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CORPORATE HIGH YIELD FUND III INC
Form N-CSR
July 31, 2003

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 811-8497

Name of Fund: Corporate High Yield Fund III, Inc.

Fund Address: P.O. Box 9011
Princeton, NJ 08543-9011

Name and address of agent for service: Terry K. Glenn, President, Corporate High
Yield Fund III, Inc., 800 Scudders Mill Road, Plainsboro, NJ 08536.
Mailing address: P.O. Box 9011, Princeton, NJ 08543-9011

Registrant's telephone number, including area code: (609) 282-2800

Date of fiscal year end: 05/31/03

Date of reporting period: 06/01/02 - 05/31/03

Item 1 - Attach shareholder report

[LOGO] Merrill Lynch Investment Managers

Annual Report
May 31, 2003

Corporate
High Yield
Fund III, Inc.

www.mlim.ml.com

CORPORATE HIGH YIELD FUND III, INC.

The Benefits and
Risks of
Leveraging

Corporate High Yield Fund III, Inc. utilizes leveraging through borrowings or issuance of short-term debt securities or shares of Preferred Stock. The concept of leveraging is based on the premise that the cost of assets to be obtained from leverage will be based on short-term interest rates, which normally will be lower than the return earned by the Fund on its longer-term portfolio investments. Since the total assets of the Fund (including the assets obtained from leverage) are invested in higher-yielding portfolio investments, the Fund's Common Stock shareholders are the beneficiaries of the incremental yield.

Leverage creates risks for holders of Common Stock including the likelihood of greater net asset value and market price volatility. In addition, there is the

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risk that fluctuations in interest rates on borrowings (or in the dividend rates on any Preferred Stock, if the Fund were to issue Preferred Stock) may reduce the Common Stock's yield and negatively impact its market price. If the income derived from securities purchased with assets received from leverage exceeds the cost of leverage, the Fund's net income will be greater than if leverage had not been used. Conversely, if the income from the securities purchased is not sufficient to cover the cost of leverage, the Fund's net income will be less than if leverage had not been used, and therefore the amount available for distribution to Common Stock shareholders will be reduced. In this case, the Fund may nevertheless decide to maintain its leveraged position in order to avoid capital losses on securities purchased with leverage. However, the Fund will not generally utilize leverage if it anticipates that its leveraged capital structure would result in a lower rate of return for its Common Stock than would be obtained if the Common Stock were unleveraged for any significant amount of time.

Corporate High Yield Fund III, Inc., May 31, 2003

DEAR SHAREHOLDER

The High Yield Market Overview

An impressive high yield market rally that started in mid October 2002 continued through the end of the Fund's fiscal year. For the 12-month and six-month periods ended May 31, 2003, the high yield market returned +13.25% and +15.37%, respectively, as measured by the unmanaged benchmark Credit Suisse First Boston (CSFB) High Yield Index. Fundamental drivers of the recent market performance included investors' improved outlook on the economy, modestly favorable corporate earnings reports, a shrinking number of defaults by high yield corporate borrowers and falling interest rates. Certain technicals also provided solid support to the high yield market, including strong cash inflows from institutional investors increasing their allocations to high yield and from retail investors who were searching for yield in the low interest rate environment. The yield for the CSFB High Yield Index at May 31, 2003 was 9.8% compared to 12.6% at November 30, 2002. Yield spreads relative to U.S. Treasury bonds fell from 929 basis points (9.29%) at November 30, 2002 to 742 basis points as of May 31, 2003, still well above the mid-500 basis point average we saw throughout much of the 1990s.

After such a run, the obvious question is: "Where will the high yield market go from here?" Near-term risks for the high yield market include recession and/or further earnings weakness. Sharply rising interest rates could also hurt the high yield market. In our view, the earnings-sensitive high yield market is supported in the near term by a flat-to-slightly improving economy, which we believe will result in increased earnings stability and continuing low interest rates. From a technical perspective, the high yield market is supported by investors seeking alternatives to low-yielding money market funds. Based on historical spreads to Treasury bonds near 580 basis points, the high yield market does not appear to be over valued at the current levels of 742 basis points. We would expect that the high default levels of recent years, at least in the near term, would drive investors to demand a spread greater than what historically has been expected to compensate for the additional risk of investing in the high yield arena. Therefore, we do not foresee dramatic spread tightening without the expectation of considerably lower default rates.

Fund Performance

For the year ended May 31, 2003, the Common Stock of Corporate High Yield Fund III, Inc. had a net annualized yield of 11.60%, based on a year-end per share net asset value of \$7.86 and \$.912 per share income dividends. For the same

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period, the total investment return of the Fund's Common Stock was +16.46%, based on a change in per share net asset value from \$7.68 to \$7.86, and assuming reinvestment of \$.912 per share ordinary income dividends. For the six-month period ended May 31, 2003, the total investment return of the Fund's Common Stock was +25.80%, based on a change in per share net asset value from \$6.67 to \$7.86, and assuming reinvestment of \$.490 per share income dividends. In addition to outperforming the benchmark, the Fund also outperformed its peer group of Lipper closed-end high yield leveraged funds, which had average returns of +10.23% and +22.07% for the 12-month and six-month periods ended May 31, 2003, respectively.

For a description of the Fund's total investment return based on a change in the per share market value (as measured by the trading price of the Fund's shares on the New York Stock Exchange), and assuming reinvestment of dividends, please refer to the Financial Highlights section of the Financial Statements included in this report. As a closed-end fund, the Fund's shares may trade in the secondary market at a premium or a discount to the Fund's net asset value. As a result, total investment returns based on changes in the Fund's market value can vary significantly from total investment return based on changes in the Fund's net asset value.

Fund performance benefited significantly from leverage during the period, as is expected in a rising price environment. Our decision to overweight the utility and wireless sectors contributed meaningfully to the Fund's performance, as investors' views on these sectors became more positive. The utility sector, in particular, was drastically undervalued in the aftermath of Enron's financial misdealings and because of fears that a faltering economy would doom the more highly leveraged players in the sector. The improving economy, as well as investors' search for yield, led to recovery in both sectors. Within both the utility and the wireless sectors, credit selection also helped enhance Fund returns. In utilities, bonds of The AES Corporation and Calpine Corporation recovered dramatically as the companies regained financial flexibility through asset sales and refinancings. Mission Energy Holdings gained as investors grew more confident that the strengthening economy would support future earnings and permit continued servicing of the company's debt obligations. In the wireless sector, bonds of Millicom International Cellular SA, Nextel Communications, Inc., Nextel Partners Inc. and Nextel International Inc. benefited from refinancing and from investor recognition of solid operating performance.

Leverage Strategy

For the six-month period ended May 31, 2003, the Fund was on average about 22.8% leveraged, slightly below our mid-20% comfort range. Thus, the Fund borrowed the equivalent of 22.8% of total assets invested, earning incremental yield on the investments we made with the borrowed funds. For the year ended May 31, 2003, the average amount borrowed was approximately \$75,558,000 and the daily weighted average interest rate was 1.84%. While leverage hurts total return in a weak market, the converse also is true. We believe that market timing generally is not successful. Such a strategy adds to incremental yield, but increases volatility both in weak and in strong markets. (For a more complete explanation of the benefits and risks of leveraging, see page 1 of this report to shareholders.)

