

HEXCEL CORP /DE/
Form 424B3
May 15, 2003

Filed Pursuant to Rule 424(b) (3)
Registration Number 333-103664

Hexcel Corporation

9 3/4% Senior Subordinated Notes Due 2009

Investing in the notes involves risks. See "Risk Factors" on page 5.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these notes or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

We will pay interest on the notes on January 15 and July 15 of each year. The notes will mature on January 15, 2009. At our option, we may redeem the notes on or after January 15, 2004 at the redemption prices set forth in this prospectus. There is no sinking fund for the notes.

Private equity funds affiliated with Goldman, Sachs & Co. own approximately 38% of our voting stock and these funds have the right to appoint up to three members of our ten member board of directors.

This prospectus has been prepared for and will be used by (i) Goldman, Sachs & Co. and its broker-dealer subsidiaries in connection with offers and sales of the notes in market-making transactions from time to time and (ii) GS Capital Partners 2000, L.P. and certain of its affiliates in connection with offers and sales of up to \$33,195,000 aggregate principal amount of notes currently owned by them. These transactions may occur in the open market or may be privately negotiated, at prices related to prevailing market prices at the time of sale or at negotiated prices. Goldman, Sachs & Co. may act as principal or agent in these market-making transactions. Hexcel will not receive any of the proceeds of such sales of the notes. Goldman, Sachs & Co. and certain of its affiliates have agreed to reimburse Hexcel for any expenses incurred in connection with this registration.

Goldman, Sachs & Co.

The date of this prospectus is May 15, 2003.

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this offering circular. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the notes offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the SEC using a "shelf" registration process. You should read this prospectus together with the additional information described under the heading "Available Information." You may also obtain from the SEC a copy of the registration statement and exhibits that we filed with the SEC. The registration statement may contain additional information that may be important to you.

The outstanding notes were originally issued by us on July 20, 1999 and September 11, 2001.

This prospectus may be used by (i) Goldman, Sachs & Co. ("Goldman Sachs") and its broker-dealer subsidiaries in connection with offers and sales of the notes in market-making transactions from time to time and (ii) GS Capital Partners 2000, L.P. and certain of its affiliates (collectively, "GS 2000 Funds") in connection with offers and sales of notes currently owned by them. These transactions may occur in the open market or may be privately negotiated, at prices related to prevailing market prices at the time of sale or at negotiated prices. The GS 2000 Funds are affiliates of Goldman Sachs and its broker-dealer subsidiaries.

AVAILABLE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission, or SEC. You may read and copy any document Hexcel files at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-888-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from the SEC's web site at www.sec.gov or from our web site at www.hexcel.com. However, the information on our web site does not constitute a part of this prospectus.

In this document, we "incorporate by reference" the information we file with the SEC, which means that we can disclose important information to you by referring to that information. The information incorporated by reference is considered to be a part of this prospectus, and later information filed with the SEC will update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or after the date of this prospectus until the offering is completed.

- o Annual Report on Form 10-K for the fiscal year ended December 31, 2002, filed with the SEC on March 3, 2003;
- o Annual Report on Form 10-K/A (Amendment No. 1) for the fiscal year ended December 31, 2002, filed with the SEC on March 31, 2003;

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- o Annual Report on Form 10-K/A (Amendment No. 2) for the fiscal year ended December 31, 2002, filed with the SEC on April 29, 2003; and
- o Current Reports on Form 8-K dated January 27, 2003, March 10, 2003, March 20, 2003 and April 4, 2003.

You may request a copy of these filings at no cost, by writing or telephoning Hexcel at: Two Stamford Plaza, 281 Tresser Boulevard, Stamford, Connecticut 06901, (203) 969-0666, Attention: Investor Relations.

You should rely only upon the information provided in this prospectus or incorporated by reference into this prospectus. We have not authorized anyone to provide you with different information. You should not assume that the information in this prospectus, including any information incorporated by reference, is accurate as of any date other than the date of this prospectus.

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FORWARD-LOOKING STATEMENTS

This prospectus includes and incorporates by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to future prospects, developments and business strategies. These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "should," "will," and similar terms and phrases, including references to assumptions. Such statements are based on current expectations, are inherently uncertain, and are subject to changing assumptions. These statements are contained in sections entitled "Summary," "Risk Factor," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and other sections of this prospectus and in the documents incorporated by reference in this prospectus.

Such forward-looking statements include, but are not limited to:

- o estimates of commercial aerospace production and delivery rates, including those of Airbus Industries ("Airbus") and The Boeing Company ("Boeing");
- o expectations regarding growth in sales to regional and business aircraft manufacturers, and to the aircraft aftermarket;
- o expectations regarding the growth in the production of military aircraft, helicopters and launch vehicle programs in 2003 and beyond;
- o expectations regarding the recovery of demand for electronics fabrics used in printed wiring boards, as well as future business trends in the electronics fabrics industry;
- o expectations regarding the demand for soft body armor made of aramid and specialty fabrics;
- o expectations regarding growth in sales of composite materials for wind energy, automotive and other industrial applications;

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- o estimates of changes in net sales by market compared to 2002;
- o expectations regarding our equity in the earnings or losses of joint ventures, as well as joint venture investments and loan guarantees;
- o expectations regarding working capital trends and capital expenditures;
- o the availability and sufficiency of the existing senior credit facility and other financial resources to fund our worldwide operations in 2003 and beyond; and
- o the impact of various market risks, including fluctuations in the interest rates underlying our variable-rate debt, fluctuations in currency exchange rates and fluctuations in commodity prices.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different. Such factors include, but are not limited to, the following: changes in general economic and business conditions; changes in current pricing and cost levels; changes in political, social and economic conditions and local regulations, particularly in Asia and Europe; foreign currency fluctuations; changes in aerospace delivery rates; reductions in sales to any significant customers, particularly Airbus or Boeing; changes in sales mix; changes in government defense procurement budgets; changes in military aerospace programs technology; industry capacity; competition; disruptions of established supply channels; manufacturing capacity constraints; and the availability, terms and deployment of capital.

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, actual results may vary materially from those expected, estimated or projected. In addition to other factors that affect our operating results and financial position, neither past financial performance nor our expectations should be considered reliable indicators of future performance. Investors should not use historical trends to anticipate results or trends in future periods. Further, our stock price is subject to volatility. Any of the factors discussed above could have an adverse impact on our stock price. In addition, failure of sales or income in any quarter to meet the investment community's expectations,

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as well as broader market trends, can have an adverse impact on our stock price. We do not undertake an obligation to update its forward-looking statements or risk factors to reflect future events or circumstances.

HEXCEL CORPORATION

We are the world's leading producer of advanced structural materials. We develop, manufacture and market lightweight, high-performance reinforcement products, composite materials and structures for use in commercial aerospace, space and defense, electronics and general industrial applications. Our materials are used in a wide variety of end products, such as commercial and military aircraft, space launch vehicles and satellites, printed wiring boards, computers, cellular telephones, televisions, soft body armor, high-speed trains and ferries, cars and trucks, wind turbine blades, reinforcements for bridges and other structures, window blinds, and a wide variety of recreational equipment.

We are incorporated under the laws of the State of Delaware. Our

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principal executive offices are located at Two Stamford Plaza, 281 Tresser Boulevard, Stamford, Connecticut 06901. Our general telephone number is 203-969-0666.

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RISK FACTORS

You should carefully consider the risks described below as well as other matters described in this prospectus.

Risks Relating to Our Indebtedness and the Notes

We have substantial debt that could limit our ability to make payments on the notes and reduce the effectiveness of our operations.

We have substantial debt and debt service requirements. We may not be able to generate sufficient cash flow from operations or obtain sufficient funding to satisfy our debt service obligations, including the payment of interest and principal at final maturity on the notes. As of March 31, 2003, we had approximately \$531.9 million of total debt (of which \$340.0 million consisted of the notes and the balance consisted of other debt). This substantial level of debt has important consequences, including:

- o making it more difficult for us to satisfy our obligations with respect to these notes;
- o placing us at competitive disadvantage compared to our competitors that have less debt;
- o limiting our ability to borrow additional amounts for working capital, capital expenditures, debt service requirements, execution of our growth strategy and research and development costs;
- o limiting our ability to use operating cash flow for working capital, capital expenditures, debt service requirements, and other areas of our business;
- o increasing our vulnerability to general adverse economic and industry conditions; and
- o limiting our ability to capitalize on business opportunities and to react to competitive pressures and adverse changes in government regulation.

We may not be able to generate sufficient cash flow to meet our debt service obligations, including payments on the notes.

Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt obligations will depend on our future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of our control. If we do not generate sufficient cash flow from operations to satisfy our debt obligations, including payments on the notes, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We may not be able to refinance our existing debt or obtain additional financing on acceptable terms. We may not be able to sell assets and if assets are sold, the amount of proceeds or timing of such sales

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may not be sufficient to satisfy our debt obligations. In addition, the sales of assets or the terms of a refinancing or additional debt may not be permitted under the terms of our various debt instruments then in effect. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms would likely result in an event of default under all of our material debt and impair our ability to satisfy our obligations on the notes.

We do not expect to generate sufficient cash flow from operations to repay our senior credit facility when it matures or the notes when they mature. We expect that our ability to repay the notes at their scheduled maturity will be dependent in whole or in part on (i) replacing our senior credit facility on or prior to its maturity and (ii) refinancing all or a portion of the notes before they mature.

Despite current indebtedness levels, we and our subsidiaries may still be able to incur substantially more debt. This could further exacerbate the risks associated with our substantial leverage.

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We and our subsidiaries may be able to incur substantial additional indebtedness in the future. The terms of the indenture do not fully prohibit us or our subsidiaries from doing so. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they now face could intensify.

We may not be able to finance future operations and capital needs because of restrictions contained in our debt agreements.

The operating and financial restrictions and covenants that are contained in our existing debt agreements and that will be contained in any future financing agreements may impair our ability to finance future operations or capital needs. In addition, our senior credit facility requires that we maintain compliance with specified financial ratios. A breach of any of these restrictions or covenants could cause a default under the notes and our other debt. A significant portion of our debt may then become immediately due and payable. We may not have, or be able to obtain, sufficient funds to make these accelerated payments, including payments on the notes.

We may not have the ability to raise the funds necessary to finance the change of control offer required by the indenture.

Upon the occurrence of specific kinds of change of control events, we will be required to offer to repurchase all outstanding notes at 101% of the principal amount thereof plus accrued and unpaid interest to the date of repurchase. However, it is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of notes or that restrictions in our senior credit facility will not allow such repurchases. In addition, certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a "Change of Control" under the indenture.

If a reasonably active trading market does not continue for these notes you may not be able to resell them.

Though the notes are eligible for trading in PORTAL and have a reasonably active trading market, an active trading market may not continue for the notes. If an active trading market ceases, you may not be able to resell your notes at their fair market value or at all. Future trading prices of the notes will depend on many factors, including, among other things,

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prevailing interest rates, our operating results and the market for similar securities. We have been informed by Goldman Sachs that they currently intend to make a market in these notes. However, Goldman Sachs may cease their market-making at any time. We do not intend to apply for listing the notes on any securities exchange.

Risks Relating to Our Business

Decreased demand in the commercial aerospace industry could significantly impair our sales, profit margins and financial condition.

Further reductions in the demand for new commercial aircraft could result in reduced net sales for our commercial aerospace products and could further reduce our profit margins. Approximately 46% of our net sales for the year ended December 31, 2002 were derived from sales to the commercial aerospace industry. Reductions in demand for commercial aircraft or a delay in deliveries could result from many factors, including a terrorist event similar to that which occurred on September 11, 2001 and any subsequent military response, changes in the propensity for the general public to travel by air, a rise in the cost of aviation fuel, consolidation of airlines and slower macroeconomic growth.

In addition, our customers continue to emphasize the need for improved yield in the use of our products and cost reduction throughout the commercial aerospace supply chain. In response to these pressures, we reduced the price of some commercial aerospace products in recent years and are likely to continue to do so in the future. Where possible, we seek to offset or mitigate the impact of such price and cost reductions by productivity improvements and reductions in the costs of the materials and services we procure.

The industries in which we operate are cyclical, and downturns in them may result in significant volatility in our sales, earnings and cash flows.

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The core industries in which we operate are, to varying degrees, cyclical and have historically experienced downturns. We are currently in the midst of cyclical downturns in the commercial aerospace, electronics and ballistics industries. A further deterioration in these industries may continue and it is uncertain as to whether, when and to what extent these industries will recover. Any further deterioration or a lack of recovery in these industries could lead to further reductions in our operating profitability, increase our net losses, and result in a breach of the financial maintenance covenants under our senior credit facility.

A significant decline in business with Boeing or Airbus could materially impair our business, operating results, prospects and financial condition.

Approximately 22% and 23% of our sales for the years ended December 31, 2002 and December 31, 2001, respectively were made to Boeing and its related subcontractors. Approximately 15% and 16% of our sales for the years ended December 31, 2002 and December 31, 2001, respectively, were made to the European Aeronautic Defence Company, including Airbus and related subcontractors. Accordingly, the loss of, or significant reduction in purchases by, either of these customers from the Company could materially impair our operating results and weaken our financial condition.

Reductions in space and defense spending could result in a decline in our net sales.

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The growth in military aircraft production that has occurred in recent years may not be sustained and production may cease to grow. The production of military aircraft depends upon U.S. and European defense budgets and the related demand for defense and related equipment. These defense budgets may decline and sales of defense and related equipment to foreign governments may not continue at expected levels. Approximately 17% of our net sales for the year ended December 31, 2002 were derived from the space and defense industry. The space and defense industry is largely dependent upon government defense budgets, particularly the U.S. defense budget.

A decrease in supply or increase in cost of our raw materials could result in a material decline in our profitability.

Because we purchase large volumes of raw materials, such as epoxy and phenolic resins, aluminum foil, carbon fiber, fiberglass yarn and aramid paper and fiber, any decrease in the supply or increase in the cost of the our raw materials could significantly reduce our profit margins. We may experience a decrease in the supply or an increase in price of our raw materials. Our profitability depends largely on the price and continuity of supply of these raw materials, which are supplied by a limited number of sources. In addition, qualification to use raw materials in some of our products limits the extent to which we are able to substitute alternative materials for these products. Our ability to pass on these costs to our customers is, to a large extent, dependent on the terms of our contracts with our customers and industry conditions, including the extent to which our customers would switch to alternative materials we do not produce in the event of an increase in the prices of our products.

Our substantial international operations are subject to uncertainties which could affect our operating results.

We believe that revenue from sales outside the U.S. will continue to account for a material portion of our total revenue for the foreseeable future. Additionally, we have invested significant resources in our international operations and we intend to continue to make such investments in the future. Our international operations are subject to numerous risks, including:

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- o the difficulty of enforcing agreements and collecting receivables through some foreign legal systems;
- o fluctuations in currency exchange rates;
- o foreign customers may have longer payment cycles than customers in the U.S.;
- o compliance with U.S. Department of Commerce export controls;
- o tax rates in some foreign countries may exceed those of the U.S. and foreign earnings may be subject to withholding requirements or the imposition of tariffs, exchange controls or other restrictions;
- o general economic and political conditions in the foreign countries where we operate may result in reduced profitability of our foreign operations and increase the need for loans or cash investments from other Hexcel subsidiaries to certain of our foreign subsidiaries;
- o the risk that foreign governments may adopt regulations, such as tariffs or regulations relating to restrictions on the transfer of

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capital, or take other actions, such as expropriations, that could increase the costs of operating our business, limit our market opportunities or otherwise harm our business; and

- o the potential difficulty in enforcing intellectual property rights in some foreign countries.

Any one of the above could reduce our net sales, cash flows and profitability, cause us to fail to make scheduled payments of principal or interest on the notes and reduce the market value and liquidity of the notes.

During the past several years, some countries in which we operate or plan to operate have been characterized by varying degrees of inflation and uneven growth rates. We currently do not have political risk insurance in the countries in which we conduct business. While we carefully consider these risks when evaluating our international operations and investments, our broad international operations could cause a reduction in our net sales, cash flows or profitability. We could be required to devote substantial financial and personnel resources to comply with environmental and safety requirements.

Our operations, like those of other companies engaged in similar businesses, require the handling, use, storage and disposal of certain regulated materials. As a result, we are subject to various federal, state, regional, local and foreign laws and regulations pertaining to pollution and protection of the environment, health and safety, governing among other things, emissions to air, discharge to waters and the generation, handling, storage, treatment and disposal of waste and other materials, and remediation of contaminated sites. We have made and will continue to make capital and other expenditures in order to comply with these laws and regulations. However, the requirements of these laws and regulations are complex, change frequently, and could become more stringent in the future.

We have been named as "potentially responsible parties" under the federal Superfund law or similar state laws at several sites requiring clean up based on disposal of wastes they generated. These laws generally impose liability for costs to investigate and remediate contamination without regard to fault and under certain circumstances liability may be joint and several resulting in one responsible party being held responsible for the entire obligation. Liability may also include damages to natural resources. In addition to the foregoing, we have incurred and likely will continue to incur expenses to investigate and clean up several existing and former company-owned or leased properties. We have incurred substantial expenses for all these sites over a number of years, a portion of which has been covered by insurance. Although it is possible that new information could require us to reassess our potential exposure to all pending investigations and remediations, we believe that, based on currently available information, the resolution of these matters will not require the expenditure of material financial resources or require an unduly burdensome devotion of our personnel. See the section entitled "Legal Proceedings" in our Annual Report on Form 10-K/A (Amendment No. 1) for the year ended December 31, 2002, which is incorporated herein by reference.

We believe that our business, operations and facilities are being operated in substantial compliance with applicable environmental and health and safety laws and regulations, many of which provide for substantial fines and criminal sanctions for violations. Based on information presently known to us and accrued environmental reserves, we do not expect environmental costs or contingencies to be material. However, potentially material expenditures could be required in the future. For example, we may be required to comply with

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evolving environmental and health and safety laws, regulations or requirements that may be adopted or imposed in the future or to address newly discovered information or conditions that require a response. The operation of manufacturing plants entails risks in these areas, however, and we may incur material costs or liabilities in the future.

