

JOHN HANCOCK PREFERRED INCOME FUND III  
Form N-Q  
October 27, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811- 21287

John Hancock Preferred Income Fund III  
(Exact name of registrant as specified in charter)

601 Congress Street, Boston, Massachusetts 02210  
(Address of principal executive offices) (Zip code)  
Alfred P. Ouellette, Senior Attorney and Assistant Secretary

601 Congress Street

Boston, Massachusetts 02210

(Name and address of agent for service)

Registrant's telephone number, including area code: 617-663-4324

Date of fiscal year end: May 31  
Date of reporting period: August 31, 2006

ITEM 1. SCHEDULE OF INVESTMENTS

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**Preferred Income Fund III**

Securities owned by the Fund on  
August 31, 2006 (unaudited)

<b>Issuer, description</b>	<b>Interest rate (%)</b>	<b>Maturity date</b>	<b>Credit rating (A)</b>	<b>Par value (\$000)</b>	<b>Value</b>
<b>Bonds 6.61%</b> (Cost \$71,403,221)					<b>\$70,736,494</b>
<b>Automobile Manufacturers 0.20%</b>					<b>2,162,675</b>

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Ford Motor Co., Note	7.450	07-16-31	B+	2,755	2,162,675
<b>Consumer Finance</b>					<b>3,032,070</b>
General Motors Acceptance Corp., Bond	8.000	11-01-31	BB	3,000	3,032,070
<b>Electric Utilities 3.53%</b>					<b>37,782,335</b>
Black Hills Corp., Note	6.500	05-15-13	BBB-	15,000	15,111,735
DPL, Inc., Sr Note	6.875	09-01-11	BB	5,036	5,277,874
Entergy Gulf States, Inc., 1st Mtg Bond	6.200	07-01-33	BBB+	15,000	14,117,115
Kentucky Power Co., Sr Note, Ser D	5.625	12-01-32	BBB	3,565	3,275,611
<b>Integrated Oil &amp; Gas 0.51%</b>					<b>5,459,755</b>
Amerada Hess Corp., Note	7.125	03-15-33	BBB-	5,000	5,459,755
<b>Multi-Utilities 1.06%</b>					<b>11,293,500</b>
DTE Energy Co., Sr Note	6.375	04-15-33	BBB-	7,500	7,373,962
TECO Energy, Inc., Note	7.000	05-01-12	BB	3,810	3,919,538
<b>Oil &amp; Gas Refining &amp; Marketing 1.03%</b>					<b>11,006,159</b>
Valero Energy Corp., Note	7.500	04-15-32	BBB-	9,500	11,006,159
<b>Issuer, description, maturity date</b>			<b>Credit</b>	<b>Par value</b>	<b>Value</b>
<b>Capital preferred securities 8.63%</b>			<b>rating (A)</b>	<b>(\$000)</b>	<b>\$92,350,188</b>
(Cost \$96,844,716)					
<b>Diversified Banks 3.21%</b>					<b>34,322,500</b>
Credit Agricole Preferred Funding Trust, 7.00%, 01-29-49			A	9,000	9,135,000
Lloyds TSB Bank Plc, 6.90%, 11-29-49 (United Kingdom)			A+	25,000	25,187,500

## Preferred Income Fund III

Securities owned by the Fund on

August 31, 2006 (unaudited)