Investment Strategy

We did not change our investment strategy significantly in response to the run-up in the high yield market. We believe that long-term results in our market come from valuation and attention to credit quality. We continue to invest in a core of solid credits and to maintain a diverse portfolio, identifying downtrodden names that, in our opinion, represent significant value. We attempt to take advantage of market volatility and to add to, or establish positions in, companies that we believe have favorable long-term fundamentals.

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The dramatic undervaluations found in the market over the past year have largely evaporated, leaving more limited potential for strong market moves for high yield as a whole and for individual sectors. We believe the utility and independent power producer sector still represents good relative value in the high yield market and, as of May 31, 2003, had our largest sector allocation in utilities, at approximately 8.1% of total assets. Representing a weighting similar to that of the benchmark CSFB High Yield Index, our investments in this area were both in bonds of higher-quality utilities, pipelines and independent power producers and in bonds of several more downtrodden names in the sector.

During the period, the Fund was overweight in the chemicals, energy--other and packaging sectors. Our position in chemicals primarily consisted of holdings in less cyclical, specialty chemical names that we believe have solid credit quality. In the energy--

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other category, we focused on the refining sector, where we saw the near-term fundamentals as strong and valuations attractive. Given continued market volatility, the packaging sector served as an important defensive position during the period.

In Conclusion

We thank you for your investment in Corporate High Yield Fund III, Inc., and we look forward to updating you again in our next report to shareholders.

Sincerely,

/s/ Terry K. Glenn

Terry K. Glenn
President and Director

/s/ B. Daniel Evans

B. Daniel Evans
Vice President and Portfolio Manager

/s/ Elizabeth M. Phillips

Elizabeth M. Phillips
Vice President and Portfolio Manager

June 20, 2003

PORTFOLIO PROFILE (unaudited)

Quality Ratings by Standard & Poor's	Percent of Long-Term Investments
-----	-----
BBB	5%
BB	25
B	53

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CCC	15
NR (Not Rated)	2

Five Largest Industries*	Percent of Total Assets
Utility	8.1%
Energy--Other	7.8
Chemicals	7.0
Wireless	6.1
Gaming	5.2

* For Fund compliance purposes, "Industries" means any one or more of the industry sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may combine such industry sub-classifications for reporting ease. These industry classifications are unaudited.

Five Largest Foreign Countries*	Percent of Long-Term Investments
Canada	5.5%
Luxembourg	1.9
Netherlands	1.2
France	1.2
Bermuda	1.1

* All holdings are denominated in U.S. dollars.

Foreign Holdings*	Percent of Long-Term Investments
Total Foreign Holdings	15.1%
Emerging Market Holdings	0.0

* All holdings are denominated in U.S. dollars.

SCHEDULE OF INVESTMENTS (in U.S. dollars)

INDUSTRY+	S&P Ratings++	Moody's Ratings++	Face Amount	Corporate Bonds
Aerospace & Defense--2.1%	B	B3	\$ 250,000	Hexcel Corporation: 9.875% due 10/01/2008 (e)
	CCC+	Caa2	850,000	9.75% due 1/15/2009
	B	B3	350,000	K & F Industries, 9.625% due 12/15/2010
	BB-	Ba3	3,000,000	L-3 Communications Corp., 8% due 8/01/2006
	B	B2	1,000,000	Titan Corporation, 8% due 5/15/2011 (e)
	B-	B3	500,000	Transdigm Inc., 10.375% due 12/01/2008
Airlines--0.8%	BB-	B1	750,000	American Airlines, 7.80% due 10/01/2006 Continental Airlines Inc.:

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	BB	B2	1,066,888	7.033% due 6/15/2011
	BBB-	Ba2	380,375	6.90% due 1/02/2017
	NR*	Ca	4,000,000	USAir Inc., 10.375% due 3/01/2013 (c)
=====				
Automotive--1.5%	BB+	Ba2	1,725,000	AutoNation Inc., 9% due 8/01/2008
	B	B2	1,375,000	Dura Operating Corporation, 9% due 5/01/2008
	B	Caa1	223,000	Metaldyne Corporation, 11% due 6/15/2012
				Tenneco Automotive Inc. (b):
	B	B2	375,000	Term B, 5.30% due 12/31/2007
	B	B2	375,000	Term C, 5.55% due 6/30/2008
	B	B3	250,000	United Auto Group, Inc., 9.625% due 3/15/2008
=====				
Broadcasting--1.8%	NR*	NR*	1,694,000	Acme Intermediate Holdings/Finance, 12% due 12/31/2007
	B-	B3	1,375,000	Nextmedia Operating Inc., 10.75% due 7/01/2008
	B-	B3	2,000,000	Salem Communications Holding Corporation, 10.75% due 7/01/2008
=====				
Cable--	C	Caa2	4,400,000	Comcast UK Cable Partners Ltd., 11.20% due 12/31/2008
International--2.2%	C	Caa2	2,500,000	Diamond Holdings PLC, 9.125% due 2/01/2009
=====				
Cable--U.S.--5.6%				CSC Holdings Inc.:
	BB-	B1	2,750,000	8.125% due 8/15/2009
	BB-	B1	2,600,000	7.625% due 4/01/2011
				Charter Communications Holdings:
	CCC-	Ca	3,500,000	8.625% due 4/01/2009
	CCC-	Ca	2,000,000	10.75% due 10/01/2009
	B-	Caa1	3,025,000	Insight Communications, 12.25%** due 2/15/2009
=====				

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Corporate High Yield Fund III, Inc., May 31, 2003

SCHEDULE OF INVESTMENTS (continued)

(in U.S. dollars)

INDUSTRY+	S&P Ratings++	Moody's Ratings++	Face Amount	Corporate Bonds
=====				
Cable--U.S. (concluded)	B+	B2	\$1,025,000	Insight Midwest, LP: 9.75% due 10/01/2009 (e)
	B+	B2	1,400,000	10.50% due 11/01/2010
	CCC+	Caa1	4,019,000	Loral Cyberstar Inc., 10% due 7/15/2006
=====				
Chemicals--9.5%	B-	NR*	2,200,000	HMP Equity Holdings Corporation, 14.909%** due 12/31/2008
	B-	Caa1	2,500,000	Huntsman ICI Chemicals, 10.125% due 7/01/2008
	B-	Caa2	2,300,000	Huntsman ICI Holdings, 13.898%** due 12/31/2008
	B	B3	525,000	Huntsman International LLC, 9.875% due 3/15/2009
	B-	Ba3	2,225,000	IMC Global Inc., 7.625% due 11/01/2005