Most of our properties have been the subject of Phase I Environmental Site Assessments. However, not all potential instances of soil and groundwater contamination may have been identified, even at those sites where Environmental Site Assessments have been conducted. Accordingly, we may discover previously unknown environmental conditions and the cost of remediating such conditions may be material.

The interests of our significant shareholders may be different than your interests.

Investors affiliated with Berkshire Partners LLC and Greenbriar Equity Group LLC (the "Berkshire and Greenbriar investors") and investors affiliated with The Goldman Sachs Group, Inc. (the "Goldman Sachs investors") each have the ability to influence our affairs so long as each maintains its ownership of respective specified percentages of our outstanding voting securities, and the interests of each of these investors may not in all cases be the same as your interests. As of March 31, 2003, the Goldman Sachs investors owned approximately 38% of our outstanding voting securities and the Berkshire and Greenbriar investors together owned approximately 35% of our outstanding voting securities. Under our governance agreement with the Goldman Sachs investors, the Goldman Sachs investors are entitled to designate up to three people to serve on our ten-member Board of Directors, and are entitled to designate one director to serve on each committee of our Board of Directors. Under our stockholders agreement with the Berkshire and Greenbriar investor group, the Berkshire and Greenbriar investors are entitled to designate up to two people to serve on our Board of Directors, and are entitled to designate one director to serve on each committee of our Board of Directors. In addition, the governance agreement and the stockholders agreement each provide that our Board of Directors will not authorize specified types of significant transactions without the approval of the directors designated by each of the respective investors. The interests of these investors may be different than your interests.

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CONSOLIDATED RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our consolidated ratio of earnings to fixed charges for each of the last five years.

	Year Ended December		
	1998	1999	2000
	(dollars in millions)		
Income (loss) before Taxes, Equity in Earnings	\$78.3	\$ (5.0)	\$75.0
Interest Expense, Including Amortization of			
Debt Issuance Costs	38.7	73.9	68.7
Interest Portion of Rentals (1)	2.7	3.1	2.3

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Earnings Before Provision for Taxes and Fixed Charges	\$ 119.7	\$ 72.0	\$ 146.0
Interest Expense, Including Amortization of Debt Issuance Costs	\$38.7	\$ 73.9	\$68.7
Interest Portion of Rentals (1)	2.7	3.1	2.3
Total Fixed Charges	\$41.4	\$ 77.0	\$71.0
Ratio of Earnings to Fixed Charges (2)	2.9	N/A	2.1

(1) Calculated as one third of rentals, which is a reasonable approximation of the interest factor.

(2) Earnings were inadequate to cover fixed charges for 2001 and 1999. The deficiency in earnings for the years ended December 31, 2001 and December 31, 1999 is \$(383.7) and \$(5.0), respectively.

USE OF PROCEEDS

This prospectus is delivered in connection with the sale of the notes by (i) Goldman Sachs and its broker-dealer subsidiaries in market-making transactions and (ii) GS 2000 Funds in connection with offers and sales of notes currently owned by them for their own account. We will not receive any of the proceeds from such transactions.

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DESCRIPTION OF NOTES

On January 21, 1999, we issued \$240.0 million aggregate principal amount of 9 3/4% Senior Subordinated Notes Due 2009 under an indenture between Hexcel and The Bank of New York as trustee in a private offering. In July 1999, we completed an exchange offer in which all of the 9 3/4% Senior Subordinated Notes Due 2009 sold in January 1999 were exchanged for the notes, which are identical in all material respects to the notes issued in January 1999, except that the notes issued in July 1999 were registered with the SEC and are generally not subject to transfer restrictions.

On June 29, 2001, we issued an additional \$100.0 million aggregate principal amount of 9 3/4% Senior Subordinated Notes Due 2009 under the indenture in a private offering. In September 2001, we completed an exchange offer in which all of the 9 3/4% Senior Subordinated Notes Due 2009 sold in June 2001 were exchanged for the notes, which are identical in all material respects to the notes issued in June 2001, except that the notes issued in September 2001 were registered with the SEC and are generally not subject to transfer restrictions. The notes issued under the indenture in July 1999 and September 2001 are treated as a single series under the indenture, including for purposes of determining whether the required percentage of noteholders have given their approval or consent to an amendment or waiver or joined in directing the trustee to take certain actions on behalf of all noteholders.

The terms of the notes include those stated in the indenture and

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those made part of the indenture by reference to the Trust Indenture Act of 1939. This description of the notes contains definitions of terms, including those defined under the caption "--Definition of Terms Used in the Indenture" that are necessary to understand this section of the prospectus. Capitalized terms not defined in this section shall have the meanings assigned to them in the indenture. In this section, "Hexcel" refers only to Hexcel Corporation and not to any of its subsidiaries.

The following description is only a summary of the material terms of the indenture and the registration rights agreement. We urge you to read the indenture and the registration rights agreement because they, and not these summary descriptions, define your rights as holders of the notes. You may request copies of these agreements at our address set forth under "Available Information."

Brief Description Of The Notes

These notes:

- are unsecured senior subordinated obligations of Hexcel;
- are subordinated in right of payment to all existing and future Senior Indebtedness of Hexcel; and
- are senior in right of payment to any future Subordinated Obligations of Hexcel.

Principal, Maturity And Interest

The notes are issued in denominations of \$1,000 and any integral multiple of \$1,000. The notes will mature on January 15, 2009. Subject to our compliance with the covenant described under the caption "--Covenants-- Limitation on Indebtedness," we are permitted to issue additional notes under the indenture in an unlimited principal amount. The indenture defines notes so issued as "additional notes."

Interest on the notes accrues at the rate of 9 3/4% per annum. Interest is payable semiannually in arrears on January 15 and July 15. Hexcel will make each interest payment to the holders of record of the notes on the immediately preceding January 1 and July 1. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months.

Additional interest may accrue on the notes in specified circumstances according to the registration rights agreement.

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Optional Redemption

We will not be entitled to redeem the notes at our option before January 15, 2004.

On and after January 15, 2004, we will be entitled at our option to redeem all or a portion of the notes upon not less than 30 nor more than 60 days' notice. We will be entitled to redeem the notes at the redemption prices set forth below plus accrued and unpaid interest to the redemption date, if redeemed during the 12-month period beginning on January 15 in the years indicated below:

Year	Percentage of
------	---------------

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-----	Principal Amount -----
2004.....	104.875%
2005.....	103.900
2006.....	102.925
2007.....	101.950
2008.....	100.975
2009.....	100.00

Selection And Notice Of Redemption

If we redeem less than all the notes at any time, the trustee will select notes on a pro rata basis, by lot or by another method as the trustee will deem to be fair and appropriate.

We will redeem notes of \$1,000 or less in whole and not in part. We will cause notices of redemption to be mailed by first-class mail at least 30 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address.

If any note is redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note to be redeemed. We will issue a new note in principal amount equal to the unredeemed portion of the original note in the name of the holder of the note upon cancellation of the original note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on notes or portions of them called for redemption.

Ranking

Senior Indebtedness Versus Notes

The payment of the principal of, premium and interest on the notes will be subordinate in right of payment to the prior payment in full of all Senior Indebtedness, including Hexcel's obligations under the Credit Agreement.

As of March 31, 2003, Hexcel's Senior Indebtedness was \$196.1 million. The indenture limits the amount of additional Indebtedness that Hexcel may incur. However, under specified circumstances the amount of the Indebtedness could be substantial. In any case, the Indebtedness may be Senior Indebtedness.

Liabilities Of Subsidiaries Versus Notes

A portion of Hexcel's operations is conducted through its subsidiaries. Claims of creditors of these subsidiaries generally will have priority with respect to the assets and earnings of the subsidiaries over the claims of creditors of Hexcel, including holders of the notes. Accordingly, the notes will be effectively subordinated to creditors and preferred stockholders, if any, of subsidiaries of Hexcel.

At March 31, 2003, the total liabilities of our subsidiaries were approximately \$161.1 million, including trade payables. Although the indenture limits the incurrence of Indebtedness and preferred stock of some of our subsidiaries, this limitation is subject to a number of significant qualifications. Moreover, the indenture does not limit the incurrence by our subsidiaries of liabilities that are not considered Indebtedness under the

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indenture. See "--Covenants--Limitation on Indebtedness."

Other Senior Subordinated Indebtedness Versus Notes

Under the indenture, only Senior Indebtedness of Hexcel will rank senior to the notes. The notes will in all respects rank pari passu with all other Senior Subordinated Indebtedness of Hexcel. As of March 31, 2003, Hexcel's outstanding Senior Subordinated Indebtedness was \$338.9 million, net of unamortized discount of \$1.1 million.

We have agreed in the indenture that we will not Incur any Indebtedness that is contractually subordinate or junior in right of payment to our Senior Indebtedness, unless the Indebtedness is Senior Subordinated Indebtedness or is expressly subordinated in right of payment to Senior Subordinated Indebtedness. The indenture does not treat unsecured Indebtedness as subordinated or junior to Secured Indebtedness merely because it is unsecured.

Payment Of Notes

We are not permitted to pay principal of, premium or interest on the notes or make any deposit pursuant to the provisions described under "--Defeasance" below and may not purchase, redeem or otherwise retire any notes if:

- (1) any Designated Senior Indebtedness is not paid when due; or
- (2) any other default on Designated Senior Indebtedness occurs and its maturity is accelerated;

unless, in either case, the default has been cured or waived and any acceleration has been rescinded or the Designated Senior Indebtedness has been paid in full. Regardless of these provisions, we are permitted to pay the notes if we and the trustee receive written notice approving the payment from the representative of any Designated Senior Indebtedness.

During the continuance of any default, other than a default described in clause (1) or (2) above, with respect to any Designated Senior Indebtedness pursuant to which the maturity thereof may be accelerated without further notice, except such notice as may be required to effect such acceleration, or the expiration of any applicable grace periods, we are not permitted to pay the notes for a "Payment Blockage Period." The Payment Blockage Period commences upon the receipt by the trustee of a "Blockage Notice" of the default from the holders of the Designated Senior Indebtedness and ends 179 days later. The Payment Blockage Period will end earlier if it is terminated:

- by written notice to the trustee and us from the person who gave the Blockage Notice;
- because the default giving rise to the Blockage Notice is cured, waived or otherwise no longer continuing; or
- because the Designated Senior Indebtedness has been discharged or repaid in full.

Unless the holders of the Designated Senior Indebtedness have accelerated the maturity of the Designated Senior Indebtedness, we are permitted to resume paying the notes after the end of the Payment Blockage Period. The notes will not be subject to more than one Payment Blockage Period in any consecutive 360-day period, except that if any Blockage Notice is delivered to the trustee by or on behalf of holders of Designated Senior Indebtedness, other than holders of the Bank Indebtedness, a representative of

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holders of Bank Indebtedness may give another Blockage Notice within such period. However, in no event may the total number of days during which any Payment Blockage Period or Periods is in effect exceed 179 days in the aggregate during any consecutive 360-day period.

Upon any payment or distribution of the assets of Hexcel upon a liquidation, dissolution or reorganization of Hexcel or its property:

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- the holders of Senior Indebtedness will be entitled to receive payment in full of the Senior Indebtedness before the holders of the notes are entitled to receive any payment;

- until the Senior Indebtedness is paid in full, any payment or distribution to which holders of the notes would be entitled but for the subordination provisions of the indenture will be made to holders of the Senior Indebtedness as their interests may appear, except that holders of notes may receive shares of stock and any debt securities that are subordinated to the Senior Indebtedness to at least the same extent as the notes; and

- if a distribution is made to holders of the notes that should not have been made to them, the holders of the notes are required to hold it in trust for the holders of Senior Indebtedness and pay it over to them.

If payment of the notes is accelerated because of an Event of Default, Hexcel or the trustee shall promptly notify the holders of Designated Senior Indebtedness of the acceleration.

In the event of a liquidation or insolvency proceeding, creditors of ours who are holders of Senior Indebtedness may recover more than the holders of the notes. Creditors of ours who are not holders of Senior Indebtedness may recover less than holders of Senior Indebtedness and may recover more than the holders of the notes.

The terms of the subordination provisions described above will not apply to payments from money held in trust by the trustee for the payment of principal of and interest on the notes. See "--Defeasance."

Change Of Control

Upon the occurrence of a "Change of Control," each holder may require us to purchase its notes at a purchase price equal to 101% of the principal amount of the notes plus accrued and unpaid interest to the date of purchase. The following are "Change of Control" events:

- (1) any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) other than one or more Permitted Holders, becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that for purposes of this clause (1), such person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether or not such right is exercisable immediately) of more than 40% of the total voting power of voting stock of Hexcel; provided, however, that the Permitted Holders beneficially own (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) in the aggregate a lesser percentage of the total voting power of voting stock of Hexcel than the other person and do not have the right or ability to elect or designate for election a majority of the board of directors;

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(2) during any period of two consecutive years, individuals who at the beginning of that period constituted the board of directors, together with any new directors whose election by the board of directors or whose nomination for election by the stockholders of Hexcel was approved under the governance agreement or by a vote of 66 2/3% of the directors of Hexcel then still in office who were either directors at the beginning of the two-year period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the board of directors then in office; or

(3) the merger or consolidation of Hexcel with or into another person other than a Permitted Holder, or the merger of another person other than a Permitted Holder with Hexcel, or the sale of all or substantially all the assets of Hexcel to another person other than a person controlled by the Permitted Holders, and in the case of any such merger or consolidation, the securities of Hexcel that are outstanding immediately prior to the transaction and that represent 100% of the aggregate voting power of the voting stock of Hexcel are changed into or exchanged for cash, securities or property, unless pursuant to the transaction, the securities are changed into or exchanged for, in addition to any other consideration, securities of the surviving person that represent, immediately after the transaction, at least a majority of the aggregate voting power of the voting stock of the surviving person or transferee.

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If the event described in (1) above occurs as a result of a transfer of voting stock by the Permitted Holders, a Change of Control shall not be deemed to occur unless and until the publicly announced rating of the notes by either Rating Agency shall, within 90 days after the date of occurrence of the event, be less than the rating of the notes by that Rating Agency on the date which is 90 days before the date of the occurrence of that event; provided, however, if the notes have an investment grade rating by both Rating Agencies on the date which is 90 days before the date of occurrence of that event, a Change of Control shall be deemed not to occur following that event unless and until the publicly announced rating of the notes by either Rating Agency shall be less than investment grade rating within 90 days after the date of the occurrence of that event. In each case the 90-day period shall be extended so long as the rating of the notes is under publicly announced consideration for possible downgrade by either Rating Agency.

Within 30 days after any Change of Control, we will mail a notice to each holder of notes, a "Change of Control Offer," stating:

(1) that a Change of Control has occurred and that the holder has the right to require us to purchase its notes at a purchase price in cash equal to 101% of the principal amount of the notes plus accrued and unpaid interest to the date of purchase;

(2) the circumstances and relevant facts regarding the Change of Control, including a statement of pro forma historical income, cash flow and capitalization after giving effect to the Change of Control;

(3) the purchase date, which shall be no earlier than 30 days nor later than 60 days from the date the notice is mailed; and

(4) the instructions determined by us, consistent with the covenant

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described under this caption, that a holder must follow in order to have its notes purchased.

We will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in compliance with the requirements set forth in the indenture and purchases all notes validly tendered and not withdrawn under the Change of Control Offer.

We will comply with the requirements of the securities laws in connection with the purchase of notes as a result of a Change of Control. To the extent that the provisions of any securities laws conflict with the provisions of the covenant described under this caption, we will comply with the applicable securities laws and will not be deemed to have breached our obligations under the change of control covenant.

The Change of Control purchase feature of the notes may make more difficult or discourage a sale or takeover of Hexcel and, thus, the removal of incumbent management. The Change of Control purchase feature is a result of negotiations between Hexcel and the initial purchasers. It is not the result of our knowledge of any specific effort to accumulate common stock of Hexcel or to obtain control of Hexcel or part of a plan by management to adopt a series of anti-takeover provisions. We have no present intention to engage in a transaction involving a Change of Control, although it is possible that we could decide to do so in the future.

Subject to the limitations discussed below, we could enter into transactions that would not constitute a Change of Control under the indenture, but that could increase the amount of Indebtedness outstanding at that time or otherwise affect our capital structure or credit ratings. Restrictions on our ability to incur additional Indebtedness are contained in the covenant described under the caption "--Covenants--Limitation on Indebtedness." These restrictions can only be waived with the consent of the holders of a majority in principal amount of the notes then outstanding. Except for the limitations contained in this covenant, however, the indenture will not contain any covenants or provisions that may afford holders of the notes protection in the event of a highly leveraged transaction.

The Credit Agreement prohibits us from purchasing any notes and will also provide that the occurrence of specified change of control events would constitute a default under the Credit Agreement. In the event a change of control occurs when we are prohibited from purchasing notes, we may seek the consent of our lenders to the purchase of notes or attempt to refinance the borrowings that contain the prohibition. If we do not obtain the consent

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or repay the borrowings, we will remain prohibited from purchasing the notes. In that case, our failure to purchase tendered notes would constitute an Event of Default under the indenture which would, in turn, constitute a default under the Credit Agreement. In these circumstances, the subordination provisions in the indenture would likely restrict payment to the holders of notes.

Future Indebtedness that we may incur may contain prohibitions on the occurrence of events that would constitute a Change of Control or require us to repurchase the Indebtedness upon a Change of Control. Moreover, the exercise by the holders of notes of their right to require us to purchase the notes could cause a default under the Indebtedness, even if the Change of Control itself does not. Finally, our ability to pay cash to the holders of notes following the occurrence of a Change of Control may be limited by our then existing financial resources. We cannot assure you that sufficient funds

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will be available when necessary to make any required repurchases.

Our obligation to purchase the notes as a result of a Change of Control may be waived or modified with the written consent of the holders of a majority in principal amount of the notes.

Covenants

Limitation On Indebtedness

(a) Hexcel will not, and will not permit any Restricted Subsidiary to, Incur, directly or indirectly, any Indebtedness; provided, however, that Hexcel and its Restricted Subsidiaries may Incur Indebtedness if, on the date of the Incurrence and after giving effect to the Incurrence on a pro forma basis, the Consolidated Coverage Ratio exceeds 2.25 to 1.0.