<b>Electric Utilities 0.62%</b>			<b>6,629,625</b>
DPL Capital Trust II, 8.125%, 09-01-31	BB-	6,225	6,629,625
<b>Gas Utilities 1.22%</b>			<b>13,106,001</b>
KN Capital Trust I, 8.56%, Ser B, 04-15-27	BB+	8,735	8,560,300
KN Capital Trust III, 7.63%, 04-15-28	BB+	4,960	4,545,701
<b>Integrated Telecommunication Services 1.41%</b>			<b>15,112,065</b>
TCI Communications Financing Trust III, 9.65%, 03-31-27	BBB-	14,210	15,112,065
<b>Investment Banking &amp; Brokerage 0.94%</b>			<b>10,025,000</b>
HBOS Capital Funding L.P., 6.85%, 03-29-49 (United Kingdom)	A	10,000	10,025,000
<b>Multi-Utilities 0.90%</b>			<b>9,577,121</b>
Dominion Resources Capital Trust I, 7.83%, 12-01-27	BB+	9,097	9,577,121
<b>Other Diversified Financial Services 0.33%</b>			<b>3,577,876</b>
JPM Capital Trust I, 7.54%, 01-15-27	A-	3,447	3,577,876
<b>Issuer</b>		<b>Shares</b>	<b>Value</b>
<b>Common stocks 4.30%</b>			<b>\$46,072,920</b>
(Cost \$33,950,446)			
<b>Electric Utilities 0.78%</b>			<b>8,363,468</b>
FPL Group, Inc.		129,000	5,734,050
Scottish Power Plc, American Depositary Receipt (ADR) (United Kingdom)		55,555	2,629,418
<b>Gas Utilities 0.31%</b>			<b>3,351,342</b>
ONEOK, Inc.		87,571	3,351,342
<b>Independent Power Producers &amp; Energy Traders 1.67%</b>			<b>17,889,810</b>
TXU Corp.		270,198	17,889,810
<b>Multi-Utilities 1.54%</b>			<b>16,468,300</b>
CH Energy Group, Inc.		20,600	1,011,872
DTE Energy Co.		281,516	11,750,478
TECO Energy, Inc.		235,000	3,705,950

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**Preferred Income Fund III**

Securities owned by the Fund on

August 31, 2006 (unaudited)

<b>Issuer, description</b>	<b>Credit rating (A)</b>	<b>Shares</b>	<b>Value</b>
<b>Preferred stocks 80.38%</b>			<b>\$860,026,983</b>
(Cost \$884,295,022)			
<b>Agricultural Products 1.45%</b>			<b>15,532,978</b>
Ocean Spray Cranberries, Inc., 6.25%, Ser A (S)	BB+	195,000	15,532,978
<b>Asset Management &amp; Custody Banks 0.38%</b>			<b>4,052,888</b>
BNY Capital V, 5.95%, Ser F	A-	170,361	4,052,888
<b>Automobile Manufacturers 2.34%</b>			<b>24,985,316</b>
Ford Motor Co., 7.50%	B+	761,385	14,161,761
General Motors Corp., 7.25%, Ser 07-15-41	B-	50,641	904,448
General Motors Corp., 7.375%, Ser 05-15-48	Caa1	558,194	9,919,107
<b>Broadcasting &amp; Cable TV 0.29%</b>			<b>3,077,833</b>
Comcast Corp., 7.00%	BBB+	119,900	3,077,833
<b>Consumer Finance 2.40%</b>			<b>25,721,462</b>
Ford Motor Credit Co., 7.60%	Ba3	25,000	552,250
HSBC Finance Corp., 6.36%, Depository Shares, Ser B	A	250,000	6,385,000
HSBC Finance Corp., 6.875%	AA-	636,118	16,240,093
SLM Corp., 6.00%	A	64,195	1,533,619
SLM Corp., 6.97%, Ser A	BBB+	18,800	1,010,500
<b>Diversified Banks 7.22%</b>			<b>77,286,300</b>
BAC Capital Trust II, 7.00%	A	94,600	2,377,298
BAC Capital Trust III, 7.00%	A	22,000	558,580
BAC Capital Trust IV, 5.875%	A	411,400	9,709,040

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Fleet Capital Trust VII, 7.20%	A	76,004	1,931,262
Royal Bank of Scotland Group Plc, 5.75%, Ser L (United Kingdom)	A	960,000	23,116,800
Santander Finance Preferred SA Unipersonal, 6.41%, Ser 1 (Spain)	A-	100,000	2,525,000
USB Capital IV, 7.35%	A	59,100	1,491,093
USB Capital V, 7.25%	A	60,700	1,544,208
USB Capital VIII, 6.35%, Ser 1	A	269,700	6,661,590
USB Capital X, 6.50%	A	85,000	2,117,350
Wachovia Preferred Funding Corp., 7.25%, Ser A	A-	674,800	18,867,408
Wells Fargo Capital Trust IV, 7.00%	A+	177,800	4,461,002
Wells Fargo Capital Trust VII, 5.85%	A+	81,700	1,925,669