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	BB-	B2	2,025,000	ISP ChemCo., 10.25% due 7/01/2011
	B+	B2	2,000,000	ISP Holdings, Inc., 10.625% due 12/15/2008
	BB-	Ba3	1,350,000	MacDermid, Inc., 9.125% due 7/15/2011 Millennium America Inc.:
	BB+	Ba1	2,400,000	7% due 11/15/2006
	BB+	Ba1	1,100,000	9.25% due 6/15/2008
	BB	B2	3,275,000	Omnova Solutions Inc., 11.25% due 6/01/2010
	BB-	B2	350,000	Polyone Corporation, 10.625% due 5/15/2010
	B-	Caa1	1,600,000	Resolution Performance, 13.50% due 11/15/2008
	B	Caa1	1,625,000	Terra Capital Inc., 11.50% due 6/01/2010
	B	Caa3	4,350,000	Terra Industries, 10.50% due 6/15/2005
=====				
Consumer Products--4.5%	BB+	Ba3	3,450,000	American Greetings, 11.75% due 7/15/2008
	B-	B2	1,350,000	Armkel LLC/Armkel Finance, 9.50% due 8/15/2008
	B-	B2	2,887,000	Chattem, Inc., 8.875% due 4/01/2008
	NR*	NR*	8,500,000	Corning Consumer Products, 9.625% due 5/01/2008
	B-	B2	375,000	Remington Arms Company, 10.50% due 2/01/2008
	CCC	Caa2	3,875,000	Samsonite Corporation, 10.75% due 6/15/2008
=====				
Diversified Media--6.2%	B	B2	525,000	DEX Media East LLC, 9.875% due 11/15/2009
	B	B2	1,175,000	Houghton Mifflin Company (e): 8.25% due 2/01/2011
	B	B3	425,000	9.875% due 2/01/2013
	B	B2	800,000	PEI Holdings Inc., 11% due 3/15/2010 (e) Primedia, Inc.:
	B	B3	3,175,000	7.625% due 4/01/2008
	B	B3	2,000,000	8.875% due 5/15/2011 R.H. Donnelley Financial Corporation I (e)
	B+	B1	200,000	8.875% due 12/15/2010
	B+	B2	725,000	10.875% due 12/15/2012
	B-	B2	1,400,000	Universal City Development, 11.75% due 4/01/2010
	B+	B1	2,500,000	Vivendi Universal, 9.25% due 4/15/2010 (e)
	B	B2	5,080,000	Yell Finance BV, 12.863%** due 8/01/2011
=====				
Energy--Exploration & Production--3.7%	B	Caa1	2,025,000	Coastal Corporation, 7.75% due 6/15/2010
	CCC+	Caa1	825,000	Continental Resources, 10.25% due 8/01/2008
	B	B2	1,300,000	Nuevo Energy Company, 9.375% due 10/01/2008 Plains E&P Company:
	B	B2	825,000	8.75% due 7/01/2012
	B	B2	1,700,000	8.75% due 7/01/2012 (e)
	BB-	Ba3	1,150,000	Vintage Petroleum, 8.25% due 5/01/2012
	B+	Ba3	2,675,000	Westport Resources Corporation, 8.25% due 6/01/2010
=====				
Energy--Other--10.7%	BB-	Ba3	1,925,000	Citgo Petroleum Corporation, 11.375% due 6/01/2010
	B	B2	1,225,000	Dresser Inc., 9.375% due 4/15/2011
	B	B2	2,075,000	Ferrellgas Partners LP, 8.75% due 6/15/2010
	B-	B3	1,375,000	Giant Industries, Inc., 9% due 9/01/2007 Hanover Equipment Trust:
	B+	B2	525,000	8.50% due 9/01/2008
	B+	B2	1,650,000	8.75% due 9/01/2011
	CCC	B3	3,500,000	Ocean Rig Norway AS, 10.25% due 6/01/2008
	BB	Ba3	3,864,000	Port Arthur Finance Corporation, 12.50% due 6/01/2010
	B	B3	2,250,000	Star Gas Partners, LP, 10.25% due 2/15/2010 Tesoro Petroleum Corp.:

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BB	Ba3	350,000	8% due 4/15/2008 (e)
B	B3	1,875,000	9% due 7/01/2008
B	B2	1,400,000	Trico Marine Services, 8.875% due 5/15/20
B-	B3	2,750,000	United Refining Co., 10.75% due 6/15/2007 Williams Companies Inc.:
B+	Caa1	1,400,000	9.25% due 3/15/2004
B+	Caa1	1,975,000	6.50% due 8/01/2006
B+	Caa1	3,350,000	8.125% due 3/15/2012 (e)

Food/Tobacco--5.8%	B	B3	750,000	American Seafood Group LLC, 10.125% due 4
	B-	B2	1,925,000	Commonwealth Brands Inc., 9.75% due 4/15/
	B+	Ba3	725,000	Constellation Brands Inc., 8.125% due 1/1
	B+	B2	3,250,000	Cott Beverages Inc., 8% due 12/15/2011
	B	B2	1,250,000	Del Monte Corporation, 8.625% due 12/15/2
	B-	B2	1,250,000	Doane Pet Care Company, 10.75% due 3/01/2
	B+	B2	1,400,000	Dole Foods Company, 8.875% due 3/15/2011
	CCC-	Caa3	1,375,000	New World Pasta Company, 9.25% due 2/15/2
	BB	Ba2	2,100,000	Smithfield Foods Inc., 8% due 10/15/2009
	BB+	Ba1	2,700,000	Tricon Global Restaurants, 8.875% due 4/1

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SCHEDULE OF INVESTMENTS (continued)

(in U.S. dollars)

INDUSTRY+	S&P Ratings++	Moody's Ratings++	Face Amount	Corporate Bonds
Gaming--7.2%	B+	B1	\$3,250,000	Boyd Gaming Corporation, 8.75% due 4/15/2
	B	B2	1,175,000	Isle of Capri Casinos, 9% due 3/15/2012
	BBB-	Ba1	1,550,000	MGM Mirage, Inc., 8.50% due 9/15/2010
	BB+	Ba2	3,000,000	Park Place Entertainment, 7.875% due 3/15
	B	B2	2,500,000	Resorts International Hotel/Casino, 11.50
	B+	B2	2,250,000	Sun International Hotels, 8.875% due 8/15
	B-	B3	1,925,000	Trump Holdings & Funding, 11.625% due 3/1
	B-	B3	2,800,000	Venetian Casino/LV Sands, 11% due 6/15/20
	CCC+	B3	1,475,000	Wynn Las Vegas LLC, 12% due 11/01/2010
Health Care--6.2%	B-	Caa1	3,225,000	ALARIS Medical Systems, Inc., 9.75% due 1
	B+	B3	425,000	Alpharma Inc., 8.625% due 5/01/2011 (e) Fisher Scientific International:
	B+	B2	1,525,000	8.125% due 5/01/2012
	B+	B2	1,500,000	8.125% due 5/01/2012 (e)
	BB-	Ba2	3,750,000	Fresenius Medical Capital Trust II, 7.875
	B+	NR*	1,000,000	ICN Pharmaceuticals Inc., 6.50% due 7/15/
	B-	B3	1,600,000	Insight Health Services, 9.875% due 11/01
	BBB	Ba1	1,475,000	Manor Care Inc., 8% due 3/01/2008 Tenet Healthcare Corporation:

