholder Reporting Expenses		12
Stockholder Servicing Agent Fees		3
Directors' Fees and Expenses		2
Other Expenses		17
<b>Total Expenses</b>		453
Waiver of Administration Fees (Note C)		(9)
Rebate from Morgan Stanley Affiliate (Note F)		( @)
<b>Net Expenses</b>		444
<b>Net Investment Income</b>		511
<b>Realized Gain:</b>		
Investments Sold		1,821
Foreign Currency Transactions		52
<b>Net Realized Gain</b>		1,873
<b>Change in Unrealized Appreciation (Depreciation):</b>		
Investments		(1,304)
Foreign Currency Translations		(26)
<b>Net Change in Unrealized Appreciation (Depreciation)</b>		(1,330)
<b>Total Net Realized Gain and Change in Unrealized Appreciation (Depreciation)</b>		543
<b>Net Increase in Net Assets Resulting from Operations</b>	\$	1,054

@ Amount is less than \$500.

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



**The Malaysia Fund, Inc.****June 30, 2012**

Financial Statements (cont'd)

	<b>Six Months Ended June 30, 2012 (unaudited) (000)</b>	<b>Year Ended December 31, 2011 (000)</b>
Statements of Changes in Net Assets		
<b>Increase (Decrease) in Net Assets:</b>		
Operations:		
Net Investment Income	\$ 511	\$ 945
Net Realized Gain	1,873	15,018
Net Change in Unrealized Appreciation (Depreciation)	(1,330)	(21,625)
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>1,054</b>	<b>(5,662)</b>
Distributions from and/or in Excess of:		
Net Investment Income	(932)	(1,474)
Net Realized Gain	(4,510)	(11,307)
<b>Total Distributions</b>	<b>(5,442)</b>	<b>(12,781)</b>
Capital Share Transactions:		
Repurchase of Shares (0 and 67,664 shares)		(749)
Common Stock Redeemed through Tender Offers (0 and 1,708,559 shares)		(20,417)
<b>Net Decrease in Net Assets Resulting from Capital Share Transactions</b>		<b>(21,166)</b>
Fee Reimbursement from U.S. Adviser (Note I)		1,302
<b>Total Decrease</b>	<b>(4,388)</b>	<b>(38,307)</b>
<b>Net Assets:</b>		
Beginning of Period	71,387	109,694
<b>End of Period (Including Undistributed Net Investment Income of \$508 and \$929)</b>	<b>\$ 66,999</b>	<b>\$ 71,387</b>

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



**The Malaysia Fund, Inc.****June 30, 2012**

Financial Highlights

**Selected Per Share Data and Ratios**

	<b>Six Months Ended June 30, 2012 (unaudited)</b>	<b>2011</b>	<b>2010</b>	<b>Year Ended December 31,</b>			<b>2007</b>
				<b>2009</b>	<b>2008</b>		
<b>Net Asset Value, Beginning of Period</b>	\$ 9.96	\$ 12.27	\$ 8.90	\$ 5.96	\$ 12.14		\$ 7.70
Net Investment Income†	0.07	0.12	0.16	0.09	0.60		0.16
Net Realized and Unrealized Gain (Loss)	0.08	(0.87)	3.78	2.97	(5.82)		4.46
Total from Investment Operations	0.15	(0.75)	3.94	3.06	(5.22)		4.62
Distributions from and/or in excess of:							
Net Investment Income	(0.13)	(0.20)		(0.12)	(0.62)		(0.18)
Net Realized Gain	(0.63)	(1.57)	(0.66)		(0.40)		
Total Distributions	(0.76)	(1.77)	(0.66)	(0.12)	(1.02)		(0.18)
Anti-Dilutive Effect of Share Repurchase Program		0.01	0.09	0.00‡	0.00‡		0.00‡
Anti-Dilutive Effect of		0.04					

Tender Offer Fee Reimbursement from U.S. Adviser		0.16			0.06							
<b>Net Asset Value, End of Period</b>	\$	9.35	\$	9.96	\$	12.27	\$	8.90	\$	5.96	\$	12.14
<b>Per Share Market Value, End of Period</b>	\$	9.01	\$	9.02	\$	11.25	\$	7.55	\$	5.05	\$	10.85
<b>TOTAL INVESTMENT RETURN:</b>												
Market Value		8.26%#		(4.58)%		58.27%		51.85%		(44.89)%		55.48%
Net Asset Value(1)		1.74%#		(3.40)**		46.43%		51.67%		(41.88)**		60.19%
<b>RATIOS, SUPPLEMENTAL DATA:</b>												
<b>Net Assets, End of Period</b>	(Thousands)	\$ 99	\$	71,387	\$	109,694	\$	85,574	\$	57,458	\$	117,273
Ratio of Expenses to Average Net Assets(2)		1.20%+*		1.26%+		1.11%+		1.16%+		1.10%+		1.24%+
Ratio of Net Investment Income to Average Net Assets(2)		1.38%+*		0.98%+		1.47%+		1.20%+		6.24%+		1.56%+
Ratio of		0.00%\$*		0.00%\$		0.00%\$		0.00%\$		0.00%\$		0.00%\$