(b) Notwithstanding paragraph (a) above, Hexcel and the Restricted Subsidiaries may Incur any or all of the following Indebtedness:

(1) Indebtedness Incurred by Hexcel or any Restricted Subsidiary under the Credit Agreement; provided, however, that, after giving effect to the Incurrence, the aggregate principal amount of such Indebtedness then outstanding does not exceed (A) the greater of (x) \$680.0 million less the sum of all term loan principal amortization payments scheduled to be made, whether or not in fact made, through the date of the Incurrence under the Credit Agreement as in effect on the issue date (the "Maximum Committed Credit Agreement Amount") and (y) the sum of 50% of the book value of the consolidated inventory of Hexcel and its Restricted Subsidiaries and 80% of the consolidated accounts receivable of Hexcel and its Restricted Subsidiaries (the "Consolidated Working Capital Amount") less the principal amount of any Indebtedness Incurred under clause (2) below and then outstanding, less (B) the sum of all principal payments on such Indebtedness made under paragraph (a) (3) (A) of the covenant described under the caption "--Limitation on Asset Dispositions";

(2) Indebtedness Incurred by foreign subsidiaries to finance the working capital requirements of foreign subsidiaries; provided, however, that the aggregate principal amount of such Indebtedness, when added together with the amount of Indebtedness Incurred by all foreign subsidiaries under this clause (2) and then outstanding, does not exceed the lesser of (A) the sum of 50% of the book value of the consolidated inventories of all foreign subsidiaries and 80% of the consolidated accounts receivable of all foreign subsidiaries and (B) the amount by which the greater of (x) the Consolidated Working Capital Amount and (y) the Maximum Committed Credit Agreement Amount, exceeds the principal amount of Indebtedness Incurred under clause (1) above and then outstanding;

(3) Indebtedness owed to and held by Hexcel or any Wholly Owned Subsidiary; provided, however, that (A) any subsequent issuance or transfer of any capital stock which results in the Wholly Owned Subsidiary ceasing to be a Wholly Owned Subsidiary or any subsequent transfer of the Indebtedness, other than to Hexcel or a Wholly Owned Subsidiary, shall be deemed, in each case, to constitute the Incurrence of such Indebtedness and (B) if Hexcel is the obligor on such Indebtedness, the payment of such Indebtedness is expressly subordinate to the prior payment in full in cash of all obligations with respect to the notes;

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- (4) the notes, other than additional notes, and the exchange notes;
- (5) Indebtedness, other than the Indebtedness described in clauses (1), (2), (3) or (4) above, outstanding on the issue date;
- (6) Refinancing Indebtedness in respect of Indebtedness Incurred under paragraph (a) above or under clause (4), (5) or this clause (6);
- (7) hedging obligations directly related to Indebtedness permitted to be Incurred by Hexcel and Restricted Subsidiaries under the indenture or, in the case of a currency exchange protection agreement, reasonably related to the ordinary course of business of Hexcel and its Restricted Subsidiaries;
- (8) Indebtedness, including Capitalized Lease Obligations and purchase money Indebtedness, Incurred by Hexcel or its Restricted Subsidiaries to finance the acquisition of tangible assets or other capital expenditures, and Indebtedness Incurred by Hexcel or its Restricted Subsidiaries to refinance such Capitalized Lease Obligations and purchase money Indebtedness, in an aggregate outstanding principal amount which, when added together with the amount of Indebtedness Incurred under this clause (8) and then outstanding, does not exceed \$20.0 million;
- (9) Indebtedness in respect of performance, surety or appeal bonds provided in the ordinary course of Hexcel and its Restricted Subsidiaries; or
- (10) Indebtedness in an aggregate principal amount which, together with all other Indebtedness of Hexcel and Restricted Subsidiaries outstanding on the date of the Incurrence, other than Indebtedness permitted by clauses (1) through (9) above or paragraph (a), does not exceed \$25.0 million.

(c) Notwithstanding the above provisions, Hexcel will not Incur any Indebtedness under paragraph (b) above, if the proceeds of the Indebtedness are used, directly or indirectly, to refinance any Subordinated Obligations, unless the Indebtedness will be subordinated to the notes to at least the same extent as the Subordinated Obligations.

(d) For purposes of determining compliance with this covenant:

- (1) in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, Hexcel, in its sole discretion, will classify the item of Indebtedness and only be required to include the amount and type of the Indebtedness in one of the above clauses and
- (2) an item of Indebtedness may be divided and classified under more than one of the types of Indebtedness described above.

(e) Notwithstanding paragraphs (a) and (b) above, Hexcel will not Incur:

- (1) any Indebtedness if that Indebtedness is contractually subordinate or junior in right of payment in any respect to any Senior Indebtedness, unless the Indebtedness is Senior Subordinated Indebtedness or is expressly subordinated in right of payment to Senior Subordinated Indebtedness or

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(2) any Secured Indebtedness that is not Senior Indebtedness, unless contemporaneously therewith effective provision is made to secure the notes equally and ratably with the Secured Indebtedness for so long as the Secured Indebtedness is secured by a lien.

(f) In determining amounts of Indebtedness outstanding under the Limitation on Indebtedness covenant and to avoid duplication, Indebtedness of a person resulting from the grant by that person of security interests with respect to, or from the issuance by that person of guarantees of, or from the assumption of obligations with respect to letters of credit supporting, Indebtedness Incurred by that person under the indenture, or Indebtedness

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which that person is otherwise permitted to Incur under the indenture, shall not be deemed to be a separate Incurrence of Indebtedness by that person.

(g) Indebtedness of any person which is outstanding at the time that person becomes a Restricted Subsidiary, including upon designation of any subsidiary or other person as a Restricted Subsidiary, or is merged with or into or consolidated with Hexcel or a Restricted Subsidiary shall be deemed to have been Incurred at the time that person becomes a Restricted Subsidiary or merged with or into or consolidated with Hexcel or a Restricted Subsidiary, as applicable.

Limitation On Restricted Payments

(a) Hexcel will not, and will not permit any Restricted Subsidiary, directly or indirectly, to make a Restricted Payment if at the time Hexcel or any Restricted Subsidiary makes a Restricted Payment:

(1) a Default shall have occurred and be continuing, or would result from the Restricted Payment;

(2) Hexcel is not able to Incur an additional \$1.00 of Indebtedness under paragraph (a) of the covenant described under the caption "--Limitation on Indebtedness"; or

(3) the aggregate amount of the Restricted Payment and all other Restricted Payments made since the issue date would exceed the sum of, without duplication:

(A) 50% of the Consolidated Net Income accrued during the period, which will be treated as one accounting period, from the beginning of the fiscal quarter in which the issue date occurs to the end of the most recent fiscal quarter ending at least 45 days before the date of the Restricted Payment, or, in case the Consolidated Net Income is a deficit, less 100% of that deficit; plus

(B) 100% of the aggregate Net Cash Proceeds received by Hexcel from the issuance or sale of its capital stock, other than capital stock within the meaning of "Disqualified Stock" as defined in the indenture, subsequent to the issue date and on or before the date of the Restricted Payment, other than an issuance or sale to a subsidiary of Hexcel or an issuance or sale to an employee stock ownership plan or to a trust established by Hexcel or any of its subsidiaries for the benefit of their employees; plus

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(C) the amount by which the Indebtedness of Hexcel is reduced on Hexcel's balance sheet upon the conversion or exchange, other than by a subsidiary of Hexcel, subsequent to the issue date and on or before the date of the Restricted Payment of any Indebtedness of Hexcel convertible or exchangeable for capital stock, other than disqualified stock, of Hexcel, less the amount of any cash, or the fair value of any other property, distributed by Hexcel upon the conversion or exchange; plus

(D) an amount equal to the sum of (x) the net reduction in Investments in Unrestricted Subsidiaries resulting from dividends, repayments of loans or advances or other transfers of assets, in each case to Hexcel or any Restricted Subsidiary from Unrestricted Subsidiaries, and (y) the portion, proportionate to Hexcel's equity interest in the subsidiary, of the fair market value of the net assets of an Unrestricted Subsidiary at the time the Unrestricted Subsidiary is designated a Restricted Subsidiary; provided, however, that this sum shall not exceed, in the case of any Unrestricted Subsidiary, the amount of Investments previously made and treated as a Restricted Payment by Hexcel or any Restricted Subsidiary in the Unrestricted Subsidiary.

(b) The preceding provisions will not prohibit:

(1) any acquisition of any capital stock of Hexcel made by exchange for, or out of the proceeds of the substantially concurrent sale of, capital stock of Hexcel, other than disqualified stock and other than capital stock issued or sold to a subsidiary of Hexcel, or options, warrants or other rights to purchase the capital stock; provided, however, that

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(A) the purchase or redemption shall be excluded in the calculation of the amount of Restricted Payments and

(B) the Net Cash Proceeds from the sale shall be excluded from clause (3)(B) of paragraph (a) above;

(2) any purchase, repurchase, redemption, defeasance or acquisition or retirement for value of Subordinated Obligations made by exchange for, or out of the proceeds of the substantially concurrent sale of, capital stock of Hexcel, other than disqualified stock and other than capital stock issued or sold to a subsidiary of Hexcel, or options, warrants or other rights to purchase the capital stock; provided, however, that

(A) the purchase, repurchase, redemption, defeasance or acquisition or retirement for value shall be excluded in the calculation of the amount of Restricted Payments and

(B) the Net Cash Proceeds from the sale shall be excluded from clause (3)(B) of paragraph (a) above;

(3) any purchase, repurchase, redemption, defeasance or acquisition or retirement for value of Subordinated Obligations made by exchange for, or out of the proceeds of the substantially concurrent sale of, Indebtedness of Hexcel which is permitted to be Incurred under the covenant described under the caption "--Limitation on Indebtedness"; provided, however, that the Indebtedness

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(A) shall have a stated maturity later than the stated maturity of the notes and

(B) shall have an Average Life greater than the remaining Average Life of the notes;

provided further, however, that the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded in the calculation of the amount of Restricted Payments;

(4) any purchase or redemption of Subordinated Obligations from Net Available Cash after application according to clauses (A), (B) and (C) of paragraph (a) (3) of the covenant described under the caption "--Limitation on Asset Dispositions"; provided, however, that the purchase or redemption shall be excluded in the calculation of the amount of Restricted Payments;

(5) dividends paid within 60 days after the date of declaration thereof if at the date of declaration the dividend would have complied with this covenant; provided, however, that at the time of payment of the dividend, no other Default shall have occurred and be continuing, or result therefrom; provided further, however, that the declaration, but not the payment, of such dividend shall be included in the calculation of the amount of Restricted Payments;

(6) so long as no Default shall have occurred and be continuing, or result therefrom, Investments in Joint Ventures or other persons engaged in a related business in an aggregate amount which, when added together with the amount of all other Investments made according to this clause (6) which at the time have not been repaid through dividends, repayments of loans or advances or other transfers of assets, does not exceed \$60.0 million; provided, however, that the amount of the Investments shall be excluded in the calculation of Restricted Payments;

(7) so long as no Default shall have occurred and be continuing, or result therefrom, payments with respect to employee or director stock options, stock incentive plans or restricted stock plans of Hexcel, including any redemption, repurchase, acquisition, cancellation or other retirement for value of shares of capital stock of Hexcel, restricted stock, options on any of these shares or similar securities held by directors, officers or employees or former directors, officers or employees or by any Plan upon death, disability, retirement or termination of employment of any of these persons under the terms of the Plan or agreement under which the shares or related rights were issued or acquired; provided, however, that the amount of any of these payments shall be included in the calculation of Restricted Payments;

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(8) so long as no Default shall have occurred and be continuing, or result therefrom, any purchase or defeasance of Subordinated Obligations upon a Change of Control to the extent required by the indenture or other agreement or instrument under which the Subordinated Obligations were issued, but only if Hexcel has first complied with all its obligations under the provisions described under the caption "--Change of Control"; provided, however, that the amount of the purchase or defeasance shall be excluded in the calculation of Restricted Payments; or

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(9) so long as no Default shall have occurred and be continuing, or result therefrom, Restricted Payments in an aggregate amount which, when added together with the amount of all other Restricted Payments made under, this clause (9) which at that time have not been repaid through dividends, repayments of loans or advances or other transfers of assets, does not exceed \$40.0 million; provided, however, that the amount of the Restricted Payments shall be included in the calculation of Restricted Payments.

Limitation On Restrictions On Distributions From Restricted Subsidiaries

Hexcel will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(a) pay dividends or make any other distributions on its capital stock to Hexcel or a Restricted Subsidiary or pay any Indebtedness owed to Hexcel,

(b) make any loans or advances to Hexcel or any Restricted Subsidiary, or

(c) transfer any of its property or assets to Hexcel or any Restricted subsidiary (collectively "Payment Restrictions"), except:

(1) any Payment Restriction imposed under the Credit Agreement, the indenture, Refinancing Indebtedness in respect of the notes and any agreement in effect at or entered into on the issue date;

(2) any Payment Restriction with respect to a Restricted Subsidiary under an agreement relating to any Indebtedness Incurred by the Restricted Subsidiary on or before the date on which the Restricted Subsidiary was acquired by Hexcel, other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to complete, the transaction or series of related transactions as a result of which the Restricted Subsidiary became a Restricted Subsidiary of, or was acquired by, Hexcel, and outstanding on that date;

(3) any Payment Restriction under an agreement effecting a refinancing of Indebtedness Incurred under an agreement referred to in clause (1) or (2) of this covenant or this clause (3) or contained in any amendment to an agreement referred to in clause (1) or (2) of this covenant or this clause (3); provided, however, that the Payment Restrictions with respect to the Restricted Subsidiary contained in the refinancing agreement or amendment are no less favorable to the holders of the notes than those with respect to the Restricted Subsidiary contained in the predecessor agreements;

(4) in the case of clause (c) above, any encumbrance or restriction consisting of customary non-assignment provisions in leases or other contracts governing leasehold interests to the extent these provisions restrict the transfer of the lease or the property leased under the leases and contracts;

(5) any restriction with respect to a Restricted Subsidiary imposed under an agreement entered into for the sale or disposition of all or substantially all the capital stock or assets of the Restricted Subsidiary pending the closing of the sale or disposition; and

(6) any encumbrance or restriction contained in the governing

documents of any Joint Venture Subsidiary.

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Limitation On Asset Dispositions

(a) Hexcel will not, and will not permit any Restricted Subsidiary to, make any Asset Disposition unless:

(1) Hexcel or a Restricted Subsidiary receives consideration at least equal to the fair market value, of the shares and assets subject to the Asset Disposition;

(2) at least 75% of the consideration for the Asset Disposition received by Hexcel or the Restricted Subsidiary is in the form of cash; and

(3) an amount equal to 100% of the Net Available Cash from the Asset Disposition is applied by Hexcel or the Restricted Subsidiary, as the case may be: (A) first, to the extent Hexcel or the Restricted Subsidiary elects or is required by the terms of any Senior Indebtedness or Indebtedness of the Restricted Subsidiary, to prepay, repay or purchase Senior Indebtedness or Indebtedness, other than any disqualified stock, of a Restricted Subsidiary, in each case other than Indebtedness owed to Hexcel or an affiliate of Hexcel, within one year from the later of the Asset Disposition or the receipt of the Net Available Cash; (B) second, to the extent Hexcel or the Restricted Subsidiary elects, to acquire additional assets within one year from the later of the Asset Disposition or the receipt of the Net Available Cash; (C) third, to make an offer to the holders of the notes, and to holders of other Senior Subordinated Indebtedness designated by Hexcel, to purchase notes, and the other Senior Subordinated Indebtedness, according to the indenture; and (D) fourth, to the extent of the balance of the Net Available Cash after application according to clauses (A), (B) and (C), for any purpose not prohibited by the terms of the indenture.

Notwithstanding the above provisions of this paragraph, Hexcel and the Restricted Subsidiaries will not be required to apply any Net Available Cash according to the foregoing paragraph except to the extent that the aggregate Net Available Cash from all Asset Dispositions which are not applied according to the foregoing paragraph exceeds \$15.0 million. Pending application of Net Available Cash under this covenant, the Net Available Cash will be invested in Temporary Cash Investments.

For the purposes of the covenant described under this caption, the following shall be deemed to be cash:

(x) the assumption of Indebtedness of Hexcel or any Restricted Subsidiary and the release of Hexcel or the Restricted Subsidiary from all liability with respect to the Indebtedness in connection with the Asset Disposition, provided, however, that the amount of the Indebtedness shall not be deemed to be cash for the purpose of the term "Net Available Cash"; and (y) securities received by Hexcel or any Restricted Subsidiary from the transferee that are promptly converted by Hexcel or the Restricted Subsidiary into cash.

(b) In the event of an Asset Disposition that requires the purchase of the notes and other Senior Subordinated Indebtedness, we will purchase notes tendered and other Senior Subordinated Indebtedness at

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a purchase price of 100% of their principal amount, without premium, plus accrued but unpaid interest, or, in respect of the Senior Subordinated Indebtedness, the lesser price, if any, as may be provided for by the terms of the Senior Subordinated Indebtedness according to the procedures set forth in the indenture. If the aggregate purchase price of notes and any other Senior Subordinated Indebtedness tendered is less than the Net Available Cash, we will be entitled to apply the remaining Net Available Cash according to clause (a) (3) (D) above. We will not be required to make the offer to purchase notes and other Senior Subordinated Indebtedness if the Net Available Cash available for the offer, after application of Net Available Cash according to clauses (A) and (B) of paragraph (a) above, is less than \$10.0 million. The lesser amount shall be carried forward to determine whether the offer is required for any subsequent Asset Disposition.

(c) Hexcel will comply with the requirements of the securities laws in connection with the purchase of the notes under this covenant. To the extent that the provisions of any securities laws conflict with provisions of this covenant, Hexcel will comply with the applicable securities laws and shall not be deemed to have breached its obligations under this covenant.