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	BBB-	Baa3	1,000,000	5.375% due 11/15/2006
	BBB-	Baa3	2,000,000	6.375% due 12/01/2011
=====				
Housing--4.2%				Building Materials Corporation:
	B	B2	400,000	7.75% due 7/15/2005
	B	B2	4,250,000	8% due 12/01/2008
	BB	Ba1	1,800,000	D.R. Horton, Inc., 7.50% due 12/01/2007
				Forest City Enterprises Inc.:
	BB-	Ba3	3,250,000	8.50% due 3/15/2008
	BB-	Ba3	1,600,000	7.625% due 6/01/2015
	BB-	B1	975,000	Texas Industries Inc., 10.25% due 6/15/2009
=====				
Information Technology--0.9%	CCC+	Caa2	3,350,000	SCG Holdings Corporation, 12% due 8/01/2011
=====				
Leisure--4.0%	B+	Ba3	1,550,000	Felcor Lodging LP, 9.50% due 9/15/2008
	B+	Ba3	975,000	HMH Properties, Inc., 8.45% due 12/01/2009
	BBB-	Ba1	2,300,000	Hilton Hotels Corporation, 8.25% due 2/15/2011
	B+	Ba3	1,525,000	Host Marriott LP, 9.50% due 1/15/2007
	BB+	Ba1	1,900,000	ITT Corporation, 7.375% due 11/15/2015
				Intrawest Corporation:
	B+	B1	1,050,000	9.75% due 8/15/2008
	B+	B1	1,225,000	10.50% due 2/01/2010
	B	B2	475,000	Vail Resorts Inc., 8.75% due 5/15/2009
=====				
Manufacturing--5.5%	CCC+	Caa1	1,825,000	Columbus McKinnon Corp., 8.50% due 4/01/2011
	B-	Caa1	3,300,000	Eagle-Picher Industries, 9.375% due 3/01/2011
	CCC-	Caa1	2,250,000	International Wire Group, Inc., 11.75% due 12/01/2011
	B	B2	2,475,000	JohnsonDiversey Inc., 9.625% due 5/15/2011
	B-	B3	775,000	Rexnord Corporation, 10.125% due 12/15/2011
	BB+	Ba3	1,900,000	SPX Corporation, 7.50% due 1/01/2013
				Tyco International Group SA:
	BBB-	Ba2	1,425,000	6.375% due 2/15/2006
	BBB-	Ba2	2,600,000	6.375% due 10/15/2011
	BBB-	Ba2	500,000	2.75% due 1/15/2018 (Convertible) (e)
=====				
Metal--Other--2.1%	B-	B3	1,120,157	Great Lakes Carbon Corp., 10.25% due 5/15/2011
	BB	Ba3	2,925,000	Luscar Coal Ltd., 9.75% due 10/15/2011
	NR*	NR*	5,000,000	Ormet Corporation, 11% due 8/15/2008 (c) (1)
=====				
Multi-Sector Holdings--1.5%				Morgan Stanley (TRACERS) (a) (e):
	NR*	Ba2	1,950,000	8.193% due 5/01/2012 (b)
	B+	B2	2,100,000	9.374% due 12/15/2012
=====				
Packaging--6.3%	B+	B2	1,800,000	Anchor Glass Container Corporation, 11% due 12/01/2011
	B-	B3	775,000	Bway Corporation, 10% due 10/15/2010 (e)
				Crown Euro Holdings SA (e):
	B+	B1	950,000	9.50% due 3/01/2011
	B	B2	500,000	10.875% due 3/01/2013
	CCC+	Caa2	2,625,000	Graham Packaging Company, 10.75% due 1/15/2011

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B-	Caa1	1,525,000	Huntsman Packaging Corporation, 13% due 6/01/2010
BB	B1	2,500,000	Owens-Brockway Glass Container, 8.875% due 10/01/2011
B+	B3	1,550,000	Owens-Illinois Inc., 7.15% due 5/15/2005
B-	Caa1	2,025,000	Pliant Corporation, 13% due 6/01/2010
B-	B3	2,325,000	Tekni-Plex Inc., 12.75% due 6/15/2010
CCC+	Caa1	2,450,000	US Can Corporation, 12.375% due 10/01/2011

Paper--7.1%	D	Ca	1,000,000	APP International Finance, 11.75% due 10/01/2011
	BB+	Ba1	1,400,000	Abitibi Consolidated Inc., 8.55% due 8/01/2010
	B-	B3	2,275,000	Ainsworth Lumber Company, 12.50% due 7/15/2010
	B+	Ba2	1,750,000	Caraustar Industries Inc., 9.875% due 4/01/2010
	D	Ca	9,700,000	Doman Industries Limited (c): 8.75% due 3/15/2004
	D	Ca	550,000	9.25% due 11/15/2007

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Corporate High Yield Fund III, Inc., May 31, 2003

SCHEDULE OF INVESTMENTS (continued)

(in U.S. dollars)

INDUSTRY+	S&P Ratings++	Moody's Ratings++	Face Amount	Corporate Bonds	
Paper (concluded)	BB+	Ba2	\$1,425,000	Georgia Pacific Corporation (e): 7.375% due 7/15/2008	
	BB+	Ba2	1,925,000	9.375% due 2/01/2013	
	B+	B2	250,000	Graphic Packaging Corporation, 8.625% due 10/01/2011 Jefferson Smurfit Corporation: 8.25% due 10/01/2012	
	B	B2	1,250,000	7.50% due 6/01/2013 (e)	
	B	B2	1,025,000	MDP Acquisitions PLC: 9.625% due 10/01/2012	
	B	B3	700,000	15.50% due 10/01/2013 (d) (e)	
	B	B3	54,987	15.50% due 10/01/2013 (e)	
	BB+	Ba2	1,125,000	Norampac Inc., 6.75% due 6/01/2013 (e)	
	BB	Ba2	2,450,000	Norske Skog of Canada, 8.625% due 6/15/2011	
	Services--3.5%	B+	Ba2	450,000	Airgas Inc., 9.125% due 10/01/2011
		BB-	Ba3	550,000	Allied Waste North America: 7.625% due 1/01/2006
B+		B2	2,075,000	10% due 8/01/2009	
BB-		Ba3	950,000	7.875% due 4/15/2013	
B		B2	2,250,000	Coinmach Corporation, 9% due 2/01/2010	
B		B1	250,000	Corrections Corporation of America, 7.50% due 10/01/2011	
B		B3	3,500,000	Williams Scotsman, Inc., 9.875% due 6/01/2011	
Steel--1.7%	B+	B1	975,000	Oregon Steel Mills Inc., 10% due 7/15/2005	
	B	B3	2,950,000	UCAR Finance Inc., 10.25% due 2/15/2012	
	BB-	B1	1,175,000	United States Steel Corporation, 9.75% due 10/01/2011	

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Category	Rating	Code	Amount	Description
Telecommunications-- 3.9%	B-	Caa1	3,250,000	Fairpoint Communications, 12.50% due 5/01/2010
	CCC+	Caa2	850,000	Qwest Capital Funding: 5.875% due 8/03/2004
	CCC+	Caa2	2,100,000	7.25% due 2/15/2011
	CCC+	NR*	1,350,000	Qwest Services Corporation, 13.50% due 12/15/2010
	CCC+	B3	2,025,000	Time Warner Telecom Inc., 10.125% due 2/15/2010
	CCC+	B3	850,000	Time Warner Telecom LLC, 9.75% due 7/15/2010
	CCC+	Caa2	1,425,000	US West Capital Funding, 6.25% due 7/15/2010

Transportation--2.0%	B+	B1	1,350,000	General Maritime Corporation, 10% due 3/15/2010
	B+	B2	1,400,000	Laidlaw International Inc., 10.75% due 6/15/2010
	BB-	Ba3	325,000	Stena AB, 9.625% due 12/01/2012
	BB-	Ba2	2,325,000	Teekay Shipping Corporation, 8.875% due 7/15/2010