Rebate from Morgan Stanley Affiliates to Average Net Assets Portfolio Turnover Rate	0%#	6%	2%	33%	15%	7%
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**(2)  
Supplemental Information on the Ratios to Average Net Assets:**

Ratios Before Expenses Waived by Administrator:

Ratio of Expenses to Average Net Assets	1.22%*	1.29%	1.15%+	1.18%+	1.13%+	1.27%+
Ratio of Net Investment Income to Average Net Assets	1.36%*	0.95%	1.43%+	1.18%+	6.21%+	1.53%+

(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.

\*\* If the U.S. Adviser had not made a fee reimbursement to the Fund, the total return would have been (42.46)% and (4.84)% for year ended 2008 and 2011, respectively.

+ The Ratios of Expenses and Net Investment Income 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%.

# Not annualized.

\* Annualized.

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



## The Malaysia Fund, Inc.

June 30, 2012 (unaudited)

### Notes to Financial Statements

The Malaysia Fund, Inc. (the "Fund") was incorporated on March 12, 1987 and is registered as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the "Act"). The Fund's investment objective is long-term capital appreciation through investment in equity securities of Malaysian companies. To the extent that the Fund invests in derivative instruments that the adviser, Morgan Stanley Investment Management Inc. (the "Adviser") and sub-adviser, Morgan Stanley Investment Management Company (the "Sub-Adviser"), believe have economic characteristics similar to equity securities of Malaysian companies, such investments will be counted for purposes of the Fund's policy in the previous sentence. To the extent the Fund makes such investments, the Fund will be subject to the risks of such derivative instruments as described herein.

**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:** 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 last reported bid and ask prices. 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. Short-term debt securities purchased with remaining maturities of 60 days or less are valued at amortized cost, unless the Fund's Board of Directors (the "Directors") determines such valuation does not reflect the securities' fair value, in which case these securities will be valued at their fair value as determined in good faith under procedures adopted by the Directors.

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 adhoc 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



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## Notes to Financial Statements (cont'd)

assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

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. Fair Value Measurement:** Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ ("ASC") 820, "Fair Value Measurements and Disclosure" ("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 June 30, 2012.

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs	Level 3 Significant unobservable inputs (000)	Total (000)
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(000)

**Assets:****Common Stocks**

Airlines	\$	\$	2,470	\$	\$	2,470
Automobiles			1,974			1,974
Commercial						
Banks			13,719			13,719
Construction						
&						
Engineering			5,967			5,967
Construction						
Materials			1,029			1,029

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Notes to Financial Statements (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)
<b>Assets: (cont'd)</b>				
<b>Common Stocks (cont'd)</b>				
Diversified Financial Services	\$	\$ 4,381	\$	\$ 4,381
Food Products		3,645		3,645
Hotels, Restaurants & Leisure		8,273		8,273
Industrial Conglomerates		3,151		3,151
Marine		735		735
Multi-Utilities		4,493		4,493
Multiline Retail		1,647		1,647
Real Estate Management & Development		8,391		8,391
Wireless Telecommunication Services		4,575		4,575
<b>Total Common Stocks</b>		<b>64,450</b>		<b>64,450</b>
<b>Warrant</b>	106			106
<b>Short-Term Investment</b>				
Investment Company	282			282
<b>Total Assets</b>	<b>\$ 388</b>	<b>\$ 64,450</b>	<b>\$</b>	<b>\$ 64,838</b>

Transfers between investment levels may occur as the markets fluctuate and/or the availability of data used in an investment's valuation changes. The Portfolio recognizes transfers between the levels as of the end of the period. As of June 30, 2012, securities with a total value of approximately \$64,328,000 transferred from Level 1 to Level 2. At June 30, 2012, the fair market 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.