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Limitation On Affiliate Transactions

(a) Hexcel will not, and will not permit any Restricted Subsidiary to, enter into or permit to exist any "Affiliate Transaction," including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service, with any affiliate of Hexcel unless:

(1) the Affiliate Transaction is made in good faith and on terms which are fair and reasonable to Hexcel or the Restricted Subsidiary, as the case may be;

(2) if the Affiliate Transaction involves an amount in excess of \$5.0 million, the terms of the Affiliate Transaction are set forth in writing and a majority of the non-employee directors of Hexcel disinterested with respect to the Affiliate Transaction have determined in good faith that the terms are fair and reasonable; and

(3) if the Affiliate Transaction involves an amount in excess of \$10.0 million, the board of directors shall also have received a written opinion from an investment banking firm to the effect that the Affiliate Transaction is fair, from a financial standpoint, to Hexcel and its Restricted Subsidiaries.

(b) The provisions of paragraph (a), above, shall not prohibit:

(1) any Permitted Investment and any Restricted Payment permitted to be paid under the covenant described under the caption "--Limitation on Restricted Payments";

(2) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise under, or the funding of, employment arrangements, stock options and stock ownership plans approved by the board of directors;

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- (3) the payment of reasonable fees to directors of Hexcel and its Restricted Subsidiaries;
- (4) transactions between Hexcel or a Restricted Subsidiary and one or more Restricted Subsidiaries; provided, however, that no affiliate of Hexcel, other than another Restricted Subsidiary, owns, directly or indirectly, any capital stock in any of the Restricted Subsidiaries;
- (5) transactions in the ordinary course of business, including loans, expense advances and reimbursements, between Hexcel or any of its Restricted Subsidiaries, on the one hand, and any employee of Hexcel or any of its Restricted Subsidiaries, on the other hand;
- (6) transactions with affiliates entered into in the ordinary course of business of Hexcel or its Restricted Subsidiaries, on terms which are, in the opinion of Hexcel's management or the board of directors, fair and reasonable to Hexcel or its Restricted Subsidiaries;
- (7) the granting and performance of registration rights for shares of capital stock of Hexcel under a written registration rights agreement approved by a majority of directors of Hexcel that are disinterested with respect to the transactions;
- (8) transactions with affiliates solely in their capacity as holders of Indebtedness or capital stock of Hexcel or any of its subsidiaries, so long as Indebtedness or capital stock of the same class is also held by persons that are not affiliates of Hexcel and these affiliates are treated no more favorably than holders of the Indebtedness or the capital stock generally, and the redemption of the outstanding principal amount of the Ciba Notes, together with accrued interest;
- (9) transactions according to the governance agreement, and any amendments to the governance agreement that are not adverse to the interests of the holders of the notes and which are approved by a majority of the directors of Hexcel disinterested with respect to the amendment; and

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- (10) any transaction between Hexcel or any Restricted Subsidiaries and any of the Existing Joint Ventures under agreements in effect on the issue date.

Limitation On The Sale Or Issuance Of Capital Stock Of Restricted Subsidiaries

Hexcel will not sell any shares of capital stock of a Restricted Subsidiary, and shall not permit any Restricted Subsidiary to issue or sell shares of its capital stock, in each case, other than preferred stock within the meaning of "Qualified Preferred Stock" as defined in the indenture, except:

- (1) to Hexcel or a Wholly Owned Subsidiary;
- (2) directors' qualifying shares;
- (3) if, immediately after giving effect to the issuance or sale, neither Hexcel nor any of its subsidiaries own any capital stock of the Restricted Subsidiary; or

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(4) if, immediately after giving effect to the issuance or sale, the Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any Investment in the person remaining after giving effect to the issuance or sale would have been permitted to be made under the covenant described under the caption "--Limitation on Restricted Payments" if made on the date of the issuance or sale.

The issuance or sale of shares of capital stock of any Restricted Subsidiary of Hexcel will not violate the provisions above if the shares are issued or sold in connection with:

- the formation or capitalization of a Restricted Subsidiary which, at the time of the issuance or sale or immediately after the issuance or sale, is a Joint Venture Subsidiary or
- a single transaction or a series of substantially contemporaneous transactions by which the Restricted Subsidiary becomes a Restricted Subsidiary of Hexcel by reason of the acquisition of securities or assets from another person.

Merger And Consolidation

Hexcel will not consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all its assets to, any other person, unless:

- (1) the successor company shall be a person organized and existing under the laws of the United States of America, any U.S. State or the District of Columbia, and the successor company, if other than Hexcel, shall expressly assume, by a supplemental indenture all the obligations of Hexcel under the notes and the indenture;
- (2) immediately after giving effect to the transaction, and treating any Indebtedness which becomes an obligation of the successor company or any Restricted Subsidiary as a result of the transaction as having been Incurred by the successor company or the Restricted Subsidiary at the time of the transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to the transaction, the successor company would be able to Incur an additional \$1.00 of Indebtedness under paragraph (a) of the covenant described under the caption "--Limitation on Indebtedness";
- (4) immediately after giving effect to the transaction, the successor company shall have Consolidated Net Worth in an amount that is not less than the Consolidated Net Worth of Hexcel before the transaction; and

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(5) Hexcel shall have delivered to the trustee an officers' certificate and an opinion of counsel, each stating that the consolidation, merger or transfer and the supplemental indenture, if any, comply with the indenture.

Nothing contained in the preceding paragraphs shall prohibit any wholly owned subsidiary from merging with or into, or transferring all or part of its assets to, Hexcel.

The successor company will succeed to, and be substituted for

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Hexcel under the indenture, but the predecessor company in the case of a conveyance, transfer or lease shall not be released from the obligation to pay the principal of and interest on the notes.

Limitation On Business Activities

Hexcel will not, and will not permit any Restricted Subsidiary to, engage in any business other than in businesses conducted by Hexcel and its Restricted Subsidiaries on the issue date and businesses which are reasonably related, ancillary or complementary thereto.

SEC Reports

Hexcel will file with the SEC and provide the trustee and the holders of the notes with the annual reports and the applicable information, documents and other reports as are specified in the Exchange Act.

In addition Hexcel will file a copy of all of the information and reports referred to above with the SEC for public availability within the time periods specified in the SEC's rules and regulations. Hexcel will make this information available to securities analysts and prospective investors upon request.

Defaults

Each of the following is an Event of Default:

- (1) a default for 30 days in the payment when due of interest on the notes, whether or not prohibited by the subordination provisions of the indenture;
- (2) a default in payment when due of the principal of any note at its stated maturity, upon optional redemption, upon required repurchase, upon declaration or otherwise, whether or not prohibited by the subordination provisions of the indenture;
- (3) the failure by Hexcel to comply with its obligations described under the caption "--Covenants--Merger and Consolidation" above;
- (4) the failure by Hexcel to comply for 30 days after notice with any of its obligations in the covenants described above under the caption "--Change of Control," other than a failure to purchase notes, or under the captions "--Covenants--Limitation on Indebtedness," "--Limitation on Restricted Payments," "--Limitation on Restrictions on Distributions from Restricted Subsidiaries," "--Limitation on Asset Dispositions," other than a failure to purchase notes, "--Limitation on Affiliate Transactions," "--Limitation on the Sale or Issuance of Capital Stock of Restricted Subsidiaries," "--Limitation on Business Activities" or "--SEC Reports";
- (5) the failure by Hexcel to comply for 60 days after notice with any of the other agreements contained in the indenture;
- (6) Indebtedness of Hexcel or any significant subsidiary is not paid within any applicable grace period after final maturity or is accelerated by the holders of the Indebtedness because of a default and the total amount of Indebtedness unpaid or accelerated exceeds \$10.0 million;

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(7) events of bankruptcy, insolvency or reorganization of Hexcel or a significant subsidiary; or

(8) any judgment or decree for the payment of money in excess of \$10.0 million is entered against Hexcel or a significant subsidiary, remains outstanding for a period of 60 days following the judgment and is not discharged, waived or stayed within 10 days after notice.

However, a default under clauses (4), (5) or (8) will not constitute an Event of Default until the trustee or the holders of 25% in principal amount of the outstanding notes notify Hexcel of the default and Hexcel does not cure the default within the time specified after receipt of the notice.

If an Event of Default occurs and is continuing, the trustee or the holders of at least 25% in principal amount of the outstanding notes may declare the principal of and accrued but unpaid interest on all the notes to be due and payable. Upon this declaration, the principal and interest shall be due and payable immediately. If an Event of Default relating to events of bankruptcy, insolvency or reorganization of Hexcel occurs and is continuing, the principal of and interest on all the notes will become and be immediately due and payable. Under some circumstances, the holders of a majority in principal amount of the outstanding notes may rescind any acceleration with respect to the notes and its consequences.

In case an Event of Default occurs and is continuing, the trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any of the holders of the notes unless the holders have offered to the trustee indemnity or security satisfactory to it against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest when due, no holder of a note may pursue any remedy with respect to the indenture or the notes unless:

- (1) the holder has previously given the trustee notice that an Event of Default is continuing;
- (2) holders of at least 25% in principal amount of the outstanding notes have requested the trustee to pursue the remedy;
- (3) the holders have offered the trustee security or indemnity satisfactory to it against any loss, liability or expense;
- (4) the trustee has not complied with the request within 60 days; and
- (5) the holders of a majority in principal amount of the outstanding notes have not given the trustee a direction inconsistent with the request within the 60-day period.

The holders of a majority in principal amount of the outstanding notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or of exercising any trust or power conferred on the trustee. The trustee, however, may refuse to follow any direction that conflicts with law or the indenture or that the trustee determines is unduly prejudicial to the rights of any other holder of a note or that would involve the trustee in personal liability.

The indenture provides that if a Default occurs and is continuing and is known to the trustee, the trustee must mail to each holder of the notes notice of the Default within 90 days after it occurs. Except in the case of a Default in the payment of principal of or interest on any note, the trustee may withhold notice if a committee of its trust officers in good faith

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determines that withholding notice is in the interests of the holders of the notes. In addition, Hexcel is required to deliver to the trustee, after the end of each fiscal year, a certificate indicating whether the signers of the certificate know of any Default that occurred during the previous year. Hexcel also is required to deliver to the trustee, within 30 days after its occurrence, written notice of any event which would constitute a Default, its status and what action Hexcel is taking or proposes to take in respect to the event.

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Amendments And Waivers

Subject to exceptions, the indenture may be amended with the consent of the holders of a majority in principal amount of the notes then outstanding. This may include consents obtained in connection with a tender offer or exchange for the notes. Any past default or compliance with any provisions may also be waived with the consent of the holders of a majority in principal amount of the notes then outstanding. However, without the consent of holders of 80% or more in principal amount of the notes then outstanding, Hexcel may not, with respect to any notes held by a non-consenting holder, make any change to the subordination provisions of the indenture that would adversely affect holders of the notes.

In addition, without the consent of each holder affected, an amendment or waiver may not:

- (1) reduce the principal amount of notes whose holders must consent to an amendment;
- (2) reduce the rate of or extend the time for payment of interest on any note;
- (3) reduce the principal of or extend the stated maturity of any note;
- (4) reduce the amount payable upon the redemption of any note or change the time at which any note may be redeemed as described under "--Optional Redemption";
- (5) make any note payable in money other than that stated in the notes;
- (6) impair the right of any holder of the notes to receive payment of principal of and interest on the holder's notes on or after the due dates for payment or to institute suit for the enforcement of any payment on or with respect to the holder's notes; or
- (7) make any change in the amendment provisions which require each holder's consent or in the waiver provisions.

Notwithstanding the preceding, without the consent of any holder of notes, Hexcel and the trustee may amend or supplement the indenture or the notes:

- (1) to cure any ambiguity, defect or inconsistency;
- (2) to provide for uncertificated notes in addition to or in place of certificated notes, provided, that the uncertificated notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated notes are described in

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Section 163(f)(2)(B) of the Code;

(3) to provide for the assumption by a successor corporation of the obligations of Hexcel under the indenture;

(4) to add guarantees with respect to the notes or to secure the notes;

(5) to add to the covenants of Hexcel for the benefit of the holders of the notes or to surrender any right or power conferred upon Hexcel;

(6) to make any change that does not adversely affect the rights under the indenture of any holder; or

(7) to comply with requirements of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act.

No amendment may be made to the subordination provisions of the indenture that adversely affects the rights of any holder of Senior Indebtedness then outstanding unless the holders of the Senior Indebtedness consent to the change.

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The consent of the holders of the notes is not necessary under the indenture to approve the particular form of any proposed amendment. It is sufficient if the consent approves the substance of the proposed amendment.

After an amendment under the indenture becomes effective, Hexcel is required to mail to holders of the notes a notice briefly describing the amendment. However, the failure to give notice to all holders of the notes, or any defect in the notice, will not impair or affect the validity of the amendment.

The notes will be issued in registered form and will be transferable only upon the surrender of the notes being transferred for registration of transfer. We may require payment of a sum sufficient to cover any tax, assessment or other governmental charge payable in connection with certain transfers and exchanges.

Defeasance

Hexcel may terminate at any time all its obligations under the notes and the indenture, except for specified obligations, including those respecting the defeasance trust and obligations to register the transfer or exchange of the notes, to replace mutilated, destroyed, lost or stolen notes and to maintain a registrar and paying agent in respect of the notes. This type of termination is referred to as legal defeasance.

In addition, Hexcel may terminate at any time its obligations described under the caption "--Change of Control" and under the covenants described under the caption "--Covenants", other than the covenant described under the caption "--Covenants--Merger and Consolidation", the operation of the cross acceleration provision, the bankruptcy provisions with respect to significant subsidiaries and the judgment default provision described under the caption "--Defaults" above and the limitations contained in clauses (3) and (4) of the covenant described under the caption "--Covenants--Merger and Consolidation" above. This type of termination is referred to as covenant defeasance.

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Hexcel may exercise its legal defeasance option regardless of its prior exercise of its covenant defeasance option. If Hexcel exercises its legal defeasance option, payment of the notes may not be accelerated because of an Event of Default. If Hexcel exercises its covenant defeasance option, payment of the notes may not be accelerated because of an Event of Default specified in clause (4), (6), (7), with respect only to significant subsidiaries, or (8) under the caption "--Defaults" above or because of the failure of Hexcel to comply with clause (3) or (4) of the covenant described under the caption "--Covenants--Merger and Consolidation" above.

In order to exercise either legal defeasance or covenant defeasance, Hexcel must irrevocably deposit in a defeasance trust money or U.S. government obligations for the payment of principal and interest on the notes to redemption or maturity. Hexcel must also comply with other conditions, including delivery to the trustee of an opinion of counsel to the effect that holders of the notes will not recognize income, gain or loss for federal income tax purposes as a result of the deposit and defeasance and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if the deposit and defeasance had not occurred. In the case of legal defeasance only, this opinion of counsel must be based on a ruling of the IRS or other change in applicable federal income tax law.

Concerning The Trustee

The Bank of New York is the trustee under the indenture and has been appointed by Hexcel as registrar and paying agent for the notes.

The holders of a majority in principal amount of the then outstanding notes will have the right to direct the time, method and place for exercising any remedy available to the trustee, subject to various exceptions. The indenture provides that in case an Event of Default shall occur and be continuing, the trustee will be required to use the degree of care of a prudent man in the conduct of his own affairs. Subject to these provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of notes, unless the holder shall have offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

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Governing Law

The indenture provides that it and the notes will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

Definitions Of Terms Used In The Indenture

The following defined terms are used in the indenture and are included in this prospectus because they are necessary to understand the description of the notes contained in this prospectus.

"Additional Assets" means any:

- (1) property or assets (other than Indebtedness and capital stock) to be used by Hexcel, a Restricted Subsidiary or a Joint Venture;
- (2) capital stock of a person that becomes a Restricted Subsidiary as

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a result of the acquisition of such capital stock by Hexcel or another Restricted Subsidiary; or

(3) capital stock constituting a minority interest in any person that at such time is a Restricted Subsidiary or a Joint Venture;

provided, however, that any Restricted Subsidiary described in clauses (2) and (3) is primarily engaged in related business.

"Affiliate" of any specified person means:

(1) any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person; or

(2) any other person who is a director or officer (A) of such specified person, (B) of any subsidiary of such specified person or (C) of any person described in clause (1).

For the purposes of this definition, "control" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing. For purposes of the covenants described under the captions "--Covenants--Limitation on Affiliate Transactions" and "--Covenants--Limitation on Asset Dispositions" only, "affiliate" shall also mean any beneficial owner of capital stock representing 10% or more of the total voting power of the voting stock (on a fully diluted basis) of Hexcel or of rights or warrants to purchase such capital stock (whether or not currently exercisable) and any person who would be an affiliate of any such beneficial owner pursuant to the first sentence hereof.

"Asset Disposition" means any direct or indirect sale, lease, transfer, conveyance or other disposition (or series of related sales, leases, transfers, conveyances or dispositions) of shares of capital stock of a Restricted Subsidiary (other than directors' qualifying shares), property or other assets (each referred to for the purposes of this definition as a "disposition") by Hexcel or any Restricted Subsidiary (including any disposition by means of a merger, consolidation or similar transaction) involving an amount in excess of \$3.0 million other than:

(1) a disposition by a Restricted Subsidiary to Hexcel, by Hexcel or a Restricted Subsidiary to a Restricted Subsidiary or between Restricted Subsidiaries;

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(2) a disposition of property or assets at fair market value in the ordinary course of business and consistent with past practices of Hexcel or any of its Restricted Subsidiaries, as applicable (including sales of products to customers, disposition of excess inventory and dispositions of used or replaced equipment);

(3) the disposition or grant of licenses to third parties in respect of intellectual property;

(4) a sale or disposition of assets for the purpose of forming any Joint Venture, in exchange for an interest in such Joint Venture;

(5) the sale of Specified Properties;

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(6) a disposition by Hexcel or any subsidiary of assets within 24 months after such assets were directly or indirectly acquired as part of an acquisition of other properties or assets (including capital stock) (the "Primary Acquisition"), if the assets being disposed of are "non-core" assets (as determined in good faith by a majority of the board of directors) or are required to be disposed of pursuant to any law, rule or regulation or any order of or settlement with any court or governmental authority, and the proceeds therefrom are used within 18 months after the date of sale to repay any Indebtedness Incurred in connection with the Primary Acquisition of such assets;

(7) for purposes of the covenant described under the caption "--Covenants--Limitation on Asset Dispositions" only, a disposition that constitutes a Restricted Payment permitted by the covenant described under the caption "--Covenants--Limitation on Restricted Payments"; or

(8) an Asset Disposition that also constitutes a Change of Control; provided, however, that Hexcel complies with all its obligations described under the caption "--Change of Control."