Utility--11.1%	The AES Corporation:			
	B-	B3	1,558,000	9.375% due 9/15/2010
	B+	B2	2,100,000	8.75% due 5/15/2013 (e)
	B+	B2	3,325,000	9% due 5/15/2015 (e)
	D	C	850,000	AES Drax Energy Ltd., 11.50% due 8/30/2010
	BB+	Ba1	750,000	Avista Corporation, 9.75% due 6/01/2008
	B+	B3	1,525,000	CMS Energy Corporation, 6.75% due 1/15/2010
	BB	Ba2	1,025,000	CMS Panhandle Holding Company, 6.50% due 1/15/2010
	CCC+	B1	4,025,000	Calpine Canada Energy Finance, 8.50% due 1/15/2010
	Calpine Corporation:			
	CCC+	B1	1,500,000	8.25% due 8/15/2005
	CCC+	B1	100,000	4% due 12/26/2006 (Convertible) (e)
	CCC+	B1	1,100,000	8.625% due 8/15/2010
	BBB-	Baa3	1,400,000	Consumers Energy Company, 7.375% due 9/15/2010
	BB	Ba1	1,401,000	ESI Tractebel Acquisition Corp., 7.99% due 9/15/2010
	B-	B3	825,000	Edison International Inc., 6.875% due 9/15/2010
	B	B3	2,250,000	Illinois Power Corporation, 11.50% due 12/15/2010
	B-	Caa2	6,150,000	Mission Energy Holdings, 13.50% due 7/15/2010
	BB	Ba2	2,050,000	Nevada Power Company, 10.875% due 10/15/2010
	Northwest Pipeline Corporation:			
B+	B3	550,000	6.625% due 12/01/2007	
B+	B3	250,000	8.125% due 3/01/2010 (e)	
BB	Ba2	1,650,000	Sierra Pacific Power Company, 8% due 6/01/2010	
B+	B1	450,000	Southern Natural Gas, 8.875% due 3/15/2010	
BBB-	Ba1	1,300,000	Western Resources Inc., 7.875% due 5/01/2010	

Wireless--7.4%	American Tower Corporation:			
	CCC	B3	825,000	14.887%** due 8/01/2008 (e)
	CCC	Caa1	2,800,000	9.375% due 2/01/2009
	CCC	B3	2,800,000	Crown Castle International Corporation, 9.375% due 1/15/2010
	Millicom International Cellular:			
	NR*	NR*	2,150,000	11% due 6/01/2006
	NR*	NR*	306,375	2% due 6/01/2006 (Convertible) (d)
	NR*	NR*	2,034,235	NII Holdings Inc., 13.07%** due 11/01/2009
	B	B3	625,000	Nextel Communications, Inc., 9.50% due 2/15/2010
	CCC+	Caa1	4,025,000	Nextel Partners Inc., 12.576%** due 2/01/2010
	CCC+	B3	925,000	Spectrasite Inc., 8.25% due 5/15/2010 (e)
	Telesystem International Wireless:			
CCC+	NR*	1,991,000	14% due 12/30/2003	

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CCC+	NR*	677,000	14% due 12/30/2003 (e)
BBB	Baa2	2,250,000	Tritel PCS Inc., 10.375% due 1/15/2011

=====
 Total Investments in Corporate Bonds
 (Cost--\$379,019,889)--129.0%
 =====

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Corporate High Yield Fund III, Inc., May 31, 2003

SCHEDULE OF INVESTMENTS (concluded)

(in U.S. dollars)

INDUSTRY+	Shares Held	Common Stocks
Wireless--1.0%	77,203	NII Holdings Inc. (Class B) (c)
		Total Investments in Common Stocks (Cost--
		Preferred Stocks
Food & Drug--0.0%	60,617	Nebco Evans Holding Co. (c) (d)
		Total Investments in Preferred Stocks (Co
		Warrants (f)
Packaging--0.0%	4,000	Pliant Corporation
Steel--0.0%	2,750	Republic Technologies
Wireless--0.0%	825	American Tower Corporation
	32,981	Loral Space & Communications
		Total Investments in Warrants (Cost--\$409
		Total Investments (Cost--\$385,349,903)--1
		Liabilities in Excess of Other Assets--(3
		Net Assets--100.0%

+ For Fund compliance purposes, "Industry" means any one or more of the industry sub-classifications used by one or more widely recognized market indexes or ratings group indexes, and/or as defined by Fund management. This definition may not apply for purposes of this report, which may

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combine such industry sub-classifications for reporting ease. These industry classifications are unaudited.

- ++ Ratings of issues shown are unaudited.
 * Not Rated.
 ** Represents a zero coupon or step bond; the interest rate shown reflects the effective yield at the time of purchase by the Fund.
- (a) Tradeable Custodial Receipts (TRACERS).
 (b) Floating rate note.
 (c) Non-income producing security.
 (d) Represents a pay-in-kind security which may pay interest/dividends in additional face/shares.
 (e) The security may be offered and sold to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933.
 (f) Warrants entitle the Fund to purchase a predetermined number of shares of common stock and are non-income producing. The purchase price and number of shares are subject to adjustment under certain conditions until the expiration date.
 (g) Restricted securities as to resale. The value of the Fund's investments in restricted securities was approximately \$3,283,000, representing 1.1% of net assets.

Issue	Acquisition Date (s)	Cost	Value
Diamond Holdings PLC, 9.125% due 2/01/2008	1/30/1998	\$2,500,000	\$2,237,500
HMP Equity Holdings Corporation, 14.909% due 5/15/2008	4/30/2003- 5/07/2003	1,079,608	1,045,000
Total		\$3,579,608 =====	\$3,282,500 =====

See Notes to Financial Statements.

STATEMENT OF ASSETS, LIABILITIES AND CAPITAL

As of May 31, 2003

Assets:	Investments, at value (identified cost--\$385,349,903)
	Cash
	Receivables:
	Interest
	Securities sold
	Prepaid expenses and other assets
	Total assets
=====	
Liabilities:	Loans
	Payables:
	Securities purchased
	Investment adviser
	Interest on loans
	Other affiliates
	Dividends to shareholders

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	Accrued expenses
	Total liabilities
=====	
Net Assets:	Net assets
=====	
Capital:	Common Stock, \$.10 par value, 200,000,000 shares authorized
	Paid-in capital in excess of par
	Undistributed investment income--net
	Accumulated realized capital losses on investments--net
	Unrealized depreciation on investments--net
	Total accumulated losses--net
	Total--Equivalent to \$7.86 per share based on 36,893,461 shares of capital stock outstanding (market price--\$8.36)
=====	

See Notes to Financial Statements.

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Corporate High Yield Fund III, Inc., May 31, 2003

STATEMENT OF OPERATIONS

	For the Year Ended May 31, 2003
=====	
Investment Income:	Interest
	Securities lending--net
	Other
	Total income
=====	
Expenses:	Investment advisory fees
	Loan interest expense
	Borrowing costs
	Professional fees
	Accounting services
	Transfer agent fees
	Directors' fees and expenses
	Printing and shareholder reports
	Listing fees
	Custodian fees
	Pricing services
	Other
	Total expenses
	Investment income--net
=====	
Realized & Unrealized	Realized loss on investments--net

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Gain (Loss) on	Change in unrealized depreciation on investments--net
Investments--Net:	Total realized and unrealized gain on investments--net
	Net Increase in Net Assets Resulting from Operations

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN NET ASSETS

	Increase (Decrease) in Net Assets:
Operations:	Investment income--net
	Realized loss on investments--net
	Change in unrealized depreciation on investments--net
	Net increase (decrease) in net assets resulting from operations
Dividends to Shareholders:	Dividends to shareholders from investment income--net
Capital Stock Transactions:	Value of shares issued to Common Stock shareholders in reinvestment of dividends
Net Assets:	Total increase (decrease) in net assets
	Beginning of year
	End of year*
	* Undistributed investment income--net

See Notes to Financial Statements.

