

CORPORATE HIGH YIELD FUND III INC

Form N-30D

January 27, 2003

[LOGO] Merrill Lynch Investment Managers

Semi-Annual Report

November 30, 2002

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 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., November 30, 2002

DEAR SHAREHOLDER

The High-Yield Market Overview

For the six-month period ended November 30, 2002, the high-yield market returned -1.84%, as measured by the unmanaged Credit Suisse First Boston (CSFB) High Yield Index. The market bottomed in October, but recovered sharply in November, with the Index returning +5.29% for the month. By way of comparison, the Index historically has experienced significant high monthly returns at the end of what

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were considered to be bear markets, returning +7.61% in February 1991, +5.38% in March of that year, and more recently, gaining +5.10% in January 2001. During the last six months, investors fled the market because of ongoing concerns relating to corporate governance issues, accounting irregularities and recessionary fears, as well as the potential for military conflict in Iraq. Some market sectors were more negatively affected, as evidenced by the cable industry, hurt by the accounting misdeeds of Adelphia Communications, Inc. Those concerns also spread throughout the energy and utility sectors. The period saw bonds of former investment-grade issuers such as Enron Corporation become nearly valueless, with significant and swift downgrades of corporate bonds of other electric utility and power producers. Accounting concerns spread throughout many sectors as the period progressed. While consumer spending continued to buoy the economy, corporate spending decreased significantly. Investors became increasingly concerned that the U.S. economy would experience a "double-dip" recession, fleeing to U.S. Treasury securities and cash equivalents.

Yield spreads off U.S. Treasury bonds, at 8.77% in November 2001, widened to 9.29% at the end of November 2002 after having eased to 7.36% at the end of May. Throughout much of the 1990s, yield spreads averaged approximately 5.4%. In many cases, it appears that high-yield bonds are inexpensive at current levels and their market prices already reflect the deteriorated credit conditions of many high-yield issuers. Corporate earnings have begun to improve with many corporations reporting better-than-expected earnings, albeit at significantly reduced expectations. Liquidity in the high-yield market, while considerably reduced during the past six months, began to return in October and November 2002 as both individual and institutional investors realized that the high-yield market was significantly undervalued and offered considerable opportunity, in addition to attractive yields unavailable in other asset classes.

As the economy gradually improves, we believe that default rates should continue to decline during the next six months since default rates are a lagging indicator of the high-yield market credit trends in general. We see particular value in the high-yield market overall, but caution that bond selection continues to be critical in the current economic climate. We are cautiously optimistic about the high-yield market, supported by fair valuations, a stable to an improving economy, modestly strengthening earnings and improved liquidity.

### Fund Performance

For the six-month period ended November 30, 2002, the total investment return on the Fund's Common Stock was -7.42%, based on a change in the per share net asset value from \$7.68 to \$6.67, and assuming reinvestment of \$.422 per share income dividends. For the same period, the net annualized yield of the Fund was 15.16%. Despite the loss for the period, compared with its peer group, the Fund significantly outperformed the Lipper average of leveraged closed end high-yield funds for the six months ended November 30, 2002, which had a total return of -9.41%.

Though the Fund's relative performance is good, the Fund's loss for the period is disappointing. In part, the loss reflects the inherent volatility of a leveraged fund, in which both down and up market moves are exaggerated. There was also significant fallout from the well-publicized problems at Adelphia that spread to other cable names, notably Charter Communications Holdings, a large portfolio holding. We believe that Charter has adequate asset values to provide upside potential from current depressed levels. Similarly, a significant drag on performance for the past six months was our overweight in utilities, particularly the bonds of Mission Energy Holdings, an independent power producer. During the period, independent power producers and utilities suffered from investor fears that Enron-related complications would spread to others in the industry. We agree that there are increased risks in the sector and that some industry participants may be permanently damaged as a result. We have reduced holdings nearer to a market weighting in this sector. However, we

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believe in the solid asset values and eventual recovery of those companies in which we invest. The weak market gave us the opportunity to take advantage of significant values in bonds of higher-quality utilities, pipelines and independent power producers. We also continued to hold positions in several more downtrodden names in the sector. We believe that we benefited from holding these positions because of the sizeable yields on the bonds and that the negative bond trend will reverse as the sector recovers during 2003.

Performance was also hurt by credit-specific, rather than industry-wide, problems. Bonds of Foamex LP, a foam producer for furniture and auto markets, fell as company earnings were hard hit by an unexpected and dramatic rise in raw material costs. Petroleum-Geo Services, a seismic measurement company for the oil industry, suffered from the failed sale of the company, raising fears that the company would not be able to meet near-term maturities. We continue to monitor these situations, but believe that asset values should support recoveries at higher-than-current market prices.

