

MALAYSIA FUND INC
Form N-CSR
March 12, 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

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

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

10036
(Zip code)

Arthur Lev

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

Registrant's telephone number, including area code: 212-296-6990

Date of fiscal year end: December 31, 2011

Date of reporting period: December 31, 2011

Item 1 - Report to Shareholders

The Malaysia Fund, Inc.

Directors

Michael E. Nugent

Frank L. Bowman

Michael Bozic

Kathleen A. Dennis

James F. Higgins

Dr. Manuel H. Johnson

Joseph J. Kearns

Michael F. Klein

W. Allen Reed

Fergus Reid

Officers

Michael E. Nugent

Chairman of the Board and Director

Arthur Lev

*President and Principal
Executive Officer*

Stefanie V. Chang Yu

Vice President

Francis J. Smith

Treasurer and Principal Financial Officer

Mary Ann Picciotto

Chief Compliance Officer

Mary E. Mullin

Secretary

Investment Adviser and Administrator

Morgan Stanley Investment Management Inc.

522 Fifth Avenue

New York, New York 10036

Custodian

State Street Bank and Trust Company

One Lincoln Street

Boston, Massachusetts 02111

Stockholder Servicing Agent

Computershare Trust Company, N.A.

250 Royall Street

Canton, Massachusetts 02021

Legal Counsel

Dechert LLP

1095 Avenue of the Americas

New York, New York 10036

Independent Registered Public Accounting Firm

Ernst & Young LLP

200 Clarendon Street

Boston, Massachusetts 02116

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

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INVESTMENT MANAGEMENT

The Malaysia Fund, Inc. (MAY)

Morgan Stanley

Investment Management Inc.

Investment Adviser

**Annual
Report**

December 31, 2011

The Malaysia Fund, Inc.

December 31, 2011

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The Malaysia Fund, Inc.

Overview

Letter to Stockholders (unaudited)

Performance

For the year ended December 31, 2011, the Malaysia Fund, Inc. (the "Fund") had total returns of -3.40%, based on net asset value, and -4.58%, based on market value per share (including reinvestment of distributions), compared to its benchmark, the FTSE Bursa Malaysia KLCI Index (formerly the Kuala Lumpur Stock Exchange Composite (KLSE) Index), expressed in U.S. dollars which returned -1.97%. On December 31, 2011, the closing price of the Fund's shares on the New York Stock Exchange was \$9.02, representing a 9.4% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

Factors Affecting Performance

- 2011 saw reasonable and broad-based growth in Malaysia's economy. During the year, domestic consumption stayed buoyant amid low real interest rates and sporadic government stimulus. When the final numbers come out the Malaysian economy is expected to register gross domestic product (GDP) growth in the 4% to 5% range for 2011. This is not bad for an economy that is considered to be stuck in a "middle income trap," where an emerging economy grows from a low- to a middle-income economy but remains challenged in moving to the high-income level.
- Looking into 2012, government projects should continue to be a positive influence and the prospects of the export sector will likely determine the final growth for the economy. Given a recession in Europe and a not-so-vibrant U.S. economy, the market expectation for Malaysia's GDP growth for 2012 is around 3.5% to 4%, which is lower than the government's target of 4% to 5%.
- On the economic reform front, 2011 seemed to show further positive momentum in the Economic Transformation Programs (ETP), announced a few years back by Prime Minister Najib. These programs are aimed at addressing Malaysia's longstanding status as a net exporter of capital by curbing this capital outflow. While we appreciate the steps taken so far through the ETP, like many investors, we would like to see continued support for these plans.
- The uncertainty around the timing and eventual outcome of general elections in 2012 or 2013 are likely to play havoc with the Malaysian market in the short term, with the eventual result to determine whether the ETP will be continued by the winner.
- The Fund's underperformance relative to the FTSE Bursa Malaysia KLCI Index over the 12 months under review came equally from stock selection and sector allocation.
- Regarding sector/industry allocation, the Fund's performance suffered from its underweight exposure to the telecommunications and energy sectors. The latter saw a slew of initial public offerings (IPOs) which the Fund did not participate in. However, the Fund's overweight position in the consumer staples and utilities sectors did add to relative performance versus the FTSE Bursa Malaysia KLCI Index.
- Stock selection in industrials, especially in the airline, transportation and automotive sub-sectors, was the largest detractor. Conversely, the property sector contributed somewhat positively to relative returns through stock selection.

The Malaysia Fund, Inc.

Overview

Letter to Stockholders (unaudited) (cont'd)

Management Strategies

- The Fund seeks long-term capital appreciation and integrates top-down sector allocation and bottom-up stock selection with a growth bias. The team utilizes a rigorous fundamental research approach that considers dynamics, valuation, and sentiment and focuses on companies with strong management and solid earnings.
- From a sector perspective, we are looking toward sectors that we believe will benefit from a pre-election spending spree. We also expect the government infrastructure programs to continue and therefore are exploring the construction sector. The government's ETP should 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 January 2012

The Malaysia Fund, Inc.