**Electric Utilities 11.93%** **127,599,503**

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Cleveland Electric Financing Trust I, 9.00%	BB+	27,400	709,386
Consolidated Edison, Inc., \$5.00, Ser A	BBB+	30,000	2,617,500
Consolidated Edison, Inc., 7.25%	A2	56,000	1,440,880
DTE Energy Trust II, 7.50%	BB+	36,600	934,398
Entergy Mississippi, Inc., 7.25%	A-	113,668	2,904,217

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Securities owned by the Fund on

August 31, 2006 (unaudited)

FPC Capital I, 7.10%, Ser A	BB+	746,700	18,794,439
FPL Group Capital Trust I, 5.875%	BBB+	490,000	11,515,000
Georgia Power Capital Trust V, 7.125%	BBB+	156,100	3,978,989
Georgia Power Co., 6.00%, Ser R	A	730,000	18,023,700
Great Plains Energy, Inc., 8.00%, Conv	BBB-	685,400	16,792,300
HECO Capital Trust III, 6.50%	BBB-	130,000	3,313,700
Interstate Power & Light Co., 7.10%, Ser C	BBB-	354,900	9,116,494
Interstate Power & Light Co., 8.375%, Ser B	Baa3	54,500	1,648,625
Northern States Power Co., 8.00%	BBB-	84,550	2,191,536
PPL Electric Utilities Corp., 6.25%, Depository Shares	BBB	130,000	3,331,250
PPL Energy Supply, LLC, 7.00%	BBB	547,370	13,963,409
Southern California Edison Co., 6.00%	BBB-	30,000	2,921,250
Southern California Edison Co., 6.125%	BBB-	20,000	1,966,250
Virginia Power Capital Trust, 7.375%	BB+	447,600	11,436,180

**Gas Utilities 3.33%** **35,620,012**

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Laclede Capital Trust I, 7.70%	BBB+	82,000	2,077,880
Southern Union Co., 7.55%, Ser A	BB+	449,000	11,651,550
Southwest Gas Capital II, 7.70%	BB	810,250	20,953,065
Vectren Utility Holdings, Inc., 7.25%	A-	37,100	937,517

**Hotels, Resorts & Cruise Lines 0.28%** **3,014,812**

Hilton Hotels Corp., 8.00%	BB	118,600	3,014,812
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**Integrated Telecommunication Services 2.61%** **27,909,843**

Telephone & Data Systems, Inc., 6.625%	A-	462,900	11,317,905
Telephone & Data Systems, Inc., 7.60%, Ser A	A-	492,976	12,373,698
Verizon New England, Inc., 7.00%, Ser B	A3	166,400	4,218,240

**Investment Banking & Brokerage 9.35%** **100,068,348**

Fleet Capital Trust IX, 6.00%	A	469,200	11,354,640
Goldman Sachs Group, Inc., 6.20%, Ser B	A-	240,000	6,165,600
Lehman Brothers Holdings Capital Trust III, 6.375%, Ser K	A-	793,400	19,866,736
Lehman Brothers Holdings, Inc., 5.67%, Depositary Shares, Ser D	A-	142,500	6,904,125
Merrill Lynch Preferred Capital Trust III, 7.00%	A-	417,017	10,642,274
Merrill Lynch Preferred Capital Trust IV, 7.12%	A-	232,700	5,966,428
Merrill Lynch Preferred Capital Trust V, 7.28%	A-	373,700	9,660,145
Morgan Stanley Capital Trust III, 6.25%	A-	764,025	18,550,527
Morgan Stanley Capital Trust IV, 6.25%	A-	393,925	9,702,373
Morgan Stanley Capital Trust VI, 6.60%	A-	50,000	1,255,500

**Life & Health Insurance 5.24%** **56,073,268**

Lincoln National Capital VI, 6.75%, Ser F	A-	304,000	7,776,320
MetLife, Inc., 6.50%, Ser B	BBB	1,108,850	28,331,117
Phoenix Cos., Inc. (The), 7.45%	BBB	531,949	13,362,559
PLC Capital Trust IV, 7.25%	BBB+	141,400	3,595,802
PLC Capital Trust V, 6.125%	BBB+	83,300	1,949,220
Prudential Plc, 6.50% (United Kingdom)	A-	41,500	1,058,250