### Leverage Strategy

For the six-month period ended November 30, 2002, the Fund was on average about 24% leveraged, which was well within our mid-20% comfort range. At the end of November 2002, the Fund was 22% leveraged having borrowed \$69 million at a cost of 1.58%. Thus, the Fund borrowed the equivalent of 22% of total assets, earning incremental yield on the investments we made with the borrowed funds. While leverage hurts total return in a weak market, the converse is also true. We believe that market timing is generally not a successful approach, as this 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

Given our constructive market outlook, but recognizing the risk of near-term volatility, we continued to invest in a core of solid credits and to maintain a diverse portfolio, while taking advantage of more downtrodden names that we believe represent significant value. We attempted to take advantage of market volatility to establish or add to positions in companies that in our opinion have favorable long-term fundamentals. We previously mentioned our purchase of utility bonds. We also added to our position in bonds of Tyco International Group SA at favorable prices, given our belief in the fundamental value of the companies' businesses. Since it appears that fundamentals are improving in agricultural chemicals, we established new positions in two companies in this sector, IMC Global, Inc. and Terra Industries. We tiptoed back into the telecommunications sector, adding Qwest Corporation bonds at a corporate level that is close to the operating telephone company assets. We added bonds of Time Warner Telecom Inc., a competitive local exchange provider that has demonstrated an ability to maintain customers and financial resources in a difficult environment. On the sell side, we pared down or eliminated positions where we either were concerned about credit fundamentals or believed that bonds were fully valued. We trimmed our position in HMM Properties, Inc. and Meristar Hospitality Corp., expecting that hotels will continue to deliver unfavorable

earnings in the near term. We also sold bonds of Avista Corporation, a utility, at a substantial premium, avoiding a subsequent drop on fears of Enron ties and sold our position in Tucson Electric, an illiquid bond that in our opinion was fully valued. We sold a number of distressed positions that appeared to have had

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minimal recovery value. These included several emerging markets corporate names, and a number of companies facing extensive balance sheet restructuring either in or out of bankruptcy. We continued to hold overweighted positions in cable and wireless telecommunications, believing in the asset value and earnings potential of our holdings. The Fund remains underweighted in the retail food and drug companies, automotive and telecommunications sectors. We believe the Fund is well positioned for the expected economic recovery.

In Conclusion

We thank you for your investment in Corporate High Yield Fund III, Inc., and we look forward to assisting you with your financial needs in the months and years ahead.

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

January 13, 2003

### PROXY RESULTS

During the six-month period ended November 30, 2002, Corporate High Yield Fund III, Inc.'s shareholders voted on the following proposal. The proposal was approved at a shareholders' meeting on August 22, 2002. A description of the proposal and number of shares voted are as follows:

		Shares Voted For
1. To elect the Fund's Board of Directors:	Terry K. Glenn	32,885,258
	James H. Bodurtha	32,889,251
	Joe Grills	32,869,771
	Herbert I. London	32,876,747
	Andre F. Perold	32,889,788
	Roberta Cooper Ramo	32,882,082
	Robert S. Salomon, Jr.	32,855,769
	Melvin R. Seiden	32,839,832
	Stephen B. Swensrud	32,825,455

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SCHEDULE OF INVESTMENTS

(in U.S. dollars)

INDUSTRIES	S&P Ratings	Moody's Ratings	Face Amount	Corporate Bonds
Aerospace & Defense--1.5%	BB- B-	Ba3 B3	\$3,000,000 500,000	L-3 Communications Corp., 8% due 8/01/2006 Transdigm Inc., 10.375% due 12/01/2008
Airlines--1.2%	A- BBB A- D	B1 Ba2 Baa3 Ca	750,000 1,132,575 381,016 4,000,000	American Airlines, 7.80% due 10/01/2006 Continental Airlines Inc.: 7.033% due 6/15/2011 6.90% due 1/02/2017 USAir Inc., 10.375% due 3/01/2013 (c)
Automotive--0.9%	BB+ B B	Ba2 B3 B3	1,725,000 223,000 250,000	AutoNation Inc., 9% due 8/01/2008 Metaldyne Corporation, 11% due 6/15/2012 United Auto Group Inc., 9.625% due 3/15/2008
Broadcasting--5.6%	NR* CCC+ B+ B- B- B- B- B- B- B-	NR* B3 B1 B2 B3 Caa1 B3 B3 B3	5,000,000 275,000 525,000 2,400,000 275,000 1,000,000 1,375,000 2,000,000 1,125,000	Acme Intermediate Holdings/Finance, 12%** Acme Television/Finance, 10.875% due 9/30/2008 Corus Entertainment Inc., 8.75% due 3/01/2008 Emmis Communications Corporation, 8.125% due 3/01/2008 Entravision Communications Corporation, 8.125% due 3/01/2008 LIN Holdings Corporation, 10.725%** due 3/01/2008 Nextmedia Operating Inc., 10.75% due 7/01/2008 Salem Communications Holding Corporation, 10.75% due 3/01/2008 Young Broadcasting Inc., 10% due 3/01/2008
Cable-- International--2.0%	C C	Caa2 Caa2	2,900,000 4,000,000	Comcast UK Cable Partners Ltd., 11.20% due 2/01/2008 Diamond Holdings PLC, 9.125% due 2/01/2008

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Corporate High Yield Fund III, Inc., November 30, 2002

SCHEDULE OF INVESTMENTS (continued)

(in U.S. dollars)

INDUSTRIES	S&P Ratings	Moody's Ratings	Face Amount	Corporate Bonds
Cable--U.S.--8.3%	BB-	B1	\$2,750,000	CSC Holdings Inc.: 8.125% due 8/15/2009