December 31, 2011

Portfolio of Investments

	Shares	Value (000)
COMMON STOCKS (95.6%)		
Airlines (3.7%)		
AirAsia Bhd	1,806,800	\$ 2,149
Malaysian Airline System Bhd (a)	1,235,700	507
		2,656
Automobiles (2.5%)		
TAN Chong Motor Holdings Bhd	1,389,700	1,789
Commercial Banks (18.8%)		
CIMB Group Holdings Bhd	2,574,692	6,043
Malayan Banking Bhd	1,419,075	3,841
Public Bank Bhd	843,392	3,559
		13,443
Construction & Engineering (8.8%)		
Gamuda Bhd	2,638,300	2,821
IJM Corp. Bhd	1,921,430	3,425
		6,246
Construction Materials (1.4%)		
Lafarge Malayan Cement Bhd	446,900	987
Diversified Financial Services (5.8%)		
AMMB Holdings Bhd	2,205,800	4,140
Food Products (5.0%)		
Kuala Lumpur Kepong Bhd	502,300	3,597
Health Care Equipment & Supplies (5.2%)		
Top Glove Corp. Bhd	2,344,600	3,698
Hotels, Restaurants & Leisure (12.9%)		
Genting Bhd	1,601,100	5,556
Genting Malaysia Bhd	3,021,700	3,651
		9,207
Industrial Conglomerates (4.1%)		
Sime Darby Bhd	1,009,610	2,930
Marine (1.2%)		
MISC Bhd	504,160	870
Multi-Utilities (4.3%)		
YTL Corp. Bhd	6,592,265	3,078
Multiline Retail (2.8%)		
Parkson Holdings Bhd	1,133,254	2,023

	Shares	Value (000)
Real Estate Management & Development (12.1%)		
IGB Corp. Bhd	3,367,981	\$ 2,614
SP Setia Bhd	1,476,322	1,793
UEM Land Holdings Bhd (a)	5,531,250	4,222
		8,629
Wireless Telecommunication Services (7.0%)		
Axiata Group Bhd	2,264,525	3,672
DiGi.Com Bhd	1,048,000	1,283
		4,955
TOTAL COMMON STOCKS (Cost \$32,222)		68,248
	No. of Warrants	
WARRANTS (0.2%)		
Construction & Engineering (0.1%)		
Gamuda Bhd, expires 5/25/15 (a)	329,750	105
Hotels, Restaurants & Leisure (0.1%)		
IJM Land Bhd, expires 9/11/13 (a)	175,560	50
TOTAL WARRANTS (Cost \$10)		155
	Shares	
SHORT-TERM INVESTMENT (0.3%)		
Investment Company (0.3%)		
Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (See Note F) (Cost \$186)	185,868	186
TOTAL INVESTMENTS (96.1%) (Cost \$32,418)		68,589
OTHER ASSETS IN EXCESS OF LIABILITIES (3.9%)		2,798
NET ASSETS (100.0%)		\$ 71,387

(a) Non-income producing security.

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

The Malaysia Fund, Inc.

December 31, 2011

Portfolio of Investments (cont'd)

Fair Value Measurement Information:

The following is a summary of the inputs used to value the Fund's investments as of December 31, 2011. (See Note A-3 to the financial statements for further information regarding fair value measurement.)

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
Assets:				
Common Stocks				
Airlines	\$ 2,656	\$	\$	\$ 2,656
Automobiles	1,789			1,789
Commercial Banks	13,443			13,443
Construction & Engineering	6,246			6,246
Construction Materials	987			987
Diversified Financial Services	4,140			4,140
Food Products	3,597			3,597
Health Care Equipment & Supplies	3,698			3,698
Hotels, Restaurants & Leisure	9,207			9,207
Industrial Conglomerates	2,930			2,930
Marine	870			870
Multi-Utilities	3,078			3,078
Multiline Retail	2,023			2,023
Real Estate Management & Development	8,629			8,629

Wireless Telecommunication Services	4,955	4,955
Total Common Stocks	68,248	68,248

Fair Value Measurement Information: (cont'd)

Investment Type	Level 1 Unadjusted quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
Assets: (cont'd)				
Warrants	\$ 155	\$	\$	\$ 155
Short-Term Investment				
Investment Company	186			186
Total Assets	\$ 68,589	\$	\$	\$ 68,589

Transfers between investment levels may occur as the markets fluctuate and/or the availability of data used in an investment's valuation changes. The Fund recognizes transfers between the levels as of the end of the period. As of December 31, 2011, the Fund did not have any significant investments transfer between investment levels.

Portfolio Composition

Classification	Percentage of Total Investments	&n
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