**3. 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 ask prices of such currencies against U.S. dollars last quoted by a major bank as follows:

investments, other assets and liabilities at the prevailing rate 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 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 (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

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## Notes to Financial Statements (cont'd)

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 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 emerging markets, which are denominated in foreign currencies. Changes in currency exchange rates will affect the value of and investment income from such securities. Securities in emerging markets involve certain considerations and risks not typically associated with investments in the United States. In addition to its smaller size, less liquidity and greater volatility, certain securities' markets in which the Fund may invest are less developed than the U.S. securities market and there is often substantially less publicly available information about these issuers. Further, emerging market issues may be subject to substantial governmental involvement in the economy and greater social, economic and political uncertainty. Accordingly, the price which the Fund may realize upon sale of securities in such markets may not be equal to its value as presented in the financial statements.

**4. Indemnifications:** The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

**5. Other:** Security transactions are accounted for on the date the securities are purchased or sold. Realized gains (losses) on the sale of investment securities are determined on the specific identified cost 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. Advisory/Sub-Advisory Fees:** The Adviser, a wholly-owned subsidiary of Morgan Stanley, provides the Fund with advisory services under the terms of an Investment Advisory Agreement, calculated weekly and payable monthly, at the annual rate based on the average weekly net assets as follows:

First \$50 million	Next \$50 million	Over \$100 million
0.90%	0.70%	0.50%

The Adviser has entered into a Sub-Advisory Agreement with the Sub-Adviser, a wholly-owned subsidiary of Morgan Stanley. The Sub-Adviser provides the Fund with advisory services subject to the overall supervision of the Adviser and the Fund's Officers and Directors. 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:** The Adviser also serves as Administrator to the Fund and provides administrative services pursuant to an Administration Agreement for an annual fee, accrued daily and paid monthly, of 0.08% of the Fund's average weekly net assets. The Adviser has agreed to limit the administration fee through a waiver so that it will be no greater than the previous administration fee of 0.02435% of the Fund's average weekly net assets plus \$24,000 per annum. This waiver is voluntary and may be terminated at any time. For the six months ended June 30, 2012, approximately \$9,000 of administration fees were waived pursuant to this arrangement. Under a Sub-Administration

Agreement between the Administrator and State Street Bank and Trust Company ("State Street"), State Street provides certain administrative services to the Fund. For such services, the Administrator pays State Street a portion of the fee the Administrator receives from the Fund.

**D. Custodian Fees:** State Street (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 Act.

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## Notes to Financial Statements (cont'd)

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. If applicable, these custodian credits are shown as "Expense Offset" in 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. Dividend income and distributions to stockholders are recorded on the ex-dividend date.

The Fund may be subject to taxes imposed by countries in which it invests. The Fund is currently not subject to Malaysian withholding taxes on dividends and/or capital gains.

FASB ASC 740-10 "Income Taxes - Overall" sets forth a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. Management has concluded there are no significant uncertain tax positions that would require recognition in the financial statements. If applicable, the Fund recognizes interest accrued related to unrecognized tax benefits in "Interest Expense" and penalties in "Other Expenses" in the Statement of Operations. The Fund files tax returns with the U.S. Internal Revenue Service, New York and various states. Each of the tax years in the four-year period ended December 31, 2011, remains subject to examination by taxing authorities.

The tax character of distributions paid may differ from the character of distributions shown in 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 2011 and 2010 was as follows:

<b>2011 Distributions</b>		<b>2010 Distributions</b>	
<b>Paid From:</b>		<b>Paid From:</b>	
<b>Ordinary Income (000)</b>	<b>Long-Term Capital Gain (000)</b>	<b>Ordinary Income (000)</b>	<b>Long-Term Capital Gain (000)</b>
\$ 1,474	\$ 11,307	\$ 28	\$ 5,883

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 GAAP. These book/tax differences are considered either temporary or permanent in nature.

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 foreign currency transactions, resulted in the following reclassifications among the components of net assets at December 31, 2011:

<b>Undistributed (Distributions in Excess of) Net Investment Income (Loss) (000)</b>	<b>Accumulated Net Realized Gain (Loss) (000)</b>	<b>Paid-in Capital (000)</b>
\$ (15)	\$ 15	\$

At December 31, 2011, the components of distributable earnings for the Fund on a tax basis were as follows:

<b>Undistributed Ordinary Income (000)</b>	<b>Undistributed Long-Term Capital Gain (000)</b>
\$ 932	\$ 4,510

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## Notes to Financial Statements (cont'd)

At June 30, 2012, the aggregate cost for federal income tax purposes approximates the aggregate cost for book purposes. The aggregate gross unrealized appreciation is approximately \$35,604,000 and the aggregate gross unrealized depreciation is approximately \$737,000 resulting in net unrealized appreciation of approximately \$34,867,000.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the "Modernization Act") was signed into law. The Modernization Act modernizes several tax provisions related to Regulated Investment Companies ("RICs") and their shareholders. One key change made by the Modernization Act is that capital losses will generally retain their character as short-term or long-term and may be carried forward indefinitely to offset future gains. These losses are utilized before other capital loss carryforwards that expire. Generally, the Modernization Act is effective for taxable years beginning after December 22, 2010.