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	BB-	B1	2,600,000	7.625% due 4/01/2011 Charter Communications Holdings:
	B-	B3	3,500,000	8.625% due 4/01/2009
	B-	B3	2,000,000	10.75% due 10/01/2009
	B+	B1	3,500,000	Echostar DBS Corporation, 9.125% due 1/15
	B-	Caa1	3,925,000	Insight Communications, 12.25%** due 2/15
	B+	B2	1,650,000	Insight MidWest, 10.50% due 11/01/2010
	B+	B2	1,625,000	Mediacom Broadband LLC, 11% due 7/15/2013
	NR*	NR*	2,525,000	Olympus Communications LP/Capital Corp., due 11/15/2006 (c)
	B-	Ba3	1,750,000	Panamsat Corporation, 8.50% due 2/01/2012
=====				
Chemicals--4.9%	B-	Caa1	1,500,000	Huntsman ICI Chemicals, 10.125% due 7/01/
	B-	Caa2	2,300,000	Huntsman ICI Holdings, 13.898%** due 12/3
	B+	Ba3	1,750,000	IMC Global Inc., 7.625% due 11/01/2005
	BB-	B2	2,025,000	ISP ChemCo., 10.25% due 7/01/2011
	B+	B2	2,000,000	ISP Holdings, Inc., 10.625% due 12/15/200
	BB-	Ba3	1,350,000	MacDermid, Inc., 9.125% due 7/15/2011
	BBB-	Ba1	1,100,000	Millennium America Inc., 9.25% due 6/15/2
	B	Caa3	2,100,000	Terra Industries, 10.50% due 6/15/2005
=====				
Consumer Products--4.8%	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
	B-	B2	2,887,000	Chattem, Inc., 8.875% due 4/01/2008
	NR*	NR*	8,500,000	Corning Consumer Products, 9.625% due 5/0
	CCC	Caa2	3,875,000	Samsonite Corporation, 10.75% due 6/15/20
=====				
Diversified Media-- 4.4%	B	B2	525,000	Dex Media East LLC, 9.875% due 11/15/2009
				Primedia, Inc.:
				7.625% due 4/01/2008
	B	B3	3,175,000	8.875% due 5/15/2011
	B	B3	2,000,000	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
	BBB	Baa2	1,000,000	World Color Press Inc., 7.75% due 2/15/20
	B	B2	5,080,000	Yell Finance BV, 12.863%** due 8/01/2011
=====				
Energy--Exploration & Production--2.3%	CCC+	Caa1	1,225,000	Mission Resources Corporation, 10.875% du
	B	B2	1,300,000	Nuevo Energy Company, 9.375% due 10/01/20
	B	B2	825,000	Plains E&P Company, 8.75% due 7/01/2012 (
	B+	B2	475,000	Stone Energy Corporation, 8.25% due 12/15
	BB-	Ba3	1,150,000	Vintage Petroleum, 8.25% due 5/01/2012
	B+	Ba3	975,000	Westport Resources Corporation, 8.25% due
=====				
Energy--Other--9.6%	BB-	B1	1,850,000	El Paso Energy Partners, 8.50% due 6/01/2
	B	B2	1,500,000	Ferrellgas Partners LP, 8.75% due 6/15/20
	BB-	Ba3	425,000	Grant Prideco Escrow, 9% due 12/15/2009 (
				Hanover Equipment (e):
	BB-	B1	525,000	Trust A, 8.50% due 9/01/2008
	BB-	B1	1,650,000	Trust B, 8.75% due 9/01/2011
	CCC	B3	5,000,000	Ocean Rig Norway AS, 10.25% due 6/01/2008
	CCC	Caa3	2,750,000	Petroleum Geo-Services, 6.25% due 11/19/2

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	BB	Ba3	3,932,000	Port Arthur Finance Corporation, 12.50% d
	B	B3	3,225,000	Tesoro Petroleum Corp., 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
	B	Caa1	3,350,000	Williams Companies Inc., 8.125% due 3/15/
=====				
Food/Tobacco--4.3%	B	B3	750,000	American Seafood Group LLC, 10.125% due 4
	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
	CCC-	Caa1	1,375,000	New World Pasta Company, 9.25% due 2/15/2
	BB+	Ba2	1,675,000	Smithfield Foods Inc., 8% due 10/15/2009
	BB	Ba1	2,700,000	Yum! Brands Inc., 8.875% due 4/15/2011
=====				
Gaming--7.6%	B+	B1	1,575,000	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-	B3	1,400,000	Penn National Gaming Inc., 8.875% due 3/1
	B	B2	1,750,000	Resorts International Hotel/Casino, 11.50
	B+	B2	3,250,000	Sun International Hotels, 8.875% due 8/15
	B-	Caa1	2,925,000	Venetian Casino/LV Sands, 11% due 6/15/20
	CCC+	B3	1,475,000	Wynn Las Vegas LLC, 12% due 11/01/2010

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Corporate High Yield Fund III, Inc., November 30, 2002

SCHEDULE OF INVESTMENTS (continued)

(in U.S. dollars)