STATEMENT OF CASH FLOWS

For the Year Ended May 31, 2003

Cash Provided by Operating Activities:	Net increase in net assets resulting from operations
	Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:
	Decrease in receivables
	Decrease in prepaid expenses and other assets
	Decrease in other liabilities
	Realized and unrealized gain on investments--net
	Amortization of discount
	Net cash provided by operating activities

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=====	
Cash Used for	Proceeds from sales and paydowns of long-term investments
Investing Activities:	Purchases of long-term investments
	Proceeds from sales and maturities of short-term investments--net
	Net cash used for investing activities
=====	
Cash Used for	Cash receipts from borrowings
Financing Activities:	Cash payments on borrowings
	Dividends paid to shareholders
	Net cash used for financing activities
=====	
Cash:	Net increase in cash
	Cash at beginning of year
	Cash at end of year
=====	
Cash Flow	Cash paid for interest
Information:	
=====	
Non-Cash Financing	Reinvestment of dividends paid to shareholders
Activities:	
=====	

See Notes to Financial Statements.

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Corporate High Yield Fund III, Inc., May 31, 2003

FINANCIAL HIGHLIGHTS

The following per share data and ratios have been derived from information provided in the financial statements.

		For the	
		2003	2002

Increase (Decrease) in Net Asset Value:		-----	
=====		=====	
Per Share	Net asset value, beginning of year	\$ 7.68	\$ 9.11
Operating		-----	-----
Performance:	Investment income--net92*	1.15*
	Realized and unrealized gain (loss) on		
	investments--net17	(1.47)
		-----	-----
	Total from investment operations	1.09	(.32)
		-----	-----
	Less dividends and distributions:		
	Investment income--net	(.91)	(1.11)
	In excess of realized gain on investments--net ...	--	--
		-----	-----
	Total dividends and distributions	(.91)	(1.11)

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	Capital charge resulting from issuance of Common Stock	--	--
	Net asset value, end of year	\$ 7.86	\$ 7.68
	Market price per share, end of year	\$ 8.36	\$ 8.22
=====			
Total Investment Return:**	Based on net asset value per share	16.46%	(3.13%)
	Based on market price per share	15.73%	.59%
=====			
Ratios to Average Net Assets:	Expenses, excluding interest expense	1.04%	1.10%
	Expenses	1.59%	2.14%
	Investment income--net	13.35%	14.37%
=====			
Leverage:	Amount of borrowings outstanding, end of year (in thousands)	\$ 98,800	\$ 84,900
	Average amount of borrowings outstanding during the year (in thousands)	\$ 75,558	\$ 98,924
	Average amount of borrowings outstanding per share during the year	\$ 2.07	\$ 2.75
=====			
Supplemental Data:	Net assets, end of year (in thousands)	\$ 289,820	\$ 279,372
	Portfolio turnover	76.61%	65.44%
=====			

+ Amount is less than \$.01 per share.

* Based on average shares outstanding.

** Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Total investment returns exclude the effects of sales charges.

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies:

Corporate High Yield Fund III, Inc. (the "Fund") is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The Fund's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, which may require the use of management accruals and estimates. The Fund determines and makes available for publication the net asset value of its Common Stock on a weekly basis. The Fund's Common Stock is listed on the New York Stock Exchange under the symbol CYE. The following is a summary of significant accounting policies followed by the Fund.

(a) Valuation of investments--Portfolio securities are valued on the basis of

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prices furnished by one or more pricing services which determine prices for normal, institutional-size trading units of such securities using market information, transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. In certain circumstances, portfolio securities are valued at the last sale price on the exchange that is the primary market for such securities, or the last quoted bid price for those securities for which the over-the-counter market is the primary market or for listed securities in which there were no sales during the day. The value of interest rate swaps, caps and floors is determined in accordance with a formula and then confirmed periodically by obtaining a bank quotation. Financial futures contracts and options thereon, which are traded on exchanges, are valued at their closing prices as of the close of such exchanges. Options written or purchased are valued at the last sale price in the case of exchange-traded options. In the case of options traded in the over-the-counter market, valuation is the last asked price (options written) or the last bid price (options purchased). Obligations with remaining maturities of sixty days or less are valued at amortized cost, which approximates market value, unless this method no longer produces fair valuations. Rights or warrants to acquire stock, or stock acquired pursuant to the exercise of a right or warrant, may be valued taking into account various factors such as original cost to the Fund, earnings and net worth of the issuer, market prices for securities of similar issuers, assessment of the issuer's future prosperity, liquidation value or third party transactions involving the issuer's securities. Securities and assets for which there exist no price quotations or valuations and all other assets are valued at fair value as determined in good faith by or on behalf of the Board of Directors of the Fund. Occasionally, events affecting the values of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the market on which such securities trade) and the close of business on the NYSE. If events (for example, company announcement, natural disasters, market volatility) occur during such periods that are expected to materially affect the value for such securities, those securities may be valued at their fair market value as determined in good faith by the Fund's Board of Directors or by the investment adviser using a pricing service and/or procedures approved by the Board of Directors of the Fund.

(b) Derivative financial instruments--The Fund may engage in various portfolio investment strategies both to increase the return of the Fund and to hedge, or protect, its exposure to interest rate movement and movements in the securities markets. Losses may arise due to changes in the value of the contract or if the counterparty does not perform under the contract.

o Options--The Fund is authorized to write and purchase call and put options. When the Fund writes an option, an amount equal to the premium received by the Fund is reflected as an asset and an equivalent liability. The amount of the liability is subsequently marked to market to reflect the current market value of the option written.

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Corporate High Yield Fund III, Inc., May 31, 2003

NOTES TO FINANCIAL STATEMENTS (continued)

When a security is purchased or sold through an exercise of an option, the related premium paid (or received) is added to (or deducted from) the basis of the security acquired or deducted from (or added to) the proceeds of the security sold. When an option expires (or the Fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the

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closing transaction exceeds the premium paid or received).

Written and purchased options are non-income producing investments.

o Financial futures contracts--The Fund may purchase or sell financial futures contracts and options on such futures contracts. Futures contracts are contracts for delayed delivery of securities at a specific future date and at a specific price or yield. Upon entering into a contract, the Fund deposits and maintains as collateral such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized gains or losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

o Interest rate swaps--The Fund is authorized to enter into swap agreements. In a swap agreement, the Fund exchanges with the counterparty their respective commitments to pay or receive interest on a specified notional principal amount. If the counterparty defaults on its obligation, the Fund's ability to receive interest will be delayed or limited. Furthermore, if the Fund does not have sufficient income to pay its obligation under the swap agreement, the Fund would be in default and the counterparty would be able to terminate the swap agreement. When the swap agreement is closed, the Fund records a realized gain or loss equal to the difference between the value of the swap agreement at the time it was entered into and the value at the time it was closed.

(c) Income taxes--It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no Federal income tax provision is required.

(d) Security transactions and investment income--Security transactions are recorded on the dates the transactions are entered into (the trade dates). Realized gains and losses on security transactions are determined on the identified cost basis. Dividend income is recorded on the ex-dividend dates. Interest income is recognized on the accrual basis. The Fund amortizes all premiums and discounts on debt securities.

(e) Dividends and distributions--Dividends from net investment income are declared and paid monthly. Distributions of capital gains are recorded on the ex-dividend dates.