**F. Security Transactions and Transactions with Affiliates:** For the six months ended June 30, 2012, sales of investment securities for the Fund, other than long-term U.S. Government securities and short-term investments, were approximately \$4,438,000. There were no purchases and sales of long-term U.S. Government securities for the six months ended June 30, 2012.

The Fund invests in the Institutional Class of the Morgan Stanley Institutional Liquidity Funds Money Market Portfolio (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 its pro-rata share of the advisory and administration fees paid by the Fund due to its investment in the Liquidity Funds. For the six months ended June 30, 2012, advisory fees paid were reduced by less than \$500 relating to the Fund's investment in the Liquidity Funds.

A summary of the Fund's transactions in shares of the Liquidity Funds during the six months ended June 30, 2012 is as follows:

Value December 31, 2011 (000)	Purchases at Cost (000)	Sales (000)	Dividend Income (000)	Value June 30, 2012 (000)
\$ 186	\$ 621	\$ 525	\$ @	\$ 282

@ Amount is less than \$500.

**G. Other:** On July 15, 2002, the Fund commenced a share repurchase program for purposes of enhancing stockholder value and reducing the discount at which the Fund's shares trade from their net asset value per share ("NAV"). During the six months ended June 30, 2012, the Fund did not repurchase any of its shares. Since the inception of the program, the Fund has repurchased 867,293 of its shares at an average discount of 12.84% from NAV. The Directors regularly monitor the Fund's share repurchase program as part of their review and consideration of the Fund's premium/discount history. The Fund expects to continue to repurchase its outstanding shares at such time and in such amounts as it believes will further the accomplishment of the foregoing objectives, subject to review by the Directors.



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On May 9, 2011, the Directors of the Fund authorized the Fund to conduct a tender offer during the second quarter of 2011 for up to 15% of the Fund's outstanding shares, at a price equal to 98.5% of the Fund's NAV. On June 9, 2011, the Fund completed the tender offer. The Fund accepted 1,331,345 shares for payment which represented 15% of the Fund's then outstanding shares. Final payment was made on or about June 17, 2011 at \$12.33 per share, representing 98.5% of the NAV on June 10, 2011.

On January 3, 2011, the Fund announced that the Directors approved a policy designed to attempt to narrow the trading discount for the Fund (the "Policy"). The Policy, which was amended by announcement on April 7, 2011, requires the Fund to conduct up to four, consecutive, semi-annual tender offers,

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each to purchase up to 5 percent of the Fund's outstanding shares of common stock for cash at a price equal to 98 percent of its NAV as of the close of trading on the New York Stock Exchange on the day after the date on which the tender offer expires if the Fund's shares trade at an average discount of at least 10 percent during the 12-week measurement period. The first 12-week measurement period under the amended Policy commenced on July 11, 2011.

Pursuant to the Policy, on October 17, 2011, the Directors of the Fund authorized the Fund to conduct a tender offer during the fourth quarter of 2011 for up to 5% of the Fund's outstanding shares, at a price equal to 98% of the Fund's NAV. On November 28, 2011, the Fund completed the offer. The Fund accepted 377,214 shares for payment which represented 5% of the Fund's then outstanding shares. Final payment was made on or about December 6, 2011 at \$10.61 per share, representing 98% of the NAV on November 29, 2011.

**H. Results of Annual Meeting of Stockholders:** On July 24, 2012, an annual meeting of the Fund's stockholders was held for the purpose of voting on the following matters, the results of which were as follows:

Election of Directors by all stockholders:

	<b>For</b>	<b>Withheld</b>
Michael Bozic	4,011,041	1,779,656
Michael F. Klein	4,017,891	1,772,806
W. Allen Reed	4,016,171	1,774,526

To consider and act upon a proposal to liquidate and dissolve the Fund:

<b>For</b>	<b>Withheld</b>	<b>Abstain</b>
3,773,931	82,032	60,327

**I. Fee Reimbursement to Fund for Malaysian Adviser Fees Pursuant to SEC Settlement:** On November 16, 2011, the U.S. Adviser settled charges by the SEC relating to the Fund. The settlement relates to the period from 1996 until the end of 2007, during which time the SEC found the U.S. Adviser represented to the Fund's investors and board of directors that the Fund's unaffiliated Malaysian sub-adviser, AMMB Consultant Senderian Berhad ("AMMB") was providing certain services that AMMB in fact was not providing. Effective December 31, 2007, AMMB was terminated.

Without admitting or denying the findings, the U.S. Adviser consented to the entry of an administrative cease and desist order finding violations of Sections 15(c) and 34(b) of the Investment Company Act of 1940 and Sections 206(2) and 206(4) of the Investment Advisers Act, and Rule 206(4)-7 thereunder. The U.S. Adviser was censured and was ordered to make a reimbursement to the Fund in the amount of \$1,845,074.92 for the amount of advisory fees the Fund paid to AMMB from 1996 until the end of 2007, less a credit of \$543,000 for the portion the U.S. Adviser had already reimbursed to the Fund. The reimbursement to the Fund was made on November 16, 2011. The U.S. Adviser also was ordered to pay a civil money penalty in the amount of \$1,500,000 to the U.S. Treasury.

The U.S. Adviser was further ordered to implement and maintain policies and procedures, with respect to the U.S. registered mutual funds for which it serves as investment adviser, specifically governing: (1) the investment advisory contract renewal process; (2) the U.S. Adviser's oversight of certain service providers, including sub-advisers; and (3) the U.S. Adviser's disclosures regarding such service providers. Lastly, the U.S. Adviser was ordered to certify, in writing, compliance with the undertakings above, which certification shall be supported by written evidence of compliance and exhibits.

**J. Subsequent Event:** At the Fund's annual meeting held on July 24, 2012, the stockholders of the Fund approved the plan of liquidation and dissolution (the "Plan") that was adopted by the Fund's Directors. Pursuant to the Plan, substantially all of the assets of the Fund were liquidated, known liabilities of the Fund were satisfied, the remaining proceeds distributed to the

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Notes to Financial Statements (cont'd)

Fund's stockholders, and all of the issued and outstanding shares of the Fund were redeemed (the "Liquidation"). The Fund liquidated on August 17, 2012 and the proceeds were distributed to stockholders on August 24, 2012.

**K. Accounting Pronouncement:** In December 2011, FASB issued Accounting Standards Update ("ASU") 2011-11, Balance Sheet: Disclosures about Offsetting Assets and Liabilities. The pronouncement improves disclosures for recognized financial and derivative instruments that are either offset on the balance sheet in accordance with the offsetting guidance in ASC 210-20-45 or ASC 815-10-45 or are subject to an enforceable master netting agreements or similar. The Fund will be required to disclose information about rights to offset and related arrangements (such as collateral agreements) in order to enable financial statement users to understand the effect of those rights and arrangements on its financial position as well as disclose the following (1) gross amounts; (2) amounts offset in the statement of financial position; (3) any other amounts that can be offset in the event of bankruptcy, insolvency or default of any of the parties (including cash and noncash financial collateral); and (4) the Fund's net exposure. The requirements are effective for annual reporting periods beginning on or after January 1, 2013, and must be applied retrospectively. At this time, the Fund's management is evaluating the implications of ASU 2011-11 and its impact, if any, on the financial statements.

**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/im](http://www.morganstanley.com/im). 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 toll free 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/im](http://www.morganstanley.com/im).

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 toll free 1(800) 231-2608.



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**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 toll free 1(800) 548-7786 or by visiting our website at [www.morganstanley.com/im](http://www.morganstanley.com/im). This information is also available on the SEC's web site at [www.sec.gov](http://www.sec.gov).



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**Portfolio Management**

The Fund is managed within the Emerging Markets Equity team. The team consists of portfolio managers and analysts. Current members of the team jointly and primarily responsible for the day-to-day management of the Fund's portfolio are James Cheng, a Managing Director of the Sub-Adviser, Munib Madni, a Managing Director of the Sub-Adviser, and Ruchir Sharma, a Managing Director of the U.S. Adviser.

Mr. Cheng has been associated with the Sub-Adviser in an investment management capacity since July 2006 and began managing the Fund in August 2008. Mr. Madni has been associated with the Sub-Adviser in an investment management capacity since February 2005 and began managing the Fund in August 2008. Mr. Sharma has been associated with the U.S. Adviser in an investment management capacity since 1996 and began managing the Fund in August 2008.



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**Investment Policy**

The Fund may, but is not required to, use derivative instruments for a variety of purposes, including hedging, risk management, portfolio management or to earn income. Derivatives are financial instruments whose value is based on the value of an underlying asset, interest rate, index or financial instrument. A derivative instrument often has risks similar to its underlying asset and may have additional risks, including imperfect correlation between the value of the derivative and the underlying asset, risks of default by the counterparty to certain transactions, magnification of losses incurred due to changes in the market value of the securities, instruments, indices or interest rates to which they relate, and risks that the transactions may not be liquid. The use of derivatives involves risks that are different from, and possibly greater than, the risks associated with other portfolio investments. Derivatives may involve the use of highly specialized instruments that require investment techniques and risk analyses different from those associated with other portfolio investments. Certain derivative transactions may give rise to a form of leverage. Leverage magnifies the potential for gain and risk of loss. Leverage associated with derivative transactions may cause the Fund to liquidate portfolio positions when it may not be advantageous to do so to satisfy its obligations or to meet earmarking or segregation requirements, pursuant to applicable SEC rules and regulations, or may cause the Fund to be more volatile than if the Fund had not been leveraged. Although the Adviser seeks to use derivatives to further the Fund's investment objectives, there is no assurance that the use of derivatives will achieve this result.

Following is a description of the derivative instruments and techniques that the Fund may use and their associated risks:

*Foreign Currency Exchange Contracts.* In connection with its investments in foreign securities, the Fund also may enter into contracts with banks, brokers or dealers to purchase or sell securities or foreign currencies at a future date. A foreign currency exchange contract ("currency contract") is a negotiated agreement between two parties to exchange specified amounts of two or more currencies at a specified future time at a specified rate. The rate specified by the currency contract can be higher or lower than the spot rate between the currencies that are the subject of the contract. Currency contracts may be used to protect against uncertainty in the level of future foreign currency exchange rates or to gain or modify exposure to a particular currency. In addition, the Fund may use cross currency hedging or proxy hedging with respect to currencies in which the Fund has or expects to have portfolio or currency exposure. Cross currency hedges involve the sale of one currency against the positive exposure to a different currency and may be used for hedging purposes or to establish an active exposure to the exchange rate between any two currencies. Hedging the Fund's currency risks involves the risk of mismatching the Fund's objectives under a currency contract with the value of securities denominated in a particular currency. Furthermore, such transactions reduce or preclude the opportunity for gain if the value of the currency should move in the direction opposite to the position taken. There is an additional risk to the effect that currency contracts create exposure to currencies in which the Fund's securities are not denominated. Unanticipated changes in currency prices may result in poorer overall performance for the Fund than if it had not entered into such contracts. The use of currency contracts involves the risk of loss from the insolvency or bankruptcy of the counterparty to the contract or the failure of the counterparty to make payments or otherwise comply with the terms of the contract.

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**Dividend Reinvestment and Cash Purchase Plan**

Pursuant to the Dividend Reinvestment and Cash Purchase Plan (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. Participants in the Plan have the option of making additional voluntary cash payments to the Plan Agent, annually, in any amount from \$100 to \$3,000, for investment in Fund shares.

Dividend and capital gain distributions (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 Fund may purchase shares of its Common Stock in the open market in connection with dividend reinvestment requirements at the discretion of the Board of Directors. Should the Fund declare a Distribution payable only in cash, the Plan Agent will purchase Fund shares for participants in the open market as agent for the participants.

The Plan Agent's fees for the reinvestment of a Distribution 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. A participant will also pay brokerage commissions incurred on purchases made by voluntary cash payments. 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:

The Malaysia Fund, Inc.  
Computershare Trust Company, N.A.  
P.O. Box 43078  
Providence, Rhode Island 02940-3078  
1 (800) 231-2608

**The Malaysia Fund, Inc.**

**June 30, 2012 (unaudited)**

U.S. Privacy Policy

**An Important Notice Concerning Our U.S. Privacy Policy**

*This privacy notice describes the U.S. privacy policy of Morgan Stanley Distribution, Inc., and the Morgan Stanley family of mutual funds ("us", "our", "we").*

We are required by federal law to provide you with notice of our U.S. privacy policy ("Policy"). This Policy applies to both our current and former clients unless we state otherwise and is intended for individual clients who purchase products or receive services from us for personal, family or household purposes. This Policy is not applicable to partnerships, corporations, trusts or other non-individual clients or account holders, nor is this Policy applicable to individuals who are either beneficiaries of a trust for which we serve as trustee or participants in an employee benefit plan administered or advised by us. This Policy is, however, applicable to individuals who select us to be a custodian of securities or assets in individual retirement accounts, 401(k) accounts, or accounts subject to the Uniform Gifts to Minors Act.