INDUSTRIES	S&P Ratings	Moody's Ratings	Face Amount	Corporate Bonds
Government-- Foreign--0.9%	B+	B2	\$3,000,000	Federal Republic of Brazil, 14.50% due 10
=====				
Health Care--6.8%	B-	Caa1	3,225,000	ALARIS Medical Systems, Inc., 9.75% due 1
	BB-	Ba3	1,700,000	AmerisourceBergen Corp., 7.25% due 11/15/
	CCC+	B3	1,800,000	Extencicare Health Services, 9.35% due 12
	B	B3	1,525,000	Fisher Scientific International, 8.125% d
	B+	Ba2	3,750,000	Fresenius Medical Capital Trust II, 7.875
	B+	NR*	1,000,000	ICN Pharmaceuticals Inc., 6.50% due 7/15/
	CCC+	B3	1,825,000	Kinetic Concepts, Inc., 9.625% due 11/01/
	BBB	Ba1	1,475,000	Manor Care Inc., 8% due 3/01/2008
	BBB-	Baa3	750,000	Tenet Healthcare Corporation, 6.375% due
=====				
Housing--5.0%	B	B2	5,750,000	Building Materials Corporation, 8% due 12
	BB	Ba1	1,800,000	D.R. Horton, Inc., 7.50% due 12/01/2007

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	BB-	Ba3	4,225,000	Forest City Enterprises Inc., 8.50% due 3
	B	B3	308,000	U.S. Industries, Inc., 11.25% due 12/31/2
	B	B3	1,629,000	USI American Holdings Inc., 7.25% due 12/
=====				
Information	B	B1	4,250,000	Amkor Technology Inc., 9.25% due 5/01/200
Technology--3.1%	BB-	Ba2	2,350,000	Celestica Inc., 4.64%** due 8/01/2020 (Co
	CCC+	Caa1	3,725,000	SCG Holdings Corporation, 12% due 8/01/20
	BB	Ba3	1,000,000	Solectron Corporation, 9.625% due 2/15/20
=====				
Leisure--7.9%	BB-	Ba3	1,550,000	Felcor Lodging LP, 9.50% due 9/15/2008
	BB-	Ba3	3,250,000	HMH Properties, Inc., 8.45% due 12/01/200
	BBB-	Ba1	2,025,000	Hilton Hotels Corporation, 8.25% due 2/15
	BBB-	Ba1	1,750,000	ITT Corporation (New), 7.75% due 11/15/20
				Intrawest Corporation:
	B+	B1	3,750,000	9.75% due 8/15/2008
	B+	B1	1,225,000	10.50% due 2/01/2010
				Meristar Hospitality Corp.:
	B	B1	700,000	9% due 1/15/2008
	B	B1	175,000	10.50% due 6/15/2009
	B	B2	600,000	Premier Parks Inc., 9.75% due 6/15/2007
	B	B2	4,000,000	Six Flags Inc., 9.50% due 2/01/2009
	B	B2	475,000	Vail Resorts Inc., 8.75% due 5/15/2009
=====				
Manufacturing--4.8%	CCC+	Caa1	1,825,000	Columbus McKinnon Corp., 8.50% due 4/01/2
	B-	Caa1	3,500,000	Eagle-Picher Industries, 9.375% due 3/01/
	B-	Caa2	2,250,000	Foamex LP, 13.50% due 8/15/2005
	CCC+	Caa1	1,050,000	International Wire Group, Inc., 11.75% du
	B	B2	2,475,000	Johnson Diversey Inc., 9.625% due 5/15/20
	B-	B3	425,000	Rexnord Corporation, 10.125% due 12/15/20
				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
=====				
Metal--Other--3.1%	B-	B3	1,058,750	Great Lakes Carbon Corp., 10.25% due 5/15
	BB	Ba3	2,925,000	Luscar Coal Ltd., 9.75% due 10/15/2011
	B-	Caa1	5,000,000	Ormet Corporation, 11% due 8/15/2008 (e)
	B	B3	950,000	UCAR Finance Inc., 10.25% due 2/15/2012
=====				
Multi-Sector	NR*	Ba1	2,100,000	Morgan Stanley Tracers, 8.159% due 5/01/2
Holdings--0.9%				
=====				
Packaging--3.6%	B-	B3	775,000	Bway Corporation, 10% due 10/15/2010 (e)
	CCC+	NR*	1,350,000	Graham Packaging Company, 13.569%** due 1
	B+	B2	250,000	Graphic Packaging Corporation, 8.625% due
	BB	B2	2,500,000	Owens-Brockway Glass Container, 8.875% du
	B+	B3	1,550,000	Owens-Illinois Inc., 7.15% due 5/15/2005
	B-	Caa1	1,275,000	Pliant Corporation, 13% due 6/01/2010
	CCC+	Caa1	2,450,000	US Can Corporation, 12.375% due 10/01/201
=====				
Paper--6.7%	D	Ca	1,000,000	APP International Finance, 11.75% due 10/



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BBB-	Ba1	1,400,000	Abitibi Consolidated Inc., 8.55% due 8/01
B-	B3	3,025,000	Ainsworth Lumber Company, 12.50% due 7/15
B+	Ba2	1,375,000	Caraustar Industries Inc., 9.875% due 4/0
			Doman Industries Limited (c):
			8.75% due 3/15/2004
D	Ca	9,700,000	9.25% due 11/15/2007
D	Ca	550,000	
B	B2	1,250,000	Jefferson Smurfit-Stone Container, 8.25%
			MDP Acquisitions PLC (e):
B	B2	1,625,000	9.625% due 10/01/2012
B	B3	700,000	15.50% due 10/01/2013 (d)
BB+	Ba2	3,000,000	Norske Skog of Canada, 8.625% due 6/15/20
BB-	Ba3	1,500,000	Smurfit Capital Funding PLC, 7.50% due 11