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**Preferred Income Fund III**

Securities owned by the Fund on

August 31, 2006 (unaudited)

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**Multi-Line Insurance 3.86%** **41,289,379**

Aegon NV, 6.375% (Netherlands)	A-	241,265	6,026,800
Aegon NV, 6.50% (Netherlands)	A-	138,850	3,490,689
ING Groep NV, 7.05% (Netherlands)	A	603,970	15,304,600
ING Groep NV, 7.20% (Netherlands)	A	641,000	16,467,290

**Multi-Utilities 6.71%** **71,787,383**

Aquila, Inc., 7.875%	B2	218,707	5,458,927
Avista Corp., \$6.95, Ser K	BB-	138,517	13,990,217
BGE Capital Trust II, 6.20%	BBB-	668,928	15,913,797
DTE Energy Trust I, 7.80%	BB+	202,800	5,191,680
PNM Resources, Inc., 6.75%, Conv	BBB-	273,199	14,069,748
PSEG Funding Trust II, 8.75%	BB+	462,275	12,222,551
Public Service Electric & Gas Co., 5.05%, Ser D	BB+	30,000	2,760,000
TECO Capital Trust I, 8.50%	B	85,845	2,180,463

**Oil & Gas Exploration & Production 4.20%** **44,885,851**

Apache Corp., 5.68%, Depository Shares, Ser B	BBB	27,500	2,703,594
Chesapeake Energy Corp., 6.25%, Conv (G)	B+	6,330	1,699,605
Devon Energy Corp., 6.49%, Ser A	BB+	25,250	2,577,868
Nexen, Inc., 7.35% (Canada)	BB+	1,494,079	37,904,784

**Other Diversified Financial Services 9.08%** **97,187,111**

ABN AMRO Capital Funding Trust V, 5.90%	A	867,400	20,635,446
ABN AMRO Capital Funding Trust VI, 6.25%	A	353,900	8,996,138
Citigroup Capital VII, 7.125%	A	28,042	704,976
Citigroup Capital VIII, 6.95%	A	241,200	6,128,892
Citigroup Capital IX, 6.00%	A	264,800	6,437,288
Citigroup Capital X, 6.10%	A	720,000	17,791,200
General Electric Capital Corp., 5.875%	AAA	325,930	7,845,135
General Electric Capital Corp., 6.10%	AAA	94,747	2,345,936
JPMorgan Chase Capital XI, 5.875%, Ser K	A-	1,030,000	24,205,000
JPMorgan Chase Capital XIV, 6.20%, Ser N	A-	25,000	614,500
JPMorgan Chase Capital XVI, 6.35%	A-	60,000	1,482,600

**Real Estate Investment Trusts 5.00%** **53,534,232**

Duke Realty Corp., 6.50%, Depository Shares, Ser K	BBB	151,600	3,706,620
Duke Realty Corp., 6.60%, Depository Shares,			

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Ser L Duke Realty Corp., 6.625%, Depository Shares,	BBB	118,500	2,909,175
Ser J Kimco Realty Co., 6.65%, Depository Shares,	BBB	638,100	15,697,260
Ser F Public Storage, Inc., 6.18%, Depository Shares, Ser D	BBB+	384,750	9,772,650
Public Storage, Inc., 6.50%, Depository Shares, Ser W	BBB+	20,000	473,400
Public Storage, Inc., 7.50%, Depository Shares, Ser V	BBB+	450,000	11,074,500
	BBB+	184,530	4,755,338

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## Preferred Income Fund III

Securities owned by the Fund on  
August 31, 2006 (unaudited)

Public Storage, Inc., 7.625%, Depository Shares, Ser T	BBB+	25,500	648,720
Public Storage, Inc., 8.00%, Depository Shares, Ser R	BBB+	177,100	4,496,569
<b>Regional Banks 2.47%</b>			<b>26,442,550</b>

National Commerce Capital Trust II, 7.70%	A-	86,800	2,227,288
PFGI Capital Corp., 7.75%	A	926,900	24,215,262
<b>Reinsurance 0.27%</b>			<b>2,840,994</b>