This notice sets out our business practices to protect your privacy; how we collect and share personal information about you; and how you can limit our sharing or certain uses by others of this information. We may amend this Policy at any time, and will inform you of any changes to our Policy as required by law.

**We Respect Your Privacy**

We appreciate that you have provided us with your personal financial information and understand your concerns about your information. We strive to safeguard the information our clients entrust to us. Protecting the confidentiality and security of client information is an important part of how we conduct our business.

This notice describes what personal information we collect about you, how we collect it, when we may share it with others, and how certain others may use it. It discusses the steps you may take to limit our sharing of certain information about you with our affiliated companies, including, but not limited to our affiliated banking businesses, brokerage firms and credit service affiliates. It also discloses how you may limit our affiliates' use of shared information for marketing purposes.

Throughout this Policy, we refer to the nonpublic information that personally identifies you as "personal information." We also use the term "affiliated company" in this notice. An affiliated company is a company in our family of companies and includes companies with the Morgan Stanley name. These affiliated companies are financial institutions such as broker-dealers, banks, investment advisers and credit card issuers. We refer to any company that is not an affiliated company as a nonaffiliated third party. For purposes of Section 5 of this notice, and your ability to limit certain uses of personal information by our affiliates, this notice applies to the use of personal information by our affiliated companies.

**1. What Personal Information Do We Collect From You?**

We may collect the following types of information about you: (i) information provided by you, including information from applications and other forms we receive from you, (ii) information about your transactions with us or our affiliates, (iii) information



**The Malaysia Fund, Inc.**

**June 30, 2012 (unaudited)**

U.S. Privacy Policy (cont'd)

about your transactions with nonaffiliated third parties, (iv) information from consumer reporting agencies, (v) information obtained from our websites, and (vi) information obtained from other sources. For example:

- We 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.

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

*We may disclose personal information we collect about you in each of the categories listed above to affiliated and nonaffiliated third parties.*

**a. Information We Disclose to Affiliated Companies.** We may disclose personal information that we collect about you to our affiliated companies to manage your account(s) effectively, to service and process your transactions, and to let you know about products and services offered by us and affiliated companies, to manage our business, and as otherwise required or permitted by law. Offers for products and services from affiliated companies are developed under conditions designed to safeguard your personal information.

**b. Information We Disclose to Third Parties.** We may disclose personal information that we collect about you to nonaffiliated third parties to provide marketing services on our behalf or to other financial institutions with whom we have joint marketing agreements. We may also disclose all of the information we collect to other nonaffiliated third parties for our everyday business purposes, such as to process transactions, maintain account(s), respond to court orders and legal investigations, report to credit bureaus, offer our own products and services, protect against fraud, for institutional risk control, to perform services on our behalf, and as otherwise required or permitted by law.

When we share personal information about you with a nonaffiliated third party, they are required to limit their use of personal information about you to the particular purpose for which it was shared and they are not allowed to share personal information about you with others except to fulfill that limited purpose or as may be permitted or required by law.

**3. How Do We Protect The Security and Confidentiality Of Personal Information We Collect About You?**

We maintain physical, electronic and procedural security measures that comply with applicable law and regulations to help safeguard the personal information we collect about you. We have internal policies governing the proper handling of client information by



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U.S. Privacy Policy (cont'd)

employees. Third parties that provide support or marketing services on our behalf may also receive personal information about you, and we require them to adhere to appropriate security standards with respect to such information.

**4. How Can You Limit Our Sharing Certain Personal Information About You With Our Affiliated Companies For Eligibility Determination?**

By following the opt-out procedures in Section 6 below, you may limit the extent to which we share with our affiliated companies, personal information that was collected to determine your eligibility for products and services such as your credit reports and other information that you have provided to us or that we may obtain from third parties ("eligibility information"). Eligibility information does not include your identification information or personal information pertaining to our transactions or experiences with you. Please note that, even if you direct us not to share eligibility information with our affiliated companies, we may still share your personal information, including eligibility information, with our affiliated companies under circumstances that are permitted under applicable law, such as to process transactions or to service your account.

**5. How Can You Limit the Use of Certain Personal Information About You by Our Affiliated Companies for Marketing?**

By following the opt-out instructions in Section 6 below, you may limit our affiliated companies from marketing their products or services to you based on personal information we disclose to them. This information may include, for example, your income and account history with us. Please note that, even if you choose to limit our affiliated companies from using personal information about you that we may share with them for marketing their products and services to you, our affiliated companies may use your personal information that they obtain from us to market to you in circumstances permitted by law, such as if the affiliated party has its own relationship with you.