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Corporate High Yield Fund III, Inc., November 30, 2002

SCHEDULE OF INVESTMENTS (continued)

(in U.S. dollars)

INDUSTRIES	S&P Ratings	Moody's Ratings	Face Amount	Corporate Bonds
Services--2.2%	B+	Ba2	\$ 450,000	Airgas Inc., 9.125% due 10/01/2011
	BB-	Ba3	725,000	Allied Waste North America, 8.875% due 4/
	B	B2	900,000	Coinmach Corporation, 9% due 2/01/2010
	B	B3	3,500,000	Williams Scotsman, Inc., 9.875% due 6/01/
Steel--0.4%	BB-	B1	975,000	Oregon Steel Mills Inc., 10% due 7/15/200
Telecommunications--1.7%	B-	Caa1	3,050,000	Fairpoint Communications, 12.50% due 5/01
	B-	Ba3	1,200,000	Qwest Corporation, 8.875% due 3/15/2012 (
	CCC+	B3	1,275,000	Time Warner Telecom Inc., 10.125% due 2/0
	CCC+	B3	550,000	Time Warner Telecom LLC, 9.75% due 7/15/2
Transportation--2.7%	B+	B1	3,250,000	Sea Containers Ltd., 12.50% due 12/01/200
	BB-	Ba3	325,000	Stena AB, 9.625% due 12/01/2012 (e)
	BB-	Ba2	2,325,000	Teekay Shipping Corporation, 8.875% due 7
	B+	B2	1,125,000	Transportacion Maritima Mexicana, SA de C
				due 11/15/2006
Utility--8.6%				The AES Corporation:
	B+	B3	825,000	8.75% due 12/15/2002
	B-	Caa1	900,000	8.375% due 8/15/2007
	B+	B3	5,350,000	9.375% due 9/15/2010
	B+	B3	3,325,000	8.875% due 2/15/2011
	C	C	850,000	AES Drax Energy Ltd., 11.50% due 8/30/201
				CMS Energy Corporation:

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B+	B3	800,000	7.50% due 1/15/2009
NR*	B3	1,025,000	8.50% due 4/15/2011
BB	Ba2	1,400,000	CMS Panhandle Holding Company, 6.50% due
B+	B1	4,025,000	Calpine Canada Energy Finance, 8.50% due Calpine Corporation:
B+	B1	1,500,000	8.25% due 8/15/2005
B+	B1	100,000	4% due 12/26/2006 (Convertible) (e)
B+	B1	1,100,000	8.625% due 8/15/2010
BBB-	Baa3	1,400,000	Consumers Energy Company, 7.375% due 9/15
BB	Ba1	1,430,000	ESI Tractebel Acquisition Corp., 7.99% du
BB-	Ba3	1,250,000	Midland Funding II, 11.75% due 7/23/2005
BB	Ba3	4,850,000	Mirant Americas Generation Inc., 8.30% du
B-	B3	5,400,000	Mission Energy Holdings, 13.50% due 7/15/
B+	B3	550,000	Northwest Pipeline Corporation, 6.625% du
BB	Ba2	1,000,000	Sierra Pacific Power Company, 8% due 6/01
BBB-	Ba1	1,300,000	Western Resources Inc., 7.875% due 5/01/2

Wireless--8.1%	B-	Caa1	5,100,000	American Tower Systems Corporation, 9.375
	B	B3	3,200,000	Crown Castle International Corporation, 9
	CCC+	Caa1	4,019,000	Loral Cyberstar Inc., 10% due 7/15/2006
	B-	Caa1	5,000,000	Millicom International Cellular SA, 13.50
	NR*	NR*	2,034,235	NII Holdings Inc., 13.07%** due 11/01/200
	B	B3	625,000	Nextel Communications, Inc., 9.50% due 2/
	CCC+	Caa1	5,500,000	Nextel Partners Inc., 12.576%** due 2/01/
				Telesystem International Wireless:
	B-	NR*	1,725,701	14% due 12/30/2003
	B-	Ca	121,299	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--\$352,059,100)--123.9%

	Shares Held	Common Stocks
Automotive--0.0%	5,000	Allied Signal Litigation Trust (c)
	5,000	Breed Creditors Litigation Trust (c)
Financial--0.1%	5,000,000	LTC-Amresco
Food/Tobacco--0.0%	88,554	Aurora Foods Inc. (c)
Metal--	252,102	Metal Management, Inc. (c)
Other--0.4%		
Wireless--1.0%	194,342	NII Holdings Inc. (Class B) (c)
		Total Investments in Common Stocks (Cost-

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Corporate High Yield Fund III, Inc., November 30, 2002

SCHEDULE OF INVESTMENTS (concluded)

(in U.S. dollars)

INDUSTRIES	Shares Held	Preferred Stocks & Warrants
Food & Drug--0.0%	60,617	Nebco Evans Holding Co. (d)
Packaging--0.0%	4,000	Pliant Corporation (Warrants) (f)
Paper--0.0%	3,750	APP China Group Ltd. (Warrants) (e) (f)
Steel--0.0%	2,750	Republic Technologies (Warrants) (f)
Wireless--0.0%	32,981	Loral Space & Communications (Warrants) (f)
Total Investments in Preferred Stocks & Warrants (Cost--\$5		