(f) Securities lending--The Fund may lend securities to financial institutions that provide cash or securities issued or guaranteed by the U.S. government as collateral, which will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business of the Fund and any additional required collateral is delivered to the Fund on the next business day. Where the Fund receives securities as collateral for the loaned securities, it collects a fee from the borrower. The Fund typically receives the income on the loaned securities but does not receive the income on the collateral. Where the Fund receives cash collateral, it may invest such collateral and retain the amount earned on such investment, net of any amount rebated to the borrower. Loans of securities are terminable at any time and the borrower, after notice, is required to return borrowed securities within five business days. The Fund may pay reasonable finder's, lending agent, administrative and custodial fees in connection with its loans. In the event that the borrower defaults on its obligation to return borrowed securities because of insolvency or for any other reason, the Fund could experience delays and costs in gaining access to the collateral. The Fund also could suffer a loss where the value of the collateral

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falls below the market value of the borrowed securities, in the event of borrower default or in the event of losses on investments made with cash collateral.

(g) Reclassification--Accounting principles generally accepted in the United States of America require that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. Accordingly, the current year's permanent book/tax difference of \$577,027 has been reclassified between accumulated net realized capital losses and undistributed net investment income. This reclassification has no effect on net assets or net asset value per share.

2. Investment Advisory Agreement and Transactions with Affiliates:

The Fund has entered into an Investment Advisory Agreement with Fund Asset Management, L.P. ("FAM"). The general partner of FAM is Princeton Services, Inc. ("PSI"), an indirect, wholly-owned subsidiary of Merrill Lynch & Co., Inc. ("ML & Co."), which is the limited partner. FAM has entered into a Sub-Advisory Agreement with Merrill Lynch Asset Management U.K. Limited ("MLAM U.K."), an affiliate of FAM, pursuant to which MLAM U.K. provides investment advisory services to FAM with respect to the Fund. There is no increase in the aggregate fees paid by the Fund for these services.

FAM is responsible for the management of the Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operation of the Fund. For such services, the Fund pays a monthly fee at an annual rate of .60% of the Fund's average weekly net assets plus the proceeds of any outstanding principal borrowed.

The Fund has received an exemptive order from the Securities and Exchange Commission permitting it to lend portfolio securities to Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") a subsidiary of ML & Co., or its affiliates. Pursuant to that order, the Fund also has retained Merrill Lynch Investment Managers, LLC ("MLIM, LLC"), an affiliate of FAM, as the securities lending agent for a fee based on a share of the returns on investment of cash collateral. MLIM, LLC may, on behalf of the Fund, invest cash collateral received by the Fund for such loans, among other things, in a private investment company managed by MLIM, LLC or in registered money market funds advised by FAM or its affiliates. For the year ended May 31, 2003, MLIM, LLC received \$862 in securities lending agent fees.

For the year ended May 31, 2003, the Fund paid Merrill Lynch Security Pricing Service, an affiliate of MLPF&S, \$201 for security price quotations to compute the net asset value of the Fund.

In addition, MLPF&S received \$10,859 in commissions on the execution of portfolio security transactions for the Fund for the year ended May 31, 2003.

For the year ended May 31, 2003, the Fund reimbursed FAM \$5,650 for certain accounting services.

Certain officers and/or directors of the Fund are officers and/or directors of FAM, PSI and/or ML & Co.

3. Investments:

Purchases and sales of investments, excluding short-term securities, for the year ended May 31, 2003 were \$261,493,298 and \$249,350,104, respectively.

Net realized losses for the year ended May 31, 2003 and net unrealized losses as of May 31, 2003 were as follows:

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	Realized Losses	Unrealized Losses
Long-term investments	\$ (54,338,746)	\$ (8,612,924)
Total	\$ (54,338,746) =====	\$ (8,612,924) =====

As of May 31, 2003, net unrealized depreciation for Federal income tax purposes aggregated \$6,682,988, of which \$28,696,883 related to appreciated securities and \$35,379,871 related to depreciated securities. The aggregate cost of investments at May 31, 2003 for Federal income tax purposes was \$383,419,967.

4. Capital Share Transactions:

The Fund is authorized to issue 200,000,000 shares of capital stock, par value \$.10, all of which were initially classified as Common Stock. The Board of Directors is authorized, however, to classify and reclassify any unissued shares of capital stock without approval of the holders of Common Stock.

Shares issued and outstanding during the years ended May 31, 2003 and May 31, 2002 increased by 496,500 and 736,614, respectively, as a result of dividend reinvestment.

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Corporate High Yield Fund III, Inc., May 31, 2003

NOTES TO FINANCIAL STATEMENTS (concluded)

5. Short-Term Borrowings:

On May 28, 2003, the Fund entered into its \$160,000,000 revolving credit and security agreement with Citibank, N.A. and other lenders (the "Lenders"). Under the revolving credit and security agreement, the Fund may borrow money through (i) a line of credit from certain Lenders at the Eurodollar rate plus .75% or the highest of the Federal Funds rate plus .50%, a base rate as determined by Citibank, N.A. and/or the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks plus .50%, or (ii) the issuance of commercial paper notes by certain Lenders at rates of interest based upon the weighted average of the per annum rates paid or payable by such Lenders in respect of those commercial paper notes. As security for its obligations to the Lenders under the revolving credit and security agreement, the Fund has granted a security interest in substantially all of its assets to and in favor of the Lenders.

For the year ended May 31, 2003, the average amount borrowed was approximately \$75,558,000 and the daily weighted average interest rate was 1.84%.

6. Distributions to Shareholders:

The Fund paid an ordinary income dividend in the amount of \$.073485 per share on June 30, 2003 to shareholders of record on June 16, 2003.

The tax character of distributions paid during the fiscal years ended May 31, 2003 and May 31, 2002 was as follows:

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	5/31/2003	5/31/2002
Distributions paid from:		
Ordinary income	\$33,386,856	\$40,453,896
Total taxable distributions	\$33,386,856	\$40,453,896
	=====	=====

As of May 31, 2003, the components of accumulated losses on a tax basis were as follows:

Undistributed ordinary income--net	\$ 3,722,543
Undistributed long-term capital gains--net	--
Total undistributed earnings--net	3,722,543
Capital loss carryforward	(235,005,228)*
Unrealized losses--net	(19,828,492)**
Total accumulated losses--net	\$(251,111,177)
	=====

* On May 31, 2003, the Fund had a net capital loss carryforward of \$235,005,228, of which \$6,419,421 expires in 2007, \$21,954,305 expires in 2008, \$34,200,029 expires in 2009, \$52,918,036 expires in 2010 and \$119,513,437 expires in 2011. This amount will be available to offset like amounts of any future taxable gains.

** The difference between book-basis and tax-basis net unrealized losses is attributable primarily to the tax deferral of losses on wash sales, the difference between book and tax amortization methods for premiums and discounts on fixed income securities, other book/tax basis adjustments, the book/tax differences in the accrual of income on securities in default and the deferral of post-October capital losses for tax purposes.