RenaissanceRe Holdings Ltd., 6.08%, Ser C (Bermuda)	BBB	127,800	2,840,994
<b>Specialized Finance 0.49%</b>			<b>5,289,150</b>

CIT Group, Inc., 6.35%, Ser A	BBB+	70,000	1,802,500
Repsol International Capital Ltd., 7.45%, Ser A (Cayman Islands)	BB+	137,000	3,486,650
<b>Thriffs &amp; Mortgage Finance 1.19%</b>			<b>12,736,930</b>

Abbey National Plc, 7.25% (United Kingdom)	A	163,265	4,109,380
Abbey National Plc, 7.375% (United Kingdom)	A	339,000	8,627,550
<b>Wireless Telecommunication Services 0.29%</b>			<b>3,090,840</b>

United States Cellular, 7.50%	A-	119,800	3,090,840
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Issuer, description, maturity date	Interest rate (%)	Maturity date	Credit rating (A)	Par value (\$000)	Value
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<b>Short-term investments 0.08%</b>					<b>\$811,000</b>
(Cost \$811,000)					
<b>Government U.S. Agency 0.08%</b>					<b>811,000</b>
<hr/>					
Federal Home Loan Bank, Discount Note	4.95	09-01-06	AAA	811	811,000
<b>Total investments 100.00%</b>					<b>\$1,069,997,585</b>

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**Preferred Income Fund III**

## Footnotes to Schedule of Investments

August 31, 2006 (unaudited)

(A) Credit ratings are unaudited and are rated by Moody's Investors Service where Standard &amp; Poor's ratings are not available.

(G) Security rated internally by John Hancock Advisers, LLC.

(S) This security is exempt from registration under Rule 144A of the Securities Act of 1933. Such security may be resold, normally to qualified institutional buyers, in transactions exempt from registration. Rule 144A securities amounted to \$15,532,978 or 1.45% of the Fund's total investments as of August 31, 2006.

Parenthetical disclosure of a foreign country in the security description represents country of a foreign issuer.

The percentage shown for each investment category is the total value of that category as a percentage of the total investments of the Fund.

The cost of investments owned on August 31, 2006, including short-term investments, was \$1,087,304,405. Gross unrealized appreciation and depreciation of investments aggregated \$22,863,500 and \$40,170,320, respectively, resulting in net unrealized depreciation of \$17,306,820.

Footnotes to Schedule of Investments - Page 1

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**Preferred Income Fund III**

## Financial futures contracts

August 31, 2006 (unaudited)

<b>Open contracts</b>	<b>Number of contracts</b>	<b>Position</b>	<b>Expiration</b>	<b>Depreciation</b>
U.S. 10-Year Treasury Note	1,100	Short	December-06	(\$506,132)

Financial futures contracts

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## Preferred Income Fund III

Interest rate swap contracts

August 31, 2006 (unaudited)

Notional amount	Rate type		Termination date	Appreciation
	Payments made by Fund	Payments received by Fund		
\$35,000,000	4.00% (a)	3-month LIBOR	Apr 09	\$995,494

(a) Fixed rate

Interest rate swap contracts

### ITEM 2. CONTROLS AND PROCEDURES.

(a) Based upon their evaluation of the registrant's disclosure controls and procedures as conducted within 90 days of the filing date of this Form N-Q, the registrant's principal executive officer and principal financial officer have concluded that those disclosure controls and procedures provide reasonable assurance that the material information required to be disclosed by the registrant on this report is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) There were no changes in the registrant's internal control over financial reporting that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

### ITEM 3. EXHIBITS.

Separate certifications for the registrant's principal executive officer and principal financial officer, as required by Rule 30a-2(a) under the Investment Company Act of 1940, are attached.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

John Hancock Preferred Income Fund III

By: /s/ Keith F. Hartstein

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 Keith F. Hartstein  
 President and Chief Executive Officer

Date: October 27, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Keith F. Hartstein

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Keith F. Hartstein  
President and Chief Executive Officer

Date: October 27, 2006

By: /s/ John G. Vrysen

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John G. Vrysen

Executive Vice President and Chief Financial Officer

Date: October 27, 2006

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