Short-Term Securities

Common Stock--0.5%	1,313,390	Merrill Lynch Liquidity Series, LLC Cash Sweep Series I (a)
Total Investments in Short-Term Securities (Cost--\$1,313,39		
Total Investments (Cost--\$371,812,131)--125.9%		
Liabilities in Excess of Other Assets--(25.9%)		
Net Assets--100.0%		

\* 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) Investments in companies considered to be an affiliate of the Fund (such companies are defined as "Affiliated Companies" in Section 2(a)(3) of the Investment Company Act of 1940) are as follows:

Affiliate	Net Share Activity	Net Cost	Dividend Income
Merrill Lynch Liquidity Series, LLC Cash Sweep Series I	1,313,390	\$1,313,390	\$235

(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.

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- (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 investment in restricted securities was \$2,840,000, representing 1.2% of net assets.

Issue	Acquisition Date	Cost	Value
Diamond Holdings, PLC, 9.125% due 2/01/2008	1/30/1998	\$4,000,000	\$2,840,000
Total		\$4,000,000	\$2,840,000

See Notes to Financial Statements.

STATEMENT OF ASSETS, LIABILITIES AND CAPITAL

As of November 30, 2002

Assets:	Investments, at value (identified cost--\$371,812,131) .....	
	Cash .....	
	Receivables:	
	Interest .....	\$ 9,
	Securities sold .....	8,
	Dividends .....	
	Prepaid expenses and other assets .....	
	Total assets .....	

Liabilities:	Loans .....	
	Payables:	
	Securities purchased .....	14,
	Investment adviser .....	
	Interest on loans .....	
	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 .....	\$ 6,
	Accumulated realized capital losses on investments--net .....	(236,
	Unrealized depreciation on investments--net .....	(64,
	Total accumulated losses--net .....	

Total--Equivalent to \$6.67 per share based on 36,595,290

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shares of capital stock outstanding (market price--\$6.86) .....

See Notes to Financial Statements.

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Corporate High Yield Fund III, Inc., November 30, 2002

STATEMENT OF OPERATIONS

For the Six Months Ended November 30, 2002

Investment Income:	Interest .....	
	Securities lending--net .....	
	Dividends .....	
	Other .....	
	Total income .....	

Expenses:	Investment advisory fees .....	\$	947,
	Loan interest expense .....		765,
	Borrowing costs .....		101,
	Professional fees .....		51,
	Accounting services .....		47,
	Transfer agent fees .....		31,
	Directors' fees and expenses .....		27,
	Printing and shareholder reports .....		20,
	Listing fees .....		15,
	Custodian fees .....		12,
	Pricing services .....		8,
	Other .....		11,
	Total expenses .....		-----
	Investment income--net .....		

Realized &	Realized loss on investments--net .....	
Unrealized	Change in unrealized depreciation on investments--net .....	
Gain (Loss) on		
Investments--Net:	Total realized and unrealized loss on investments--net .....	
	Net Decrease in Net Assets Resulting from Operations .....	

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN NET ASSETS

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		For the Six Months Ended November 2002
Increase (Decrease) in Net Assets:		
=====		
Operations:	Investment income--net .....	\$ 16,522,
	Realized loss on investments--net .....	(42,824,
	Change in unrealized depreciation on investments--net .....	4,994,
	Net decrease in net assets resulting from operations .....	(21,308,
=====		
Dividends to Shareholders:	Dividends to shareholders from investment income--net .....	(15,395,
=====		
Capital Stock Transactions:	Value of shares issued to Common Stock shareholders in reinvestment of dividends .....	1,294,
=====		
Net Assets:	Total decrease in net assets .....	(35,410,
	Beginning of period .....	279,371,
	End of period* .....	\$ 243,961,
=====		
	*Undistributed investment income--net .....	\$ 6,156,
=====		

See Notes to Financial Statements.

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Corporate High Yield Fund III, Inc., November 30, 2002

STATEMENT OF CASH FLOWS

		For the Six Months Ended November 30, 2002
=====		
Cash Provided by Operating Activities:	Net decrease in net assets resulting from operations .....	
	Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:	
	Decrease in receivables .....	
	Decrease in other assets .....	
	Decrease in other liabilities .....	
	Realized and unrealized loss on investments--net .....	
	Amortization of discount .....	
	Net cash provided by operating activities .....	
=====		
Cash Provided by Investing Activities:	Proceeds from sales of long-term investments .....	
	Purchases of long-term investments .....	
	Proceeds from sales and maturities of short-term investments--net .....	

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	Net cash provided by 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 period .....	
	Cash at end of period .....	
=====		
Cash Flow	Cash paid for interest .....	
Information:		
=====		
Non-Cash Financing	Reinvestment of dividends to shareholders .....	
Activities:		
=====		

See Notes to Financial Statements.