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of
Corporate High Yield Fund III, Inc.:

We have audited the accompanying statement of assets, liabilities and capital, including the schedule of investments, of Corporate High Yield Fund III, Inc. as of May 31, 2003, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of May 31, 2003, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the

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overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Corporate High Yield Fund III, Inc. as of May 31, 2003, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and its financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
Princeton, New Jersey
July 15, 2003

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Corporate High Yield Fund III, Inc., May 31, 2003

PORTFOLIO INFORMATION (unaudited)

As of May 31, 2003

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Top Ten Holdings	Williams Companies Inc.*	Williams Companies is involved in a number of energy activities. Activities include transport and storage of natural gas, petroleum products, as well as oil and gas exploration. The company is also a refiner of petroleum products and related commodities.
	The AES Corporation*	AES is a worldwide power producer with operations in North America, Europe, Latin America and Asia. Electricity generated is primarily sold to wholesale customers, although the company also has a distribution business to end users.
	Comcast UK Cable Partners Ltd.	Comcast provides communications services to residential and wholesale customers. The company offers residential television and Internet access services.
	Terra*	Terra is a producer of nitrogen fertilizer and crop protection products. Customers include agricultural, turf, ornamental and industrial customers.
	Qwest*	Qwest provides a broad range of telecommunication services including broadband Internet-based data, voice and image communications, exchange services, and data and long-distance services to residential and business customers. The company also provides high-speed Internet access and private networks.
	Cablevision Systems Corporation (CSC)*	Cablevision provides telecommunications and entertainment services. The company has operations in multimedia delivery, subscription television services, championship professional sports, and television program networks. Cablevision serves customers primarily in the New York metropolitan area.

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Primedia, Inc.*	Primedia, a media company, provides specialized information for consumer, business-to-business and education markets. Its products include specialty magazines, technical and information products, supplemental education materials and networks. Primedia's consumer magazines include Success and Modern Bride.
Georgia Pacific Corporation*	Georgia Pacific produces pulp, paper and building products. Its line of paper products includes pulp, communication paper, board, packaging and tissue. Consumer brands include Kleenex, Gras paper towels, Quilted Northern, Angel Soft and Soft Care tissue, the Green Forest brand and Dixie disposable paper service products. Building products include plywood, particle board and industrial panels, lumber, gypsum products and other building materials.
Edison International Inc.*	Through its subsidiaries, this utility holding company owns and operates power generation facilities worldwide. The company also owns and operates energy and infrastructure projects. Our bonds are issued through the company's Mission Energy Holdings subsidiary.
Forest City Enterprises Inc.*	Forest City is a diversified real estate development and investment company that acquires, owns and manages commercial and residential real estate projects in 21 states and the District of Columbia.

* Includes combined holdings and/or affiliates.

AUTOMATIC DIVIDEND REINVESTMENT PLAN

The following description of the Fund's Automatic Dividend Reinvestment Plan (the "Plan") is sent to you annually as required by Federal securities laws.

Pursuant to the Fund's Plan, unless a holder of Common Stock otherwise elects, all dividend and capital gains distributions will be automatically reinvested by EquiServe (the "Plan Agent"), as agent for shareholders in administering the Plan, in additional shares of Common Stock of the Fund. Holders of Common Stock who elect not to participate in the Plan will receive all distributions in cash paid by check mailed directly to the shareholder of record (or, if the shares are held in street or other nominee name then to such nominee) by EquiServe, as dividend paying agent. Such participants may elect not to participate in the Plan and to receive all distributions of dividends and capital gains in cash by sending written instructions to EquiServe, as dividend paying agent, at the address set forth below. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by written notice if received by the Plan Agent not less than ten days prior to any dividend record date; otherwise such termination will be effective with respect to any subsequently declared dividend or distribution.

Whenever the Fund declares an income dividend or capital gains distribution (collectively referred to as "dividends") payable either in shares or in cash, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in shares of Common Stock. The shares will be acquired by the Plan Agent for the participant's account, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized shares of Common Stock from the Fund ("newly issued shares") or (ii) by purchase of outstanding shares of Common Stock on the open market ("open-market purchases") on the New York Stock Exchange or elsewhere. If on the payment date for the dividend, the net asset value per share of the Common Stock is equal to or less than the market price per share of the Common Stock plus estimated brokerage commissions (such conditions being referred to herein as "market premium"), the Plan Agent will invest the dividend amount in newly

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issued shares on behalf of the participant. The number of newly issued shares of Common Stock to be credited to the participant's account will be determined by dividing the dollar amount of the dividend by the net asset value per share on the date the shares are issued, provided that the maximum discount from the then current market price per share on the date of issuance may not exceed 5%. If on the dividend payment date the net asset value per share is greater than the market value (such condition being referred to herein as "market discount"), the Plan Agent will invest the dividend amount in shares acquired on behalf of the participant in open-market purchases.

In the event of a market discount on the dividend payment date, the Plan Agent will have until the last business day before the next date on which the shares trade on an "ex-dividend" basis or in no event more than 30 days after the dividend payment date (the "last purchase date") to invest the dividend amount in shares acquired in open-market purchases. It is contemplated that the Fund will pay monthly income dividends. Therefore, the period during which open-market purchases can be made will exist only from the payment date on the dividend through the date before the next "ex-dividend" date, which typically will be approximately ten days. If, before the Plan Agent has completed its open-market purchases, the market price of a share of Common Stock exceeds the net asset value per share, the average per share purchase price paid by the Plan Agent may exceed the net asset value of the Fund's shares, resulting in the acquisitions of fewer shares than if the dividend had been paid in newly issued shares on the dividend payment date. Because of the foregoing difficulty with respect to open-market purchases, the Plan provides that if the Plan Agent is unable to invest the full dividend amount in open-market purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Agent will cease making open-market purchases.

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Corporate High Yield Fund III, Inc., May 31, 2003

AUTOMATIC DIVIDEND REINVESTMENT PLAN (concluded)

and will invest the uninvested portion of the dividend amount in newly issued shares at the close of business on the last purchase date determined by dividing the uninvested portion of the dividend by the net asset value per share.

The Plan Agent maintains all shareholders' accounts in the Plan and furnishes written confirmation of all transactions in the account, including information needed by shareholders for tax records. Shares in the account of each Plan participant will be held by the Plan Agent in non-certificated form in the name of the participant, and each shareholder's proxy will include those shares purchased or received pursuant to the Plan. The Plan Agent will forward all proxy solicitation materials to participants and vote proxies for shares held pursuant to the Plan in accordance with the instructions of the participants.

In the case of shareholders such as banks, brokers or nominees which hold shares of 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 record shareholders as representing the total amount registered in the record shareholder's name and held for the account of beneficial owners who are to participate in the Plan.

There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open-market purchases in connection with the reinvestment of dividends.

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The automatic reinvestment of dividends and distributions will not relieve participants of any Federal, state or local income tax that may be payable (or required to be withheld) on such dividends.

Shareholders participating in the Plan may receive benefits not available to shareholders not participating in the Plan. If the market price plus commissions of the Fund's shares is above the net asset value, participants in the Plan will receive shares of the Fund at less than they could otherwise purchase them and will have shares with a cash value greater than the value of any cash distribution they would have received on their shares. If the market price plus commissions is below the net asset value, participants will receive distributions in shares with a net asset value greater than the value of any cash distribution they would have received on their shares. However, there may be insufficient shares available in the market to make distributions in shares at prices below the net asset value. Also, since the Fund does not redeem shares, the price on resale may be more or less than the net asset value.

The value of shares acquired pursuant to the Plan will generally be excluded from gross income to the extent that the cash amount reinvested would be excluded from gross income. If, when the Fund's shares are trading at a premium over net asset value, the Fund issues shares pursuant to the Plan that have a greater fair market value than the amount of cash reinvested, it is possible that all or a portion of such discount (which may not exceed 5% of the fair market value of the Fund's shares) could be viewed as a taxable distribution. If the discount is viewed as a taxable distribution, it is also possible that the taxable character of this discount would be allocable to all the shareholders, including shareholders who do not participate in the Plan. Thus, shareholders who do not participate in the Plan might be required to report as ordinary income a portion of their distributions equal to their allocable share of the discount.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves