

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
<b>Per Share Market Value, End of Period</b>	\$	9.01	\$	9.02	\$	11.25
					\$	8.90
					\$	5.96
					\$	12.14
<b>TOTAL INVESTMENT RETURN:</b>						
Market Value		8.26%#		(4.58)%		58.27%
Net Asset Value(1)		1.74%#		(3.40)**		46.43%
						51.85%
						(44.89)%
						55.48%
<b>RATIOS, SUPPLEMENTAL DATA:</b>						
<b>Net Assets, End of Period (Thousands)</b>	\$	69,999	\$	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



**The Malaysia Fund, Inc.****June 30, 2012 (unaudited)**

## 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
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