FINANCIAL HIGHLIGHTS

	The following per share data and ratios have been derived from information provided in the financial statements.	For the Six Months Ended	
		November 30,	-----
	Increase (Decrease) in Net Asset Value:	2002	2002
=====			
Per Share	Net asset value, beginning of period .....	\$ 7.68	\$ 9.11
Operating		-----	-----
Performance:	Investment income--net .....	.45**	1.15**
	Realized and unrealized loss on investments--net .....	(1.04)	(1.47)
	Total from investment operations .....	(.59)	(.32)
		-----	-----
	Less dividends and distributions:		
	Investment income--net .....	(.42)	(1.11)
	In excess of realized gain on investments--net .....	--	--
	Total dividends and distributions .....	(.42)	(1.11)
		-----	-----
	Capital charge resulting from issuance of Common Stock .	--	--
		-----	-----
	Net asset value, end of period .....	\$ 6.67	\$ 7.68
		=====	=====
	Market price per share, end of period .....	\$ 6.86	\$ 8.22
		=====	=====
=====			
Total	Based on market price per share .....	(11.04%)+	.59%
Investment		=====	=====
Return:***	Based on net asset value per share .....	(7.42%)+	(3.13%)
		=====	=====
=====			
Ratios to	Expenses, excluding interest expense .....	1.05%*	1.10%

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Average		=====	=====
Net Assets:	Expenses .....	1.68%*	2.14%
	Investment income--net .....	13.56%*	14.37%
=====			
Leverage:	Amount of borrowings outstanding, end of period (in thousands).....	\$ 68,600	\$ 84,900
	Average amount of borrowings outstanding during the period (in thousands).....	\$ 74,295	\$ 98,924
	Average amount of borrowings outstanding per share during the period .....	\$ 2.04	\$ 2.75
=====			
Supplemental	Net assets, end of period (in thousands) .....	\$243,962	\$279,372
Data:	Portfolio turnover .....	33.03%	65.44%
=====			

- + Amount is less than \$.01 per share.
- ++ Aggregate total investment return.
- \* Annualized.
- \*\* 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.

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Corporate High Yield Fund III, Inc., November 30, 2002

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 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. These unaudited financial statements reflect all adjustments, which are, in the opinion of management, necessary to a fair statement of the results for the interim period presented. All such adjustments are of a normal, recurring nature. 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 prices furnished by one or more pricing services that determine prices for normal, institutional-size trading units of such securities using market information, transactions for comparable securities and various relationships between securities that are generally recognized by institutional traders. In



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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 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.

(b) Derivative financial instruments--The Fund may engage in various portfolio investment strategies to increase or decrease the level of risk to which the Fund is exposed more quickly and efficiently than transactions in other types of instruments. 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.

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 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 for the purpose of hedging the market risk on existing securities or the intended purchase of securities. 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 for the purpose of hedging the market risk on existing securities. In a swap agreement, the Fund exchanges with the counterparty their respective commitments

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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.

(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. 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 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.

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Corporate High Yield Fund III, Inc., November 30, 2002

NOTES TO FINANCIAL STATEMENTS (concluded)

### 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 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

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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") or its affiliates. Pursuant to that order, the Fund also has retained QA Advisors, LLC ("QA Advisors"), an affiliate of FAM, as the securities lending agent for a fee based on a share of the returns on investment of cash collateral. QA Advisors 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 QA Advisors or in registered money market funds advised by FAM or its affiliates. For the six months ended November 30, 2002, QA Advisors received \$862 in securities lending agent fees.

For the six months ended November 30, 2002, 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 \$9,297 in commissions on the execution of portfolio security transactions for the Fund for the six months ended November 30, 2002.

For the six months ended November 30, 2002, the Fund reimbursed FAM \$2,870 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 six months ended November 30, 2002 were \$103,568,890 and \$115,735,768, respectively.

Net realized losses for the six months ended November 30, 2002 and net unrealized losses as of November 30, 2002 were as follows:

	Realized Losses	Unrealized Losses
Long-term investments.....	\$ (42,824,812)	\$ (64,666,998)
Total.....	\$ (42,824,812)	\$ (64,666,998)

As of November 30, 2002, net unrealized depreciation for Federal income tax purposes aggregated \$63,171,109, of which \$11,429,345 related to appreciated securities and \$74,600,454 related to depreciated securities. The aggregate cost of investments at November 30, 2002 for Federal income tax purposes was \$370,316,242.

**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 six months ended November 30, 2002 and the year ended May 31, 2002 increased by 198,329 and 736,614, respectively, as a result of dividend reinvestment.

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5. Short-Term Borrowings:

On May 30, 2002, the Fund renewed its \$185,000,000 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 U.S. money market banks plus .50%, or (ii) through the issuance of commercial paper notes by certain Lenders at rates of interest equivalent to the weighted average of the per annum rates paid or payable by such Lenders in respect of those commercial paper notes.

For the six months ended November 30, 2002, the average amount borrowed was approximately \$74,295,000 and the daily weighted average interest rate was 2.07%. For the six months ended November 30, 2002, facility and commitment fees aggregated approximately \$102,000. 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 and in favor of the Lenders.

6. Capital Loss Carryforward:

On May 31, 2002, the Fund had a net capital loss carryforward of \$115,491,791, of which \$6,419,421 expires in 2007, \$21,954,305 expires in 2008, \$34,200,029 expires in 2009 and \$52,918,036 expires in 2010. This amount will be available to offset like amounts of any future taxable gains.

