

MALAYSIA FUND INC
Form N-CSRS
September 05, 2008

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, NY
(Address of principal executive offices)

10036
(Zip code)

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

Registrant's telephone number, including area code: 1-800-231-2608

Date of fiscal year 12/31
end:

Date of reporting period: 6/30/08

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. Section 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

The Fund's semi-annual report transmitted to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940 is as follows:

2008 Semi-Annual Report

June 30, 2008

The Malaysia Fund, Inc. (MAY)

Morgan Stanley

Investment Management Inc.

Investment Adviser

The Malaysia Fund, Inc.

Overview (unaudited)

Letter to Stockholders

Performance

For the six months ended June 30, 2008, the Malaysia Fund, Inc. (the Fund) had total returns, based on net asset value and market value per share (including reinvestment of distributions), of -15.73%, net of fees and -15.48%, respectively, compared to its benchmark, the Kuala Lumpur Stock Exchange Composite (KLSE) Index (the Index) expressed in U.S. dollars which returned -16.89%. On June 30, 2008, the closing price of the Fund's shares on the New York Stock Exchange was \$9.17, representing a 10.4% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

Factors Affecting Performance

- The Malaysia market performed poorly in the first six months of 2008. High costs of living weighed on both consumer and business sentiment. The poor showing of the ruling coalition government in the general elections held on March 8 also had a negative impact on the markets. In addition, the ruling party losing its comfortable two-thirds majority and threats of potential defections of several coalition members led to concerns over the country's political stability.
- On the economic front, the government decided to delay various mega projects that were to take place in states now controlled by the opposition. This dampened sentiment, as government spending was a key driver for the economy. A sudden decision to cut the country's fuel subsidy further took its toll on consumer sentiment.

Management Strategies

- The Fund benefited from an overweight position in palm oil stocks, which did well due to a strong increase in agricultural prices. The Fund also benefited from an underweight position in various government-linked companies, which underperformed due to disappointing earnings.
- Detractors from the Fund's performance included construction stocks, which were affected by the government's cut in public spending following the elections.

- The Fund seeks long-term capital appreciation and integrates top-down sector allocation and bottom-up stocks 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.

Sincerely,

Ronald E. Robison
President and Principal Executive Officer

July 2008

The Malaysia Fund, Inc.

June 30, 2008 (unaudited)

Investment Advisory Agreement Approval

Nature, Extent and Quality of Services

The Board reviewed and considered the nature and extent of the investment advisory services provided by the Investment Adviser 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, 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 Administrator under the Administration Agreement, including accounting, clerical, bookkeeping, compliance, business management and planning, and the provision of supplies, office space and utilities at the Investment Adviser's expense. (The Investment Adviser, Sub-Adviser and Administrator 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 advisory and administrative 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. The Board also concluded that the overall quality of the advisory and administrative services was satisfactory.

Performance Relative to Comparable Funds Managed by Other Advisers

On a regular basis, the Board reviews the performance of all funds in the Morgan Stanley Fund Complex, including the Fund, compared to their peers, paying specific attention to the underperforming funds. In addition, the Board specifically reviewed the Fund's performance for the one-, three- and five-year periods ended December 31, 2007, as shown in a report provided by Lipper (the Lipper Report), compared to the performance of comparable funds selected by Lipper. The Board also discussed with the Adviser the performance goals and the actual results achieved in managing the Fund. The Board noted the improving performance trend and concluded that the Fund's performance was acceptable.

Fees Relative to Other Proprietary Funds Managed by the Adviser with Comparable Investment Strategies

The Board noted that the Adviser did not manage any other proprietary funds with investment strategies comparable to those of the Fund.

Fees and Expenses Relative to Comparable Funds Managed by Other Advisers

The Board reviewed the advisory and administrative fee (together, the management fee) rate and total expense ratio of the Fund as compared to the average management fee rate and average total expense ratio for funds, selected by Lipper (the expense peer group), managed by other advisers with investment strategies comparable to those of the Fund, as shown in the Lipper Report. The Board concluded that the Fund's management fee rate and total expense ratio were competitive with those of its expense peer group.

Breakpoints and Economies of Scale

The Board reviewed the structure of the Fund's management fee schedule under the Management Agreement and noted that it includes breakpoints. The Board also reviewed the level of the Fund's management fee and noted that the fee, as a percentage of the Fund's net assets, would decrease as net assets increase because the management fee includes breakpoints. The Board concluded that the Fund's management fee would reflect economies of scale as assets increase.

Profitability of the Adviser and Affiliates

The Board considered information concerning the costs incurred and profits realized by the Adviser and 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. Based on its review of the information it received, the Board concluded that the profits earned by the Adviser and affiliates were not excessive in light of the advisory, administrative and other services provided to the Fund.

The Malaysia Fund, Inc.

June 30, 2008 (unaudited)

Investment Advisory Agreement Approval (cont'd)

Fall-Out Benefits

The Board considered so-called "fall-out benefits" derived by the Adviser and affiliates from their relationship with the Fund and the Morgan Stanley Fund Complex, such as commissions on the purchase and sale of Fund shares and "float" benefits derived from handling of checks for purchases and sales of Fund shares, through a broker-dealer affiliate of the Adviser and "soft dollar" benefits (discussed in the next section). The Board also considered that, from time to time, the Adviser may, directly or indirectly, effect trades on behalf of certain Morgan Stanley Funds through various electronic communications networks or other alternative trading systems in which the Adviser's affiliates have ownership interests and/or board seats. The Board concluded that the sales commissions were competitive with those of other broker-dealers and the float benefits were relatively small.

Soft Dollar Benefits

The Board considered whether the Adviser realizes any benefits as a result of brokerage transactions executed through "soft dollar" arrangements. Under such arrangements, brokerage commissions paid by the Fund and/or other funds managed by the Adviser would be used to pay for research that a securities broker obtains from third parties, or to pay for both research and execution services from securities brokers who effect transactions for the Fund. The Board recognized that the receipt of such research from brokers may reduce the Adviser's costs but concluded that the receipt of such research strengthens the investment management resources of the Adviser, which may ultimately benefit the Fund and other funds in the Morgan Stanley Fund Complex.

Adviser Financially Sound and Financially Capable of Meeting the Fund's Needs

The Board considered whether the Adviser is financially sound and has the resources necessary to perform its obligations under the Management Agreement. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement.

Historical Relationship Between the Fund and the Adviser

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 it is beneficial for the Fund to continue its relationship with the Adviser.

Other Factors and Current Trends

The Board considered the controls and procedures adopted and implemented by the Adviser and monitored by the Fund's Chief Compliance Officer and concluded that the conduct of business by the Adviser indicates a good faith effort on its part to adhere to high ethical standards in the conduct of the Fund's business.

General Conclusion

After considering and weighing all of the above factors, the Board concluded that it would be in the best interest of the Fund and its shareholders to approve renewal of the Management Agreement for another year.

The Malaysia Fund, Inc.

June 30, 2008 (unaudited)

Portfolio of Investments

	Shares	Value (000)
COMMON STOCKS (94.1%)		
(Unless Otherwise Noted)		
Automobiles (1.2%)		
Proton Holdings Bhd	(a)512,000	\$ 476
TAN Chong Motor Holdings Bhd	1,309,000	725
		1,201
Commercial Banks (14.5%)		
Bumiputra-Commerce Holdings Bhd	1,908,296	4,672
Malayan Banking Bhd	2,199,475	4,746
Public Bank Bhd	1,544,790	4,917
		14,335
Construction & Engineering (4.8%)		
Gamuda Bhd	882,200	632
IJM Corp. Bhd	2,449,600	4,123
		4,755
Construction Materials (0.7%)		
Lafarge Malayan Cement Bhd	548,100	718
Diversified Telecommunication Services (5.2%)		
Telekom Malaysia Bhd	1,636,000	1,592
TM International Bhd	(a)1,899,300	3,575
		5,167
Electric Utilities (4.9%)		
Tenaga Nasional Bhd	1,941,650	4,843
Food Products (24.0%)		
IOI Corp. Bhd	5,296,250	12,075
Kuala Lumpur Kepong Bhd	1,225,500	6,601
Wilmar International Ltd.	1,340,300	4,985
		23,661
Hotels, Restaurants & Leisure (6.4%)		
Genting Bhd	2,373,400	4,068
Resorts World Bhd	2,793,500	2,223
		6,291
Independent Power Producers & Energy Traders (1.3%)		
Tanjong plc	314,000	1,317
Industrial Conglomerates (10.0%)		
MMC Corp. Bhd	1,334,000	1,127
Sime Darby Bhd	3,092,910	8,756
		9,883
Insurance (0.4%)		
MAA Holdings Bhd	1,174,000	338
Marine (3.3%)		
Malaysia International Shipping Corp. Bhd	1,271,000	3,209
Multi-Utilities (4.1%)		
YTL Corp. Bhd	1,955,733	4,040
Real Estate (8.3%)		
Bandar Raya Developments Bhd	1,050,000	543

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Glomac Bhd	1,763,000	518
IGB Corp. Bhd	3,024,000	1,333
IOI Properties Bhd	830,000	