"Average Life" means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (x) the sum of the products of the numbers of year from the date of determination to the date of each successive scheduled principal payment of such Indebtedness or scheduled redemption multiplied by the amount of such payment by (y) the sum of all such payments.

"Bank Indebtedness" means any and all Indebtedness and other amounts payable under or in respect of the Credit Agreement including principal, premium (if any), interest (including interest accruing at the contract rate specified in the Credit Agreement (including any rate applicable upon default) on or after the filing of any petition in bankruptcy, or the commencement of any similar state, federal or foreign reorganization or liquidation proceeding, relating to Hexcel and interest that would accrue but for the commencement of such proceeding whether or not a claim for post-filing interest is allowed in such proceedings), fees, charges, expenses, reimbursement obligations, guarantees and all other amounts payable thereunder or in respect thereof.

"Board Of Directors" means the board of directors of Hexcel or any committee thereof duly authorized to act on behalf of the board.

"Capitalized Lease Obligation" means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes in accordance with GAAP. The amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP. The stated maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Consolidated Coverage Ratio" as of any date of determination means the ratio of (x) the aggregate amount of EBITDA for the most recent four consecutive fiscal quarters ending at least 45 days prior to the date of such determination to (y) Consolidated Interest Expense for such four fiscal quarters; provided, however, that:

(1) if Hexcel or any Restricted Subsidiary has Incurred any Indebtedness since the beginning of such period that remains outstanding on such date of determination or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an

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Incurrence of Indebtedness, or both, EBITDA and Consolidated Interest

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Expense for such period shall be calculated after giving effect on a pro forma basis to (a) such Indebtedness as if such Indebtedness had been Incurred on the first day of such period and (b) the discharge of any other Indebtedness repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Indebtedness as if such discharge had occurred on the first day of such period;

(2) if Hexcel or any Restricted Subsidiary has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of such period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Consolidated Coverage Ratio, EBITDA and Consolidated Interest Expense for such period shall be calculated on a pro forma basis as if such discharge had occurred on the first day of such period and as if Hexcel or such Restricted Subsidiary has not earned the interest income actually earned during such period in respect of cash or Temporary Cash Investments used to repay, repurchase, defease or otherwise discharge such Indebtedness;

(3) if since the beginning of such period Hexcel or any Restricted Subsidiary shall have made any Asset Disposition, the EBITDA for such period shall be reduced by an amount equal to the EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such period or increased by an amount equal to the EBITDA (if negative) directly attributable thereto for such period and Consolidated Interest Expense for such period shall be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of Hexcel or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to Hexcel and its continuing Restricted Subsidiaries in connection with such Asset Disposition for such period (or, if the capital stock of any Restricted Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent Hexcel and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale);

(4) if since the beginning of such period Hexcel or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction causing a calculation to be made hereunder, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period; and

(5) if since the beginning of such period any person (that subsequently became a Restricted Subsidiary or was merged with or into Hexcel or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Disposition, any Investment or acquisition of assets requiring an adjustment pursuant to clause (3)

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or (4) above if made by Hexcel or a Restricted Subsidiary during such period, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition of assets occurred on the first day of such period. For purposes of this definition, whenever pro forma effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Indebtedness Incurred in connection therewith, the pro forma calculations shall be determined in good faith by a responsible financial or accounting officer of Hexcel. If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest expense on such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any interest rate protection agreement applicable to such Indebtedness if such interest rate protection agreement has a remaining term as at the date of determination in excess of 12 months).

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"Consolidated Interest Expense" means, for any period, the sum of, without duplication:

(a) total interest expense of Hexcel and its consolidated Restricted Subsidiaries for such period, including, to the extent not otherwise included in such interest expense, and to the extent Incurred by Hexcel or its Restricted Subsidiaries in such period, without duplication,

(1) interest expense attributable to capital leases;

(2) amortization of debt discount and debt issuance cost;

(3) amortization of capitalized interest;

(4) non-cash interest expense;

(5) accrued interest;

(6) amortization of commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;

(7) interest actually paid by Hexcel or any such Restricted Subsidiary under any guarantee of Indebtedness of any other person;

(8) net payments, if any, made pursuant to interest rate protection agreements (including amortization of fees);

(b) preferred stock dividends paid during such period in respect of all preferred stock of Restricted Subsidiaries of Hexcel held by persons other than Hexcel; and

(c) cash contributions made during such period to any employee stock ownership plan or other trust for the benefit of employees to the extent such contributions are used by such plan or trust to pay interest or fees to any person (other than Hexcel) in connection with Indebtedness Incurred by such plan or trust to purchase capital stock of Hexcel.

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"Consolidated Net Income" means, for any period, the net income (loss) of Hexcel and its consolidated subsidiaries; provided, however, that there shall not be included in such Consolidated Net Income:

(1) any net income (loss) of any person if such person is not a Restricted Subsidiary, except that

(A) Hexcel's equity in the net income of any such person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash that could have been distributed by such person during such period to Hexcel or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution to a Restricted Subsidiary, to the limitations contained in clause (3) below); and

(B) Hexcel's equity in a net loss of any such person for such period shall be included in determining such Consolidated Net Income;

(2) any net income (loss) of any person acquired by Hexcel or a subsidiary in a pooling of interests transaction for any period prior to the date of such acquisition;

(3) any net income (loss) of any Restricted Subsidiary if such Restricted Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to Hexcel, except that

(A) Hexcel's equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash that could have been distributed by such Restricted Subsidiary during such period to Hexcel or another Restricted Subsidiary as a dividend or other

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distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause); and

(B) Hexcel's equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income;

(4) any gain (but not loss) realized upon the sale or other disposition of any assets of Hexcel, its consolidated subsidiaries or any other person which is not sold or otherwise disposed of in the ordinary course of business and any gain (but not loss) realized upon the sale or other disposition of any capital stock of any person;

(5) any extraordinary gain or loss;

(6) cumulative effect of a change in accounting principles; and

(7) any non-cash business consolidation and acquisition charges recognized with respect to the Clark-Schwebel acquisition (except to the extent such non-cash charges represent an accrual of or a reserve for cash expenditures in any future period). Notwithstanding the foregoing, for the purposes of the covenant described under the caption "--Covenants--Limitation on Restricted Payments" only, there

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shall be excluded from Consolidated Net Income any dividends, repayments of loans or advances or other transfers of assets from Unrestricted Subsidiaries to Hexcel or a Restricted Subsidiary to the extent such dividends, repayments or transfers increase the amount of Restricted Payments permitted under such covenant pursuant to clause (a) (3) (D) thereof.

"Consolidated Net Worth" means the total of the amounts shown on the balance sheet of Hexcel and its consolidated subsidiaries, determined on a consolidated basis in accordance with GAAP, as of the end of the most recent fiscal quarter of Hexcel ending at least 45 days prior to the taking of any action for the purpose of which the determination is being made, as the sum of:

(1) the par or stated value of all outstanding capital stock of Hexcel; plus

(2) paid-in capital or capital surplus relating to such capital stock; plus

(3) any retained earnings or earned surplus; less

(4) any accumulated deficit; less

(5) any amounts attributable to disqualified stock.

"Credit Agreement" means:

(1) one or more credit agreements, loan agreements or similar agreements providing for working capital advances, term loans, letter of credit facilities or similar advances, loan or facilities to Hexcel, any Restricted Subsidiary, domestic or foreign, or any or all of such persons, including the Second Amended and Restated Credit Agreement in effect on the issue date of the notes, among Hexcel and specified subsidiaries of Hexcel, as borrowers, the lenders party thereto and Credit Suisse First Boston as administrative agent for the lenders, Citibank, N.A., as documentation agent for the lenders, as the same may be amended, modified, restated or supplemented from time to time, or any other indebtedness referred to in clause (b) (1) of the covenant described under the caption "--Covenants--Limitation on Indebtedness"; and

(2) any one or more agreements governing advances, loans or facilities provided to refund, refinance, replace or renew (including subsequent or successive refundings, financings, replacements and renewals) Indebtedness under the agreement or agreements referred to in the foregoing clause (1), as the same may be amended, modified, restated or supplemented from time to time.

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As of the date of this prospectus, "Credit Agreement" means (i) the Credit and Guaranty Agreement, dated as of March 19, 2003, by and among Hexcel Corporation, Hexcel Composites Limited, Hexcel Composites GmbH (Austria), Hexcel Composites GmbH (Germany), the Guarantors named therein, the lenders from time to time party thereto, Fleet Capital Corporation, as Administrative Agent, Fleet National Bank, London U.K. branch, trading as FleetBoston Financial, as Fronting Bank and Issuing Bank, Fleet National Bank, as Issuing Bank, and Fleet Securities Inc., as Lead Arranger and (ii) Hexcel's 9.875% Senior Secured Notes due 2008 issued pursuant to the

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Indenture, dated as of March 19, 2003 among Hexcel Corporation, the Guarantors named therein and Wells Fargo Bank Minnesota, National Association, as trustee.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Designated Senior Indebtedness" means:

- (1) the Bank Indebtedness; and
- (2) any other Senior Indebtedness (other than hedging obligations) which, at the date of determination, has an aggregate principal amount outstanding of, or under which, at the date of determination, the holders of which are committed to lend up to, at least \$25.0 million and is specifically designated by Hexcel in the instrument evidencing or governing the Senior Indebtedness as "Designated Senior Indebtedness" for purposes of the indenture in an Officers' Certificate received by the Trustee.

"EBITDA" for any period means the sum of Consolidated Net Income plus, without duplication, the following to the extent deducted in calculating such Consolidated Net Income:

- (1) all income tax expense of Hexcel and its consolidated Restricted Subsidiaries for such period;
- (2) Consolidated Interest Expense for such period;
- (3) depreciation expense and amortization expense of Hexcel and its consolidated Restricted Subsidiaries for such period (excluding amortization expense attributable to a prepaid cash item that was paid in a prior period);
- (4) all other nbranches (except securities that are subject to securities loans); and on delivery and payment for the Assets, New Fund will acquire good and marketable title thereto;

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3.1.4. New Fund Shares are not being acquired for the purpose of making any distribution thereof, other than in accordance with the terms hereof;

3.1.5. The Liabilities were incurred by Old Fund in the ordinary course of its business and are associated with the Assets;

3.1.6. Old Fund is not under the jurisdiction of a court in a case under title 11 of the United States Code or a receivership, foreclosure, or similar proceeding;

3.1.7. As of the Effective Time, Old Fund will not have outstanding any warrants, options, convertible securities, or any other type of rights pursuant to which any person could acquire Old Fund Shares; and

3.1.8. There is no plan or intention by any Old Fund shareholder who owns 5% or more of the Old Fund Shares -- and to the best of the knowledge of Old Fund's management, there is no plan or intention of Old Fund's remaining shareholders -- to sell, exchange, or otherwise dispose of any New Fund Shares they receive in the Reorganization.

3.2. New Fund represents and warrants to Old Fund as follows:

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3.2.1. New Fund is an exempted limited liability company that is duly organized, validly existing, and in good standing under the laws of the Commonwealth of Bermuda;

3.2.2. New Fund will be duly registered as a closed-end management investment company under the 1940 Act as of the Closing;

3.2.3. New Fund has not commenced operations and will not do so until after the Closing;

3.2.4. Prior to the Effective Time, there will be no issued and outstanding shares in New Fund or any other securities issued by New Fund, except as provided in paragraph 4.3;

3.2.5. No consideration other than New Fund Shares (and New Fund's assumption of the Liabilities) will be issued in exchange for the Assets in the Reorganization;

3.2.6. The New Fund Shares to be issued and delivered to Old Fund hereunder will, at the Effective Time, have been duly authorized and, when issued and delivered as provided herein, will be duly and validly issued and outstanding shares of New Fund, fully paid and non-assessable;

3.2.7. New Fund has no plan or intention to issue additional New Fund Shares following the Reorganization; nor does New Fund, or any person "related" (within the meaning of section 1.368-1(e)(3) of the regulations under the U.S. Internal Revenue Code of 1986, as amended ("Regulations")) to it, have any plan or intention to acquire -- during the five-year period beginning at the Effective Time, either directly or through any transaction, agreement, or arrangement with any other person -- any New Fund Shares issued to the Shareholders pursuant to the Reorganization with consideration other than New Fund Shares;

3.2.8. Following the Reorganization, New Fund (a) will continue Old Fund's "historic business" (within the meaning of section 1.368-1(d)(2) of the Regulations) and (b) will use a significant portion of Old Fund's "historic business assets" (within the meaning of section 1.368-1(d)(3) of the Regulations) in a business; and

3.2.9. There is no plan or intention for New Fund to be dissolved or merged into another limited liability company or a corporation or a business or statutory trust following the Reorganization.

3.3. Each Fund represents and warrants to the other Fund as follows:

3.3.1. The fair market value of the New Fund Shares each Shareholder receives will be approximately equal to the fair market value of its Old Fund Shares (after taking into account any costs incurred in the Reorganization and winding-up of Old Fund);

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3.3.2. Its management (a) is unaware of any plan or intention of Old Fund shareholders to sell or otherwise dispose of (i) any portion of their Old Fund Shares before the Reorganization to any person "related" (within the meaning of section 1.368-1(e)(3) of the Regulations) to either Fund or (ii) any portion of the New Fund Shares they receive in the Reorganization to any person "related" (within such meaning) to New Fund, (b) does not anticipate dispositions of those New Fund Shares at the time of or soon after the Reorganization to exceed the usual rate and frequency of dispositions of Old

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Fund Shares, and (c) expects that the percentage of Shareholder interests, if any, that will be disposed of as a result of or at the time of the Reorganization will be de minimis;

3.3.3. The Shareholders will pay their own expenses, if any, incurred in connection with the Reorganization;

3.3.4. Immediately following consummation of the Reorganization, the Shareholders will own all the New Fund Shares and will own such shares solely by reason of their ownership of Old Fund Shares immediately before the Reorganization;

3.3.5. Immediately following consummation of the Reorganization, New Fund will hold the same assets -- except for assets used to pay expenses incurred in connection with the Reorganization -- and be subject to the same liabilities that Old Fund held or was subject to immediately before the Reorganization, plus any liabilities for the Funds' expenses incurred in connection with the Reorganization and winding-up of Old Fund. Such excepted assets, together with the amount of all redemptions and distributions (other than regular, normal dividends) Old Fund makes immediately preceding the Reorganization, will, in the aggregate, constitute less than 1% of its net assets;

3.3.6. None of the compensation received by any Shareholder who is an employee of or service provider to Old Fund will be separate consideration for, or allocable to, any of the Old Fund Shares such Shareholder holds; none of the New Fund Shares any such Shareholder receives will be separate consideration for, or allocable to, any employment agreement, investment advisory agreement, or other service agreement; and the compensation paid to any such Shareholder will be for services actually rendered and will be commensurate with amounts paid to third parties bargaining at arm's-length for similar services;

3.3.7 The fair market value of the Assets on a going concern basis will equal or exceed the sum of the Liabilities to be assumed by New Fund and those to which the Assets are subject; and

3.3.8 Neither Fund will be reimbursed for any expenses incurred by it or on its behalf in connection with the Reorganization unless those expenses are solely and directly related to the Reorganization (determined in accordance with the guidelines set forth in Rev. Rul. 73-54, 1973-1 C.B. 187) ("Reorganization Expenses").

4. CONDITIONS PRECEDENT

Each Fund's obligations hereunder shall be subject to (a) the other Fund's performance of all its obligations to be performed hereunder at or before the Effective Time, (b) all representations and warranties of the other Fund contained herein being true and correct in all material respects as of the date hereof and, except as they may be affected by the transactions contemplated hereby, as of the Effective Time, with the same force and effect as if made on and as of the Effective Time, and (c) the further conditions that, at or before the Effective Time:

4.1. This Agreement and the transactions contemplated hereby shall have been duly adopted and approved by each Fund's board of directors and shall have been approved by Old Fund's shareholders in accordance with Old Fund's Articles of Association and By-Laws and applicable law;

4.2. All necessary filings shall have been made with the U.S. Securities and Exchange Commission ("SEC") and other appropriate governmental authorities, and no order or directive shall have been received that any other or further action is required to permit the Funds to carry out the transactions

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contemplated hereby. The registration statement on Form N-14 filed by New Fund relating to the New Fund Shares issuable hereunder, and any supplement or amendment thereto, shall have become effective under the U.S. Securities Act of 1933, as amended ("1933 Act"), no stop orders suspending the effectiveness thereof shall have been issued, and the SEC shall not have issued an unfavorable report with respect to the Reorganization under section 25(b) of the 1940 Act nor instituted any proceedings seeking to enjoin consummation of the transactions contemplated hereby under section 25(c) of the 1940 Act. New Fund Shares shall have been approved for listing on the New York Stock Exchange. All consents, orders and permits of South African, Bermudian and U.S. federal,

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state and local governmental authorities (including the South African Securities Regulation Panel, the Exchange Control Department of the South African Reserve Bank, and the SEC) that are necessary to permit consummation, in all material respects, of the transactions contemplated hereby shall have been obtained, except where failure to obtain same would not involve a risk of a material adverse effect on the Assets;

4.3 Prior to the Closing, New Fund's initial board of directors shall have authorized the issuance of, and New Fund shall have issued, one or more New Fund Shares to Mr. Robert J.A. Irwin or his appointee to enable such holder to elect New Fund's board of directors;

4.4 At the Effective Time, no action, suit, or other proceeding shall be pending before any court or governmental agency in which it is sought to restrain or prohibit, or to obtain damages or other relief in connection with, the transactions contemplated hereby; and

4.5 Each Fund shall have received an opinion of KPMG Services (Proprietary) Limited, South Africa, addressed to and in form and substance reasonably satisfactory to the Fund, to the effect that, except for any uncertificated securities tax or a similar transfer duty that may be payable by New Fund on the transfer of Old Fund's South African portfolio holdings, neither Old Fund nor New Fund nor any Shareholder nor any person who beneficially owns Old Fund Shares held in a Shareholder's name will earn, receive, realize, or recognize any profit, income, or gain or any other item that will be subject to any South African tax or other governmental levy as a result of or in connection with the Reorganization, any transaction included therein or Old Fund's winding up and dissolution.

At any time before the Closing, either Fund may waive any of the foregoing conditions (except that set forth in paragraph 4.1) if, in the judgment of its board of directors, such waiver will not have a material adverse effect on its Fund's shareholders' interests.

5. COVENANTS

5.1 Old Fund covenants to operate its business in the ordinary course between the date hereof and the Closing, it being understood that --

(a) such ordinary course will include declaring and paying customary dividends and changes in operations contemplated by Old Fund's normal business activities and

(b) Old Fund will retain exclusive control of the composition of its portfolio until the Closing; provided that Old Fund shall not dispose of more than an insignificant portion of its historic business assets (as defined above) during that period without New Fund's prior consent.

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5.2 Old Fund covenants to call a meeting of its shareholders to consider and act on this Agreement.

5.3 Old Fund covenants that it will assist New Fund in obtaining information the latter reasonably requests concerning the beneficial ownership of Old Fund Shares.

5.4 Old Fund covenants that its books and records (including all books and records required to be maintained under the 1940 Act and the rules and regulations thereunder) will be turned over to New Fund at the Closing.

5.5 Each Fund covenants that it will, from time to time, as and when requested by the other Fund, execute and deliver or cause to be executed and delivered all assignments and other instruments, and will take or cause to be taken all further action, the other Fund deems necessary or desirable in order to vest in, and confirm to, (a) New Fund, title to and possession of all the Assets, and (b) Old Fund, title to and possession of the New Fund Shares to be delivered hereunder, and otherwise to carry out the intent and purpose hereof.

5.6 New Fund covenants to use all reasonable efforts to obtain the approvals and authorizations required by the 1933 Act, the 1940 Act, and other securities laws it deems appropriate to conduct operations after the Effective Time.

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5.7 Subject to this Agreement, each Fund covenants to take or cause to be taken all actions, and to do or cause to be done all things, reasonably necessary, proper, or advisable to consummate and effectuate the transactions contemplated hereby.

6. BROKERAGE FEES AND EXPENSES

6.1 Each Fund represents and warrants to the other that there are no brokers or finders entitled to receive any payments in connection with the transactions provided for herein.

6.2 New Fund will bear all of the Reorganization Expenses remaining unpaid at the Effective Time and all expenses incurred in Old Fund's winding-up and dissolution.

7. ENTIRE AGREEMENT; NO SURVIVAL

Neither Fund has made any representation, warranty, or covenant not set forth herein, and this Agreement constitutes the entire agreement between the Funds. The representations, warranties, and covenants contained herein or in any document delivered pursuant hereto or in connection herewith shall not survive the Closing.

8. TERMINATION

This Agreement may be terminated at any time at or prior to the Effective Time, whether before or after approval by Old Fund's shareholders:

8.1. By either Fund (a) in the event of the other Fund's material breach of any representation, warranty, or covenant contained herein to be performed at or prior to the Effective Time, (b) if a condition to its obligations has not been met and it reasonably appears that such condition will not or cannot be met by the date set forth in the next clause, or (c) if the Closing has not occurred on or before November 30, 2004; or

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8.2. By the Funds' mutual agreement.

In the event of termination under paragraphs 8.1(c) or 8.2, there shall be no liability for damages on the part of either Fund, or its directors or officers, to the other Fund.

9. AMENDMENT

This Agreement may be amended, modified, or supplemented at any time, notwithstanding approval thereof by Old Fund's shareholders, in any manner mutually agreed on in writing by the Funds; provided that following such approval no such amendment, modification, or supplement shall have a material adverse effect on the Shareholders' interests.

10. MISCELLANEOUS

10.1. This Agreement shall be governed by and construed in accordance with the internal laws of South Africa; provided that, in the case of any conflict between such laws and the U.S. federal securities laws, the latter shall govern.

10.2. Nothing expressed or implied herein is intended or shall be construed to confer upon or give any person, firm, trust, or corporation other than the Funds and their respective successors and assigns any rights or remedies under or by reason of this Agreement.

10.3 Each Fund agrees that, in asserting any rights or claims under this Agreement, it shall look only to the other Fund's assets and property in settlement of all rights and claims and not to the other Fund's directors, officers, or shareholders.

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10.4. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been executed by each Fund and delivered to the other Fund. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, each Fund has caused this Agreement to be executed and delivered by its duly authorized officers as of the day and year first written above.

ATTEST:

ASA LIMITED

/s/ Paul K. Wustrack, Jr.

Name: Paul K. Wustrack, Jr.
Title: Assistant Secretary

By: /s/ Robert J.A. Irwin

Name: Robert J.A. Irwin
Title: Chairman and Treasurer

ATTEST:

ASA (BERMUDA) LIMITED

/s/ Paul K. Wustrack, Jr.

Name: Paul K. Wustrack, Jr.
Title: Secretary

By: /s/ Robert J.A. Irwin

Name: Robert J.A. Irwin
Title: Chairman, President and Treasurer

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APPENDIX B

PROPOSED RESOLUTIONS

(1) Special Resolution number 1, which resolution is required by law to be stated in full, is as follows:

Resolved, as a Special Resolution, that a plan of reorganization be approved under which ASA (Bermuda) Limited ("ASAB") will acquire all of the assets of ASA Limited ("ASA") in exchange solely for 9,600,000 shares of ASAB ("ASAB shares") and the assumption by ASAB of all of ASA's liabilities, followed by a distribution of the ASAB shares to the shareholders of ASA, all on the terms and conditions of the Agreement and Plan of Reorganization, dated October 4, 2004, between ASA and ASAB and more fully described in the attached proxy materials, a copy of which Agreement and Plan has been tabled at this meeting and initialed for identification purposes.

The reasons for, and the effect of, Special Resolution number 1 are set out in the attached proxy materials.

(2) Special Resolution number 2, which resolution is required by law to be stated in full, is as follows:

Resolved, as a Special Resolution, that, subject to the passing and registration of Special Resolution number 1:

1. ASA be wound-up by means of a members' voluntary winding-up in terms of section 349 as read with section 350 of the South African Companies Act No 61 of 1973, as amended ("Companies Act");
2. Mrs. A.F. Venter of KPMG or failing her for any reason, any other director of KPMG Administrators (Proprietary) Limited be nominated as liquidator of ASA and shall not be required to furnish security for the proper performance of their duties as liquidator;
3. The liquidator shall be paid R20,000, exclusive of South African value-added tax, as her professional fee in respect of the dissolution plus disbursements;
4. Pursuant to Section 353(2)(b) of the Companies Act, the directors of ASA be and are hereby authorized to exercise all the powers of ASA until the liquidator informs ASA that a certificate of appointment has been duly issued by the Master of the High Court of South Africa; and
5. The liquidator be authorised to destroy all books and records of the liquidator and ASA after the expiry of six months from the date of completion of the voluntary winding-up of ASA.

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The reason for Special Resolution number 2 is to wind-up ASA, as it is no longer required by its shareholders following the reorganization contemplated in Special Resolution number 1. The effect of the passing of Special Resolution number 2 will be to obtain the required shareholder approval to wind-up ASA as a members' voluntary winding-up and matters ancillary thereto.

(3) Special Resolution number 3, which resolution is required by law to be stated in full, is as follows:

Resolved, as a Special Resolution, that ASA's Articles of Association be and are hereby amended by the insertion of a new article 73A as follows:

PAYMENTS TO MEMBERS

73A.

The Company shall, for the purpose of facilitating its winding up or deregistration, or the reduction of its capital, any share premium account or capital redemption reserve fund, be entitled by special resolution to delegate to any person identified in such special resolution the liability to pay any dividend, or make any

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payment in reduction of capital, or any other distribution in respect of a share ("distribution"). Such delegation shall be on such terms and conditions as may be determined by the Directors, provided that unclaimed distributions which are the subject of the delegation and which remain unclaimed for a period of three years from the date of delegation shall be forfeited for the benefit of any person/persons or entity/entities nominated by the Directors.

The effect of Special Resolution number 3 is to amend the Articles of Association of ASA to include a provision permitting ASA to delegate its obligations in respect of dividends and/or distributions to a third party. The reason for Special Resolution number 3 is to facilitate the winding-up of ASA.

(4) Special Resolution number 4, which resolution is required by law to be stated in full, is as follows:

Resolved, as a Special Resolution that, subject to the passing and registration of Special Resolutions numbered 1, 2 and 3, the liability of ASA for payment of any unclaimed dividends and other distributions to shareholders ("distributions") be and is hereby delegated to LGN Associates, or its nominee, on such terms and conditions as may be determined by the directors of ASA, provided that unclaimed distributions which are the subject of the delegation and which remained unclaimed for a period of three years from the date of delegation shall be forfeited for the benefit of any person/persons or entity/entities nominated by the directors of ASA.

The effect of Special Resolution number 4 is to delegate the liability of ASA for payment of unclaimed dividends and other distributions to shareholders of ASA to LGN Associates or its nominee. The reason therefor is to facilitate the winding-up of ASA.

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(5) Ordinary resolution number 1, which resolution is required by law to be stated in full, is as follows:

Resolved that the directors of ASA be and are hereby authorized to do all such things and sign all such documents as may be necessary for or incidental to give effect to these resolutions.

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ASA (BERMUDA) LIMITED

STATEMENT OF ADDITIONAL INFORMATION

OCTOBER 7, 2004

This statement of additional information (SAI) is not a prospectus. This SAI should be read in conjunction with the Prospectus/Proxy Statement, dated October 7, 2004.

To obtain a copy of the Prospectus/Proxy Statement, please write to LGN Associates at P.O. Box 269, Florham Park, New Jersey 07932, or call 1-800-432-3378 or 973-377-3535

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ASA (BERMUDA) LIMITED

GENERAL INFORMATION AND HISTORY

ASA (Bermuda) Limited ("ASAB") was organized in Bermuda as a limited liability company on April 29, 2003. It was formed to permit ASA Limited ("ASA") to move its place of incorporation from South Africa to Bermuda.

INVESTMENT OBJECTIVES AND POLICIES

ASAB primarily invests in equity securities of companies conducting, as the major portion of their business, gold mining and related activities in South Africa. It is expected that most of such companies will have reached the production stage. The balance of ASAB's total assets (other than minor amounts

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held in cash) may be invested in other companies engaged in other businesses of varied types in South Africa, in companies primarily engaged outside of South Africa in extractive or related industries or in the holding or development of real estate, or in gold bullion or certificates of deposit therefor and other instruments. Please refer to the section in the Prospectus/Proxy Statement entitled "Investment Objectives and Policies" for a full discussion of the investment objectives and fundamental investment policies of ASAB.

In addition to the policies described in the Prospectus/Proxy Statement, ASAB has adopted the following additional investment policies, which may be changed by its board of directors ("Board") without shareholder approval in compliance with applicable law, regulation or regulatory policy.

(1) Investing for Control of Management. ASAB will not invest in companies for the purpose of exercising control of management.

(2) Portfolio Turnover Policy. ASAB will purchase and sell securities from time to time as considered advisable by ASAB to be in the best interest of its shareholders and not for trading purposes.

MANAGEMENT

The name, address, positions held with ASAB and principal occupations during the past five years of each of ASAB's officers and directors are set forth below. ASAB consists of a single portfolio, which is overseen by the Board.

NAME, ADDRESS(1) AND AGE	POSITION HELD, TERM OF OFFICE(2) AND LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION DURING THE PAST FIVE YEARS
 INTERESTED DIRECTORS*:		
Robert J.A. Irwin, 77	Chairman of the Board, Treasurer and Director since 2003; President and Chief Executive Officer since 2004	Chairman of the Board of ASA Limited since 1993, Treasurer since 1999; Director since 1987
Chester A. Crocker, 62	Director since 2004; Assistant Secretary since 2004	James R. Schlesinger Professor of Strategic Studies, School of Foreign Service, Georgetown University, President of Crocker Group (consultants)

NAME, ADDRESS/(1)/ AND AGE	POSITION HELD, TERM OF OFFICE/(2)/ AND LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION DURING THE PAST FIVE YEARS
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INTERESTED DIRECTORS*:

Ronald L. McCarthy, 71	Director since 2004; Assistant Treasurer since 2004	Director and Managing Director of ASA Limited since 1988; South African Secretary of ASA Limited since 2001
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INDEPENDENT DIRECTORS**:

Henry R. Breck, 67	Director since 2004	Chairman and director of Ark Asset Management Co., Inc. (registered investment adviser)
Harry M. Conger, 73	Director since 2004	Chairman and CEO Emeritus of Homestake Mining Company
Joseph C. Farrell, 68	Director since 2004	Former Chairman, President and CEO of The Pittston Company
James G. Inglis, 59	Director since 2004	Chairman of Melville Douglas Investment Management (pty) Ltd.
Malcolm W. MacNaught, 67	Director since 2004	Former Vice President and Portfolio Manager at Fidelity Investments
Robert A. Pilkington, 59	Director since 2004	Investment banker and Managing Director of UBS Securities, LLC or predecessor companies since 1985
A. Michael Rosholt, 83	Director since 2004	Chairman of the National Business Initiative (South Africa), a non-profit organization

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NAME, ADDRESS/(1)/ AND AGE	POSITION HELD, TERM OF OFFICE/(2)/ AND LENGTH OF TIME SERVED	PRINCIPAL OCCUPATION DURING THE PAST FIVE YEARS
-----	-----	-----

OTHER OFFICERS

Paul K. Wustrack, Jr., 61	Secretary and Chief Compliance Officer since 2004	Assistant U.S. Secretary of ASA Limited since 2002, Chief Compliance Officer since 2004; prior thereto Special Counsel,
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Phillips, Lytle,
Hitchcock, Blaine &
Huber LLP

-
- (1) The address for each director is c/o LGN Associates, PO Box 269, Florham Park, NJ 07932.
 - (2) Each director serves as a director of ASAB until the next annual meeting of shareholders.
 - * An "interested person" of ASAB, as such term is defined in the Investment Company Act of 1940, by reason of being an officer of ASAB.
 - ** A director that is not an "interested person" of ASAB.

Messrs. McCarthy, Inglis and Rosholt are residents of South Africa. As required by the SEC, each of these non-U.S. resident directors has appointed JPMorgan Chase Bank, 3 Chase MetroTech Center, Brooklyn, NY 11245 to accept service of process.

SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth certain information as of November 30, 2003 regarding the beneficial ownership of ASA's shares by each director, each executive officer and all directors and all executive officers as a group, including the dollar range of the value of equity securities of ASA beneficially owned by each director. The executive officers of ASA are also directors of ASA.

NAME OF BENEFICIAL OWNER -----	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (1) (2) -----	DOLLAR RANGE OF SHARE OWNERSHIP -----
INTERESTED DIRECTORS:		
Robert J.A. Irwin	3,000	Over \$100,000
Ronald L. McCarthy*	None	None
Chester A. Crocker	400	\$10,001-\$50,000
INDEPENDENT DIRECTORS:		
Henry R. Breck	1,000	\$10,001-\$50,000
Harry M. Conger	1,100	\$50,001-\$100,000
Joseph G. Farrell	1,000	\$10,001-\$50,000
James G. Inglis*	None	None
Malcolm W. MacNaught	1,000	\$10,001-\$50,000
Robert A. Pilkington	3,000	Over \$100,000
A. Michael Rosholt*	None	None
All Directors and Executive Officers as a group	10,500	

* As residents of South Africa, Messrs. McCarthy, Inglis and Rosholt are prohibited by ASA organizational documents from owning any shares of ASA.

- (1) Each individual has sole voting and investment power over the shares shown opposite his name, except that Mr. Irwin has shared voting and investment power over 142 shares owned by his wife.

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- (2) The shares shown for each individual and for all directors and executive officers as a group constituted less than 1% of ASA outstanding shares.

The Board has an Audit Committee, a Compensation Committee, an Ethics Committee, and a Nominating Committee. The Audit Committee acts pursuant to a written charter and is responsible for overseeing ASAB's accounting and financial reporting policies, practices and internal controls. The Audit Committee currently consists of Messrs. MacNaught (Chairman), Pilkington and Rosholt. The responsibilities of the Audit Committee include overseeing (a) ASAB's accounting and financial reporting policies and practices, (b) ASAB's internal controls and procedures, and (c) the integrity, quality and objectivity of ASAB's financial statements and the audit thereof. The Audit Committee is directly responsible for the selection (subject to ratification by a majority of the independent directors and by the shareholders), compensation, oversight and, when appropriate, termination of ASAB's independent auditors.

The current members of the Compensation Committee are Messrs. Conger (Chairman), Inglis and Pilkington. The function of the Compensation Committee is to make recommendations regarding the compensation of officers and the fees of directors of ASAB. The current members of the Ethics Committee are Messrs. Farrell (Chairman), Breck and Crocker. The function of the Ethics Committee is to ensure compliance by the directors, officers and other access persons with ASAB's Code of Ethics and Rule 17j-1 under the Investment Company Act of 1940 ("1940 Act"). The current members of the Nominating Committee are Messrs. Pilkington (Chairman), Conger and Rosholt. The Nominating Committee is responsible for identifying qualified candidates for the Board.

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COMPENSATION

Each non-South African director receives an annual fee of \$20,000 for his services as a director and a fee of \$1,500 for each Board meeting that he attends in person and \$1,000 for each Board meeting he attends by telephone. Each South African director receives the rand equivalent of \$20,000 as an annual fee for his services as a director and the rand equivalent of \$2,000 for each Board meeting that he attends. In addition, directors receive a fee of \$1,000 for each committee meeting that they attend (whether in person or by telephone). The Chairman of the Audit Committee receives \$3,000 for each Audit Committee meeting that he attends. ASAB pays to any retired director who served as a director of ASAB or its predecessor, ASA, for at least twelve years a retirement benefit equal to 75% of the annual directors' fee from time to time in effect. Directors retiring after attaining the age of 70 are entitled to such retirement benefit for life; directors retiring prior to attaining such age are entitled to such retainer for the lesser of life or the number of years they served as a director.

Because ASAB has not completed its initial fiscal year, all amounts shown in the table below are estimated.