**6. How Can You Send Us an Opt-Out Instruction?**

If you wish to limit our sharing of eligibility information about you with our affiliated companies, or our affiliated companies' use of personal information for marketing purposes, as described in this notice, you may do so by:

- Calling us at (800) 548-7786  
Monday - Friday between 8a.m. and 5p.m. (EST)

- Writing to us at the following address:

Morgan Stanley Services Company Inc.  
c/o Privacy Coordinator  
201 Plaza Two, 3rd Floor  
Jersey City, New Jersey 07311

If you choose to write to us, your request should include: your name, address, telephone number and account number(s) to which the opt-out applies and whether you are opting out with respect to sharing of eligibility

information (Section 4 above), or information used for marketing (Section 5 above), or both. Written opt-out requests should not be sent with any other correspondence. In order to



**The Malaysia Fund, Inc.**

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U.S. Privacy Policy (cont'd)

process your request, we require that the request be provided by you directly and not through a third party. Once you have informed us about your privacy preferences, your opt-out preference will remain in effect with respect to this Policy (as it may be amended) until you notify us otherwise. If you are a joint account owner, we will accept instructions from any one of you and apply those instructions to the entire account.

Please understand that if you limit our sharing or our affiliated companies' use of personal information, you and any joint account holder(s) may not receive information about our affiliated companies' products and services, including products or services that could help you manage your financial resources and achieve your investment objectives.

If you have more than one account or relationship with us, please specify the accounts to which you would like us to apply your privacy choices. If you have accounts or relationships with our affiliates, you may receive multiple privacy policies from them, and will need to separately notify those companies of your privacy choices for those accounts or relationships.

**7. What if an affiliated company becomes a nonaffiliated third party?**

If, at any time in the future, an affiliated company becomes a nonaffiliated third party, further disclosures of personal information made to the former affiliated company will be limited to those described in Section 2(b) above relating to nonaffiliated third parties. If you elected under Section 6 to limit disclosures we make to affiliated companies, or use of personal information by affiliated companies, your election will not apply to use by any former affiliated company of your personal information in their possession once it becomes a nonaffiliated third party.

**SPECIAL NOTICE TO RESIDENTS OF VERMONT**

**The following section supplements our Policy with respect to our individual clients who have a Vermont address and supersedes anything to the contrary in the above Policy with respect to those clients only.**

The State of Vermont requires financial institutions to obtain your consent prior to sharing personal information that they collect about you with nonaffiliated third parties, or eligibility information with affiliated companies, other than in certain limited circumstances. Except as permitted by law, we will not share personal information we collect about you with nonaffiliated third parties or eligibility information with affiliated companies, unless you provide us with your written consent to share such information.

**SPECIAL NOTICE TO RESIDENTS OF CALIFORNIA**

**The following section supplements our Policy with respect to our individual clients who have a California address and supersedes anything to the contrary in the above Policy with respect to those clients only.**

In response to a California law, if your account has a California home address, your personal information will not be disclosed to nonaffiliated third parties except as permitted by applicable California law, and we will limit sharing such personal information with our affiliates to comply with California privacy laws that apply to us.



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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.

(a) Refer to Item 1.

(b) Not applicable.

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.

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Item 9. Closed-End Fund Repurchases

**REGISTRANT PURCHASE OF EQUITY SECURITIES**

<b>Period</b>	<b>(a) Total Number of Shares (or Units) Purchased</b>	<b>(b) Average Price Paid per Share (or Unit)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
mo-da-year mo-da-year			N/A	N/A
mo-da-year mo-da-year			N/A	N/A
mo-da-year mo-da-year			N/A	N/A
mo-da-year mo-da-year			N/A	N/A
mo-da-year mo-da-year			N/A	N/A
mo-da-year mo-da-year			N/A	N/A
Total			N/A	N/A

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

Not applicable.

Item 11. Controls and Procedures

(a) The Trust s/Fund s principal executive officer and principal financial officer have concluded that the Trust s/Fund s disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Trust/Fund in this Form N-CSR 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.



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(b) There were no changes in the registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report 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.

The Malaysia Fund, Inc.

/s/ Arthur Lev  
Arthur Lev  
Principal Executive Officer  
August 15, 2012

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  
August 15, 2012

/s/ Francis Smith  
Francis Smith  
Principal Financial Officer  
August 15, 2012

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