7. Subsequent Event:

On December 3, 2002, an ordinary income dividend of \$.076506 was declared. The dividend was paid on December 20, 2002 to shareholders of record on December 10, 2002.

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Corporate High Yield Fund III, Inc., November 30, 2002

PORTFOLIO INFORMATION

As of November 30, 2002

Top Ten Holdings

The AES Corporation

AES is a worldwide power producer with operations in the United States, Europe, Latin America and Asia. Power generation and sales are made primarily to industrial customers, although the company has a direct sales business to end users.

Intrawest Corp.

Intrawest develops and operates village-scale ski resorts across North America. The company owns 10 ski resorts including Whistler/Blackcomb in British Columbia, Tremblant in Quebec, Stratton in Vermont and Telluride in Colorado. The company also has other real estate interests.

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NTL Communications Corporation	NTL provides communication services to resellers and wholesale customers. The company offers services over telephone, cable television and Internet.
Cablevisions Systems Corporation	Cablevision Systems New York Group provides cable and entertainment services. The company has interests in multimedia delivery, subscription cable television, championship professional sports teams and program networks. The company serves customers in the New York metropolitan area.
Ocean Rig Norway AS	Ocean Rig Norway owns and operates state-of-the-art drilling and production rigs with a focus on deep waters and complex drilling environments located off the coast of Canada in the North Atlantic in oil fields off the West Coast of Africa.
Building Materials Corporation	Building Materials is a manufacturer of residential products, with Timberline as its premier brand.
Primedia, Inc.	Primedia, a media company, provides special advertising to the consumer, business-to-business and education. The company's products include specialty magazines, trade magazines, information products, supplements and vocational networks. Primedia's magazines include the well-known "Seventeen" and "Modern Bride."
Acme Television/Finance	Acme Television owns broadcast television stations in mid-sized markets across the United States. Acme Finance is an affiliate of the WB Television Network.
Premier Parks Inc./Six Flags Inc.	The company operates regional theme entertainment parks in the United States and Europe. Its parks operate under the Six Flags name, as well as local brand names such as City, Geanga Lake, Great Escape, Riverside and Six Flags Parks. The company also operates several water parks.
Port Arthur Finance Corporation	Port Arthur Finance is an oil refinery owned by Premcor Inc. Bonds owned by the Fund are secured by the part of the refinery that processes heavy crude, thereby allowing the company to benefit from the price of cheaper heavy crude oils.

Portfolio Profile

Quality Ratings by Standard & Poor's	Percent of Long-Term Investments
BBB .....	7%
BB .....	24
B .....	54
CCC .....	11
NR (Not Rated) .....	4

Five Largest Industries	Percent of Total Assets
-------------------------	-------------------------

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Energy--Other .....	7.2%
Wireless .....	6.8
Utility .....	6.4
Cable--U.S .....	6.2
Leisure .....	5.9

---

Five Largest Foreign Countries*	Percent of Long-Term Investments
Canada .....	7.4%
Bahamas .....	1.9
Luxembourg .....	1.9
Norway .....	1.8
Bermuda .....	1.7

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

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Foreign Holdings*	Percent of Long-Term Investments
Total Foreign Holdings.....	19.6%
Emerging Market Holdings.....	1.2

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

OFFICERS AND DIRECTORS

Terry K. Glenn, President and Director  
 James H. Bodurtha, Director  
 Joe Grills, Director  
 Herbert I. London, Director  
 Andre F. Perold, Director  
 Roberta Cooper Ramo, Director  
 Robert S. Salomon, Jr., Director  
 Melvin R. Seiden, Director  
 Stephen B. Swensrud, Director  
 B. Daniel Evans, Vice President  
 Elizabeth M. Phillips, Vice President  
 Donald C. Burke, Vice President and Treasurer  
 David W. Clayton, Secretary

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Effective January 1, 2003, Melvin R. Seiden, Director of Merrill Lynch Corporate High Yield Fund III, Inc., retired. The Fund's Board of Directors wishes Mr. Seiden well in his retirement.

---

Custodian

State Street Bank and Trust Company  
 One Heritage Drive  
 North Quincy, MA 02171

Transfer Agent

Equiserve Trust Company, N.A.  
 150 Royall Street  
 Canton, MA 02021

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NYSE Symbol

CYE

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[LOGO] Merrill Lynch Investment Managers

[GRAPHIC OMITTED]

Corporate High Yield Fund III, Inc. seeks to provide shareholders with current income by investing primarily in a diversified portfolio of fixed income securities that are rated in the lower rating categories of the established rating services (Ba or lower by Moody's Investors Service, Inc. or BB or lower by Standard & Poor's Corporation) or are unrated securities of comparable quality.

This report, including the financial information herein, is transmitted to shareholders of Corporate High Yield Fund III, Inc. for their information. It is not a prospectus. The Fund has leveraged its Common Stock to provide Common Stock shareholders with a potentially higher rate of return. Leverage creates risk for Common Stock shareholders, including the likelihood of greater volatility of net asset value and market price of Common Stock shares, and the risk that fluctuations in short-term interest rates may reduce the Common Stock's yield. Past performance results shown in this report should not be considered a representation of future performance. Statements and other information herein are as dated and are subject to change.

Corporate High Yield Fund III, Inc.  
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