NAME OF PERSON & POSITION	AGGREGATE COMPENSATION FROM ASAB	PENSION OR RETIREMENT BENEFITS ACCRUED AS PART OF ASAB's EXPENSES ()	ESTIMATED ANNUAL BENEFIT UPON RETIREMENT (3)	TOTAL COMPENSATION FROM PAID DIRECTORS
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INTERESTED DIRECTORS:

Robert J.A. Irwin, Chairman, Chief Executive Officer, President, Treasurer and Director	\$ 325,000	\$	55,000 (1)	\$	15,000 (2)	\$	2
Chester A. Crocker, Assistant Secretary and Director	\$ 28,000		--	\$	15,000	\$	2
Ronald L. McCarthy, Assistant Treasurer and Director	\$ 100,000		--	\$	15,000	\$	2

INDEPENDENT DIRECTORS:

Henry R. Breck, Director	\$ 29,000		--	\$	15,000	\$	2
Harry M. Conger, Director	\$ 25,000		--	\$	15,000	\$	2
Joseph C. Farrell, Director	\$ 29,000		--	\$	15,000	\$	2
James G. Inglis, Director	\$ 29,000		--	\$	15,000	\$	2
Malcolm W. MacNaught Director	\$ 35,000		--	\$	15,000	\$	3
Robert A. Pilkington Director	\$ 30,000		--	\$	15,000	\$	3
A. Michael Rosholt Director	\$ 32,000		--	\$	15,000	\$	3

OTHER OFFICER

Paul K. Wustrack, Jr. Chief Compliance Officer	\$ 80,000 (4)		--		--		
---	---------------	--	----	--	----	--	--

-
- (1) In 1994, ASA entered into a supplemental non-qualified pension agreement with its Chairman. Under the terms of the agreement, ASA agreed to credit \$25,000 per year for five years, beginning December 1, 1993, to a Supplemental Pension Account with interest credited at an annual rate of 3.5%. The Board of ASA approved increases in the amount of the annual credit as follows: \$28,125 in May 1999; \$31,250 in February 2002; \$45,000 in March 2003 and \$55,000 in February 2004. As a result, ASA recorded an expense amount of \$41,562 for the year ended November 30, 2003. ASA recorded an expense amount of \$41,562 for the year ended November 30, 2003. ASA has also recorded an asset in the amount of \$145,000 related to the retirement obligation liability of \$315,900 at November 30, 2003.
- (2) The amount shown for Mr. Irwin includes the retirement benefits payable to him as a director and the amounts payable to him under the supplemental pension agreement for his benefit ASAB.
- (3) All directors qualify to receive retirement benefits if they have served ASAB or its predecessor, ASA, for at least twelve years prior to retirement. The amount shown for each director is the total benefits, which are, or would be payable to such person assuming such director had served twelve years as of November 30, 2003.
- (4) The amount shown for Mr. Wustrack's compensation does not include any bonus compensation.

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The proxy voting policies and procedures for ASA are attached as Appendix A. ASAB will be subject to identical proxy voting policies and procedures.

CONTROL PERSONS AND PRINCIPAL SECURITIES HOLDERS

Until such time as ASAB issues shares of stock in connection with the transfer of assets of ASA to ASAB, Robert J.A. Irwin, as the sole shareholder of ASAB will be a control person of ASAB.

INVESTMENT ADVISORY AND OTHER SERVICES

Advisory Services. ASAB does not employ an outside investment adviser. Robert J.A. Irwin, Chairman, President, Treasurer and a director of ASAB, will be primarily responsible for the day-to-day management of ASAB's portfolio.

Custodian and Subcustodian. JPMorgan Chase Bank, 3 Chase MetroTech Center, Brooklyn, NY 11245, will serve as ASAB's custodian. The Standard Bank of South Africa Limited, 5 Simmonds Street, Johannesburg, South Africa will serve as ASAB's South African subcustodian. JPMorgan Chase Bank and Standard Bank perform custodial and fund accounting services. ASAB also is authorized to utilize subcustodians in the United Kingdom, Australia, Japan, Switzerland and Canada under certain circumstances. To date, ASAB has not approved subcustodians in these countries.

Transfer Agent. EquiServe Trust Company, N.A., 525 Washington Boulevard, Jersey City, New Jersey 07310 will serve as ASAB's transfer agent as well as agent for the dividend reinvestment plan relating to its shares.

Independent Registered Public Accounting Firm. Ernst & Young LLP, New York, New York will serve as ASAB's independent registered public accounting firm. Ernst & Young provides audit and tax services, and assistance and consultation in connection with the review of ASAB's filings with the SEC.

BROKERAGE ALLOCATION AND OTHER SERVICES

ASAB has not commenced operations and has not paid any brokerage commissions.

In effecting securities transactions, ASAB will generally seek to obtain the best price and execution of orders. Commission rates, being a component of price, are considered along with other relevant factors. In selecting brokers, ASAB will consider the quality and reliability of brokerage services, including execution capability, performance and financial responsibility, and may consider research and other investment information provided by those brokers.

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FINANCIAL STATEMENTS

ASAB has no operating history and only nominal assets. ASAB intends to acquire all of the assets and assume all the liabilities of ASA. The tables below represent the audited financial statements of ASA for its fiscal year ended November 30, 2003 and for the six-month period ended May 31, 2004.

FISCAL YEAR ENDED NOVEMBER 30, 2003

SCHEDULE OF INVESTMENTS

(Note 1)

November 30, 2003

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Name of Company	Number of Shares	Market Value	Percent Net As
ORDINARY SHARES OF GOLD MINING COMPANIES			
Australian Gold Mines Newcrest Mining Limited -ADRs	3,000,000	\$ 28,500,000	
		28,500,000	
United States Gold Mines Newmont Mining Corporation	520,368	25,050,516	
		25,050,516	
South African Gold Mines Anglogold Limited	2,389,894	114,544,340	
Avgold Limited	2,671,230	4,178,605	
Gold Fields Limited	10,344,977	142,407,297	
Harmony Gold Mining Company Limited	1,336	21,150	
Harmony Gold Mining Company Limited - ADRs	2,166,400	34,294,112	
		295,445,504	
Canadian Gold Mines Barrick Gold Corporation	730,000	16,308,200	
Placer Dome Incorporated	1,065,312	19,335,413	
		35,643,613	
South American Gold Mines Compania de Minas Buenaventura - ADRs	900,000	26,199,000	
		410,838,633	
ORDINARY SHARES OF OTHER COMPANIES			
South African Mining Anglo American PLC	1,280,000	27,281,392	
Anglo American Platinum Corporation Limited	820,500	35,168,123	
Impala Platinum Holdings Limited	262,700	24,656,497	
		87,106,012	
Total investments		497,944,645	1
Cash and other assets less liabilities		(3,160,556)	
Net assets		\$ 494,784,089	1

There is no assurance that the valuations at which the Company's investments are carried could be realized upon sale.

The notes to the financial statements form an integral part of these statements.

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STATEMENTS OF ASSETS AND LIABILITIES

	November 30, 2003	November 30, 2002
ASSETS		
Investments, at market value (Note I)		
Gold mining companies -		
Cost \$125,445,039 in 2003		
\$120,148,921 in 2002	\$ 410,838,633	\$ 253,534,199
Other companies -		
Cost \$26,678,003 in 2003 and 2002	87,106,012	63,462,990
	497,944,645	316,997,189
Cash	6,864,615	8,225,357
Dividends and interest receivable	175,216	138,999
Other assets	177,852	31,885
Total assets	505,162,328	325,393,430
LIABILITIES		
Accounts payable and accrued liabilities	612,977	289,074
Payable for securities purchased	1,027,362	--
Current year South African tax liability	121,313	219,954
Deferred South African tax liability	8,616,587	3,461,175
Total liabilities	10,378,239	3,970,203
Net assets (shareholders' investment)	494,784,089	321,423,227
Ordinary (common) shares R 0.25 nominal (par) value		
Authorized: 24,000,000 shares		
Issued and Outstanding: 9,600,000 shares	3,360,000	3,360,000
Share premium (capital surplus)	27,489,156	27,489,156
Undistributed net investment income	59,083,301	58,663,135
Undistributed net realized (loss) from foreign currency transactions	(48,181,979)	(51,220,869)
Undistributed net realized gain from investments	115,112,525	115,112,525
Net unrealized appreciation on investments	337,205,016	166,709,091
Net unrealized appreciation on translation of assets and liabilities in foreign currency	716,070	1,310,189
Net assets	\$ 494,784,089	\$ 321,423,227
Net assets per share	\$ 51.54	\$ 33.48

The closing price of the Company's shares on the New York Stock Exchange was \$47.16 and \$30.06 on November 30, 2003 and 2002, respectively.

The notes to the financial statements form an integral part of these statements.

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STATEMENTS OF OPERATIONS

Years ended November 30, 2003 and 2002

	2003
Investment income	
Dividend income	\$ 10,947,308
Interest income	704,772
Total investment income	11,652,080
Expenses	
Shareholders' report and proxy expenses	112,387
Directors' fees and expenses	462,872
Salaries and benefits	468,678
Other administrative expenses	442,500
Transfer agent, registrar and custodian	127,291
Professional fees and expenses	1,023,897
Insurance	144,417
Contributions	117,619
Other	347,267
Total expenses	3,256,928
Net investment income before South African tax	8,395,152
South African tax	(294,986)
Net investment income	8,100,166
Net realized gain from investments	
Proceeds from sales	--
Cost of securities sold	--
South African tax	--
Net realized gain from investments	--
Net realized gain (loss) from foreign currency transactions	
Investments	--
Foreign currency	1,399,249
South African tax refund (tax)	1,639,641
Net realized gain (loss) from foreign currency transactions	3,038,890
Net increase in unrealized appreciation on investments	
Balance, beginning of year	170,170,266
Balance, end of year	345,821,603
Increase	175,651,337
Deferred South African tax	(5,155,412)
Net increase in unrealized appreciation from investments	170,495,925
Net increase (decrease) in unrealized appreciation on translation of assets and liabilities in foreign currency	(594,119)
South African tax benefit	--
Net increase (decrease) in unrealized appreciation on translation of assets and liabilities in foreign currency	(594,119)

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Net realized and unrealized gain from investments and foreign currency transactions	172,940,696
Net increase in net assets resulting from operations	\$ 181,040,862

The notes to the financial statements form an integral part of these statements.

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STATEMENTS OF SURPLUS AND STATEMENTS OF CHANGES IN NET ASSETS

Years ended November 30, 2003 and 2002

STATEMENTS OF SURPLUS	November 30, 2003	November 30, 2002
Share premium (capital surplus)		
Balance, beginning and end of year	\$ 27,489,156	\$
Undistributed net investment income		
Balance, beginning of year	\$ 58,663,135	\$
Net investment income for the year	8,100,166	
Dividends paid	(7,680,000)	
Balance, end of year	\$ 59,083,301	\$
Undistributed net realized (loss) from foreign currency transactions		
Balance, beginning of year	\$ (51,220,869)	\$
Net realized gain (loss) for the year	3,038,890	
Balance, end of year	\$ (48,181,979)	\$
Undistributed net realized gain from investments (Computed on identified cost basis)		
Balance, beginning of year	\$ 115,112,525	\$
Net realized gain for the year	--	
Balance, end of year	\$ 115,112,525	\$
Net unrealized appreciation on investments		
Balance, beginning of year	\$ 166,709,091	\$
Net increase for the year	170,495,925	
Balance, end of year	\$ 337,205,016	\$
Net unrealized appreciation (depreciation) on translation of assets and liabilities in foreign currency		
Balance, beginning of year	\$ 1,310,189	\$
Net unrealized appreciation (depreciation) for the year	(594,119)	
Balance, end of year	\$ 716,070	\$

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STATEMENTS OF CHANGES IN NET ASSETS	2003
Net investment income	\$ 8,100,166
Net realized gain from investments	--
Net realized gain (loss) from foreign currency transactions	3,038,890
Net increase in unrealized appreciation on investments	170,495,925
Net unrealized appreciation (depreciation) on translation of assets and liabilities in foreign currency	(594,119)
Net increase in net assets resulting from operations	181,040,862
Dividends paid	(7,680,000)
Net increase in net assets	173,360,862
Net assets, beginning of year	321,423,227
Net assets, end of year	\$ 494,784,089

The notes to the financial statements form an integral part of these statements.

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NOTES TO FINANCIAL STATEMENTS

Years ended November 30, 2003 and 2002

1 Summary of significant accounting policies. The following is a summary of the Company's significant accounting policies:

A. Investments

Security transactions are recorded on the respective trade dates. Securities owned are reflected in the accompanying financial statements at quoted market value. The difference between cost and current market value is reflected separately as net unrealized appreciation from investments. The net realized gain or loss from the sale of securities is determined on the identified cost basis.

Quoted market value of those shares traded represents the last recorded sales price on the financial statement date, or the mean between the closing bid and asked prices of those securities not traded on that date. In the event that a mean price cannot be computed due to the absence of either a bid or an asked price, then the bid price plus 1% or the ask price less 1%, as applicable, is used.

There is no assurance that the valuation at which the Company's investments are carried could be realized upon sale.

B. Exchange Gains and Losses

The Company records exchange gains and losses in accordance with the provisions of the American Institute of Certified Public Accountants Statement of Position 93-4, Foreign Currency Accounting and Financial Statement Presentation for Investment Companies ("SOP"). The SOP requires separate disclosure in the accompanying financial statements of net realized gain (loss) from foreign currency transactions, and inclusion of unrealized gain (loss) on the

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translation of currency as part of net unrealized appreciation (depreciation) on translation of assets and liabilities in foreign currency.

C. Security Transactions and Investment Income

During the year ended November 30, 2003 there were no sales of securities and purchases of securities amounted to \$5,296,118. During the year ended November 30, 2002 sales of securities amounted to \$ 13,409,639 and purchases of securities amounted to \$19,129,051. Dividend income is recorded on the ex-dividend date (the date on which the securities would be sold ex-dividend) net of withholding taxes, if any. Interest income is recognized on the accrual basis.

D. Distributions to Shareholders

Dividends to shareholders are recorded on the ex-dividend date.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual results could differ from those estimates.

2 Tax status of the Company. Pursuant to the South African Income Tax Act, as amended, the Company is subject to tax on dividends received from sources other than South Africa. In addition, in terms of the residence based system of taxation, beginning with the fiscal year ended November 30, 2002, the Company is subject to tax on interest earned on cash deposits. A provision for South African taxes of \$294,986 and \$376,213 for these items has been included in the accompanying financial statements for the fiscal years ended November 30, 2003 and November 30, 2002, respectively.

In addition, the Company had previously provided for and paid taxes on foreign exchange gains. However, the Company was assessed by the South African Revenue Service ("SARS") on the basis that it is exempt from tax on foreign exchange gains and in November 2003, after the completion of a refund audit performed by SARS, the Company received a refund in respect of the overpayment of tax in the amount of \$1,639,641, plus interest.

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A tax provision of -0- and \$71,956 has been included in the accompanying financial statements for realized capital gains during the fiscal years ended November 30, 2003 and November 30, 2002, respectively. Also, a deferred tax liability of \$8,616,587 and \$3,461,175 has been included for the tax on unrealized capital gains on securities for the fiscal years ended November 30, 2003 and November 30, 2002, respectively.

SARS has held that, effective October 1, 2001, the Company became subject to a tax on capital gains realized since that date on the disposal of South African and foreign securities. However, after numerous representations with SARS as well as the Treasury Department, the Company has been successful in negotiating relief from this tax. On December 17, 2003, the South African Income Tax Act of 1962 was amended by the Revenue Laws Amendment Bill 71 of 2003 and signed into law by the President of South Africa. This amendment provides the Company with an exemption from the Capital Gains Tax until November 30, 2004.

The Company has commenced actions necessary to relocate its place of business to Bermuda before the expiration of its exemption. (See Note 5.) While

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it is management's intention to complete this relocation before the November 30, 2004 expiration date, no assurance can be given that all conditions will be satisfied. Therefore, the Company will continue to provide deferred South African tax on unrealized capital gains on securities subsequent to November 30, 2003.

The reporting for financial statement purposes of distributions made during the fiscal year from net investment income or net realized gains may differ from their ultimate reporting for U.S. federal income tax purposes. The differences are caused primarily by the separate line items reporting for financial statement purposes of foreign exchange gains or losses. See the annual report additional tax information for United States shareholders.

3 Currency exchange. There are exchange control regulations restricting the transfer of funds from South Africa. In 1958 the South African Reserve Bank, in the exercise of its powers under such regulations, advised the Company that the exchange control authorities would permit the Company to transfer to the United States in dollars both the Company's capital and its gross income, whether received as dividends or as profits on the sale of investments, at the current official exchange rate prevailing from time to time. Future implementation of exchange control policies could be influenced by national monetary considerations that may prevail at any given time.

4 Retirement plans. Effective April 1, 1989, the Company established a defined contribution plan (the "Plan") to replace its previous pension plan. The Plan covers all full-time employees. The Company will contribute 15% of each covered employee's salary to the Plan. The Plan provides for immediate vesting by the employee without regard to length of service. During the years ended November 30, 2003 and 2002 there were no covered employees under the plan and, consequently, no retirement expense was incurred.

In 1994, the Company entered into a supplemental non-qualified pension agreement with its Chairman, Under the terms of the agreement, the Company agreed to credit \$25,000 per year for five years, beginning December 1, 1993, to a Supplemental Pension Account with interest credited at an annual rate of 3.5%.

The Board of Directors approved increases in the amount of the annual credit as follows: \$28,125 in May 1999; \$31,250 in February 2002 and \$45,000 in March 2003. As a result, the Company has recorded expense amounts of \$41,562 and \$29,688 for the years ended November 30, 2003 and November 30, 2002, respectively.

The Company has an asset in the amount of \$145,000 related to the retirement obligation liability of \$315,900 as of November 30, 2003.

5 Company Reorganization. The Company announced earlier this year that, in view of its tax situation, it had filed an application for an exemptive order with the Securities and Exchange Commission to permit the Company to move from the Republic of South Africa to the Commonwealth of Bermuda by reorganizing itself into a newly formed company incorporated in Bermuda. The move would not involve any material change in the Company's investment policies. The relocation to Bermuda is subject to a number of conditions, including (1) receiving the requested relief from the Securities and Exchange Commission; (2) receiving approval to list the shares of the new Bermuda company on the New York Stock Exchange and (3) satisfying shareholder approval requirements. No assurance can be given that these conditions will be satisfied.

In connection with the reorganization, the Company has incurred approximately \$575,000 in legal and other professional fees as of November 30, 2003.

6 Commitments. The Company's lease for office space in Johannesburg

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expired in February 2003. The Company has renewed the lease for a two year period at an annual cost of approximately \$55,000.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of
Directors of ASA Limited:

We have audited the accompanying statements of assets and liabilities of ASA Limited (incorporated in the Republic of South Africa) as of November 30, 2003 and 2002, including the schedule of investments as of November 30, 2003, and the related statements of operations, surplus and changes in net assets, financial highlights and supplementary information for each of the two years in the period ended November 30, 2003. These financial statements, financial highlights and supplementary information are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, financial highlights and supplementary information based on our audits. The financial highlights for years presented prior to November 30, 2002 were audited by other auditors who have ceased operations and whose report dated December 18, 2001 expressed an unqualified opinion on those financial highlights.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements, financial highlights and supplementary information are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, financial highlights and supplementary information. Our procedures included the confirmation of securities owned as of November 30, 2003 and 2002, by correspondence with the custodians and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements, financial highlights and supplementary information referred to above present fairly, in all material respects, the financial position of ASA Limited as of November 30, 2003 and 2002, the results of its operations, the surplus and changes in its net assets, financial highlights and supplementary information for each of the two years in the period then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP
New York, N.Y., U.S.A.

Ernst & Young
Johannesburg, SA

December 23, 2003

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SEMI-ANNUAL PERIOD ENDED MAY 31, 2004

SCHEDULE OF INVESTMENTS
(Note 1)

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May 31, 2004

Name of Company	Number of Shares	Market Value
ORDINARY SHARES OF GOLD MINING COMPANIES		
Australian Gold Mines Newcrest Mining Limited -ADRs	3,000,000	\$ 27,630,000
United States Gold Mines Newmont Mining Corporation	520,368	20,663,813
South African Gold Mines Anglogold Limited	2,389,894	83,636,131
Gold Fields Limited	9,704,977	114,834,568
Harmony Gold Mining Company Limited	292,459	3,523,828
Harmony Gold Mining Company Limited - ADRs	2,166,400	25,953,472
		227,947,999
Canadian Gold Mines Barrick Gold Corporation	730,000	15,089,100
Placer Dome Incorporated	1,065,312	16,608,214
		31,697,314
South American Gold Mines Compania de Minas Buenaventura - ADRs	900,000	21,087,000
		329,026,126
ORDINARY SHARES OF OTHER COMPANIES		
South African Mining Anglo American PLC	1,280,000	27,110,509
Anglo American Platinum Corporation Limited	820,500	30,552,691
Impala Platinum Holdings Limited	262,700	19,354,072
Mvelaphanda Resources Limited	1,950,000	6,285,416
		83,302,688
Total investments (Cost - \$151,159,299)		412,328,814
CASH AND OTHER ASSETS LESS LIABILITIES		46,838
Net assets		\$ 412,375,652

There is no assurance that the valuations at which the Company's investments are carried could be realized upon sale.

The notes to the financial statements form an integral part of these statements.

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	May 31, 2004	May 31, 2003
ASSETS		
Investments, at market value (Note I)		
Gold mining companies -		
Cost \$117,577,016 in 2004		
\$121,354,720 in 2003	\$ 329,026,126	\$ 278,500,000
Other companies -		
Cost \$33,582,283 in 2004		
\$26,678,003 in 2003	83,302,688	63,400,000
	412,328,814	341,900,000
Cash (Includes foreign cash of \$4,633,317 and \$497,790)	5,653,497	9,500,000
Dividends and interest receivable	139,910	1,000,000
Other assets	260,760	
Total assets	418,382,981	351,600,000
LIABILITIES		
Accounts payable and accrued liabilities	493,205	4,000,000
Current South African tax liability (benefit)	(16,817)	
Deferred South African tax liability	5,530,941	3,400,000
Total liabilities	6,007,329	3,900,000
Net assets (shareholders' investment)	\$ 412,375,652	\$ 347,700,000
Ordinary (common) shares R0.25 nominal (par) value		
Authorized: 24,000,000 shares		
Issued and Outstanding: 9 600 000 shares	\$ 3,360,000	\$ 3,360,000
Shore premium 1 (capital surplus)	27,489,156	27,400,000
Undistributed net investment income	58,153,100	60,700,000
Undistributed net realized (loss) from foreign currency transactions	(55,009,385)	(49,800,000)
Undistributed net realized gains from investments	122,131,967	115,100,000
Net unrealized appreciation on investments	255,638,574	190,400,000
Net unrealized appreciation on translation of assets and liabilities in foreign currency	612,240	4,000,000
Net assets	\$ 412,375,652	\$ 347,700,000
Net assets per share	\$ 42.96	\$ 42.96

The closing price of the Company's shares on the New York Stock Exchange was \$37.64 and \$35.90 on May 31, 2004 and 2003, respectively.

The notes to the financial statements form an integral part of these statements.

STATEMENTS OF OPERATIONS

Six months ended

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	May 31, 2004	May 31, 2003
Investment income		
Dividend income	\$ 3,369,822	\$ 6,369,822
Interest income	97,578	97,578
Total investment income	3,467,400	6,464,978
Expenses		
Shareholders' report and proxy expenses	87,540	87,540
Directors' fees and expenses	317,613	317,613
Salaries and benefits	300,850	300,850
Other administrative expenses	373,454	373,454
Transfer agent, registrar and custodian	58,335	58,335
Professional fees and expenses	216,796	216,796
Insurance	72,081	72,081
Other	171,564	171,564
Total expenses	1,598,233	1,598,233
Net investment income before South African tax benefit	1,869,167	4,866,745
South African tax benefit	80,632	80,632
Net investment income	1,949,799	4,947,377
Net realized and unrealized gain (loss) from investments and foreign currency transactions		
Net realized gain from investments		
Proceeds from sales	8,403,634	8,403,634
Cost of securities sold	1,384,192	1,384,192
Net realized gain from investments	7,019,442	7,019,442
Net realized gain (loss) from foreign currency transactions		
Investments	(6,872,264)	(6,872,264)
Foreign currency transactions	44,858	44,858
Net realized gain (loss) from foreign currency transactions	(6,827,406)	(6,827,406)
Net increase (decrease) in unrealized appreciation on investments		
Balance, beginning of year	345,821,603	170,000,000
Balance, end of year	261,169,515	193,000,000
Increase (Decrease)	(84,652,088)	23,000,000
Change in Deferred South African tax liability	3,085,646	3,085,646
Net increase (decrease) in unrealized appreciation from investments	(81,566,442)	23,000,000
Net (decrease) in unrealized appreciation on translation of assets and liabilities in foreign currency	(103,830)	(103,830)
Net realized and unrealized gain (loss) from investments and foreign and foreign currency transactions	(81,478,236)	24,000,000
Net increase (decrease) in net assets resulting from operations	\$ (79,528,437)	\$ 29,000,000

The notes to the financial statements form an integral part of these statements.

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STATEMENTS OF SURPLUS AND STATEMENTS OF CHANGES IN NET ASSETS

	Six months ended	
STATEMENTS OF SURPLUS	May 31, 2004	May
Share premium (capital surplus)		
Balance, beginning and end of year	\$ 27,489,156	\$ 27,489,156
Undistributed net investment income		
Balance, beginning of year	\$ 59,083,301	\$ 59,083,301
Net investment income for the year	1,949,799	4,199,799
Dividends paid	(2,880,000)	(2,880,000)
Balance, end of year	\$ 55,153,100	\$ 60,303,099
Undistributed net realized (loss) from foreign currency transactions		
Balance, beginning of year	\$ (48,181,979)	\$ (51,181,979)
Net realized gain (loss) for the year	(6,827,406)	1,181,979
Balance, end of year	\$ (58,009,385)	\$ (49,999,999)
Undistributed net realized gain from investments (Computed on identified cost basis)		
Balance, beginning of year	\$ 115,112,525	\$ 115,112,525
Net realized gain for the year	7,019,442	7,019,442
Balance, end of year	\$ 122,131,967	\$ 115,112,525
Net unrealized appreciation (depreciation) on investments		
Balance, beginning of year	\$ 337,205,016	\$ 166,205,016
Net increase (decrease) for the year	(81,566,442)	23,038,574
Balance, end of year	\$ 255,638,574	\$ 190,243,590
Net unrealized appreciation (depreciation) on translation of assets and liabilities in foreign currency		
Balance, beginning of year	\$ 716,070	\$ 1,716,070
Net unrealized (depreciation) for the period	(103,830)	(103,830)
Balance, end of year	\$ 612,240	\$ 1,612,240

	Six months ended	
STATEMENTS OF CHANGES IN NET ASSETS	May 31, 2004	May
Net investment income	\$ 1,949,799	\$ 4,199,799
Net realized gain from investments	7,019,442	7,019,442
Net realized gain (loss) from foreign currency transactions	(6,827,406)	1,181,979
Net increase (decrease) in unrealized appreciation on investments	(81,566,442)	23,038,574

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Net (decrease) in unrealized appreciation (depreciation) on translation of assets and liabilities in foreign currency	(103,830)	
<hr style="border-top: 1px dashed black;"/>		
Net increase (decrease) in net assets resulting from operations	(79,528,437)	29
Dividends paid	(2,880,000)	(2)
<hr style="border-top: 1px dashed black;"/>		
Net increase (decrease) in net assets	(82,408,437)	26
Net assets, beginning of year	494,784,089	321
<hr style="border-top: 1px dashed black;"/>		
Net assets, end of year	\$ 412,375,652	\$ 347
<hr style="border-top: 1px dashed black;"/>		

The notes to the financial statements form an integral part of these statements.

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NOTES TO FINANCIAL STATEMENTS

SIX MONTHS ENDED MAY 31, 2004 AND 2003

1 Summary of significant accounting policies. The following is a summary of the Company's significant accounting policies:

A. Investments

Portfolio securities are generally valued at the last reported sales price on the last trading day of the period, or the mean between the closing bid and asked prices of those securities not traded on that date. In the event that a mean price cannot be computed due to the absence of either a bid or an asked price, then the bid price plus 1% or the ask price less 1%, as applicable, is used. Securities for which current market quotations are not readily available are valued at their fair value as determined in good faith by, or in accordance with procedures adopted by, the Company's Board of Directors.

The difference between cost and current value is reflected separately as net unrealized appreciation (depreciation) on investments. The net realized gain or loss from the sale of securities is determined for account purposes on the identified cost basis.

There is no assurance that the valuation at which the Company's investments are carried could be realized upon sale.

B. Exchange Gains and Losses

The Company records exchange gains and losses in accordance with the provisions of the American Institute of Certified Public Accountants Statement of Position 93-4, Foreign Currency Accounting and Financial Statement Presentation for Investment Companies ("SOP"). The SOP requires separate disclosure in the accompanying financial statements of net realized gain (loss) from foreign currency transactions, and inclusion of unrealized gain (loss) on the translation of currency as part of net unrealized appreciation (depreciation) on translation of assets and liabilities in foreign currency.

C. Security Transactions and Investment Income

During the six months ended May 31, 2004 sales of securities amounted to \$8,403,634 and purchases of securities amounted to \$7,292,714. During the six months ended May 31, 2003 there were no sales of securities and purchases of securities amounted to \$1,205,799.

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Dividend income is recorded on the ex-dividend date (the date on which the securities would be sold ex-dividend) net of withholding taxes, if any. Interest income is recognized on the accrual basis.

D. Distributions to Shareholders

Dividends to shareholders are recorded on the ex-dividend date.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual results could differ from those estimates.

F. Basis of Presentation

The financial statements are presented in United States dollars.

Certain prior year amounts in the accompanying financial statements have been reclassified to conform with current year presentation.

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2 Tax status of the Company. Pursuant to the South African Income Tax Act, as amended, the Company is subject to tax on dividends received from sources other than South Africa. In addition, beginning with the fiscal year ended November 30, 2002, the Company is subject to tax on interest earned on cash deposits. A tax benefit for South African taxes of \$80,632 and a tax provision of \$-0- for these items have been included in the accompanying financial statements for the six months ended May 31, 2004 and May 31, 2003, respectively.

The Company had previously provided for and paid taxes on foreign exchange gains. However, the Company was assessed by the South African Revenue Service ("SARS") on the basis that it is exempt from tax on foreign exchange gains and in November 2003, after the completion of a refund audit performed by SARS, the Company received a refund in respect of the overpayment of tax in the amount of \$1,639,641, plus interest.

In addition to the foregoing taxes, ASA currently is exempt from certain other taxes in South Africa. Such exemption, however, expires on November 30, 2004. Following that date ASA will become subject to the Capital Gains Tax ("CGT") and the Secondary Tax on Companies ("STC") in South Africa.

The CGT is assessed at an effective rate of 15% on most gains realized by a corporation on the sale of an investment. No provision for the CGT has been included in the accompanying financial statements for realized capital gains during the six months ended May 31, 2004 as a result of the Company's current exemption. A deferred tax liability of \$5,530,941 and \$3,453,238 has been included for the CGT on unrealized capital gains on securities for the six months ended May 31, 2004 and May 31, 2003, respectively.

The STC is assessed at the rate of 12.5% on the amount of dividends distributed to shareholders, after a deduction for dividends received or accrued by a corporation from South African companies during the relevant dividend period or cycle. Effective January 1, 2003, the STC applies to liquidation distributions to shareholders of capital gains attributable to the period after October 1, 2001, with an offset for the capital gains tax paid on these gains. The Company currently is exempt from the STC on the types of dividends discussed above.

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The Company has commenced actions necessary to relocate to Bermuda before the expiration of its exemption. See Note 5. While it is management's intention to complete this relocation before the November 30, 2004 expiration date, no assurance can be given that all conditions will be satisfied by November 30, 2004. If the Company is unable to relocate to Bermuda prior to November 30, 2004, the Company's Board of Directors will decide what action, if any, the Company should take. The Company could decide to remain in South Africa after November 30, 2004, in which case the above-described taxes would apply to the Company in the normal course of conducting its business. Alternatively, the Company could decide to relocate to Bermuda after November 30, 2004, in which case the Company would incur a tax liability at the time of the relocation estimated at approximately \$25 million, based on the Company's financial statements as of May 31, 2004.

The reporting for financial statement purposes of distributions made during the fiscal year from net investment income or net realized gains may differ from their ultimate reporting for U.S. federal income tax purposes. The differences are caused primarily by the separate line items reporting for financial statement purposes of foreign exchange gains or losses. See the semi-annual report for additional tax information for United States shareholders.

3 Currency exchange. There are exchange control regulations restricting the transfer of funds from South Africa. In 1958 the South African Reserve Bank, in the exercise of its powers under such regulations, advised the Company that the exchange control authorities would permit the Company to transfer to the United States in dollars both the Company's capital and its gross income, whether received as dividends or as profits on the sale of investments, at the current official exchange rate prevailing from time to time. Future implementation of exchange control policies could be influenced by national monetary considerations that may prevail at any given time.

4 Retirement plans. Effective April 1, 1989, the Company established a defined contribution plan (the "Retirement Plan") to replace its previous pension plan. The Retirement Plan covers all full-time employees. The Company will contribute 15% of each covered employee's salary to the Retirement Plan. The Retirement Plan provides for immediate vesting by the employee without regard to length of service. During the six months ended May 31, 2004 and 2003, there were no covered employees under the Retirement Plan and consequently, no retirement expense was incurred.

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In 1994, the Company entered into a supplemental non-qualified pension agreement with its Chairman. Under the terms of the agreement, the Company agreed to credit \$25,000 per year for five years, beginning December 1, 1993, to a Supplemental Pension Account with interest credited at an annual rate of 3.5%.

The Board of Directors approved increases in the amount of the annual credit as follows: \$28,125 in May 1999; \$31,250 in February 2002 and \$45,000 in March 2003 and \$55,000 in February 2004. As a result, the Company has recorded expense amounts of \$25,833 and \$19,051 for the six months ended May 31, 2004 and May 31, 2003, respectively.

The Company has an asset in the amount of \$150,750 related to the retirement obligation liability including interest of \$349,635 as of May 31, 2004.

5 Company Reorganization. The Company announced in early 2003 that, in view of its tax situation, it had filed an application for an exemptive order

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with the U.S. Securities and Exchange Commission to permit the Company to move from the Republic of South Africa to the Commonwealth of Bermuda by reorganizing itself into a newly formed company incorporated in Bermuda. The move would not involve any material change in the Company's investment policies. The relocation to Bermuda is subject to a number of conditions, including (1) receiving the requested relief from the Securities and Exchange Commission; (2) receiving approval to list the shares of the new Bermuda company on the New York Stock Exchange and (3) satisfying shareholder approval requirements. No assurance can be given that these conditions will be satisfied.

In connection with the reorganization, the Company has incurred approximately \$750,000 in legal and other professional fees as of May 31, 2004.

6 Concentration risk. Under normal circumstances, over 50% of the Company's assets will be invested in equity securities of companies conducting, as a major portion of their business, gold mining and related activities in South Africa. The Company also invests in securities of companies engaged in other businesses in South Africa, including the mining of other precious metals. In addition, the Company invests a portion of its assets in securities of companies operating outside of South Africa in extractive and related activities, including gold mining. The Company is, therefore, subject to gold and precious metal related risks as well as risks related to investing in South Africa including political, economic, regulatory, currency fluctuation and foreign exchange risks. As a result of industry consolidation, the Company current is invested in a limited number of securities and thus holds large positions in certain securities. Because the Company's investments are concentrated in a limited number of securities of companies involved in the mining of gold and other precious metals and related activities, the net asset value of the Company may be subject to greater volatility than that of a more broadly diversified investment company.

7 Commitments. The Company's lease for office space in Johannesburg expired in February 2003. The Company has renewed the lease for a two-year period at an annual cost of approximately \$55,000.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of ASA Limited:

We have audited the accompanying statements of assets and liabilities of ASA Limited (incorporated in the Republic of South Africa) as of May 31, 2004 and 2003, including the schedule of investments as of May 31, 2004, and the related statements of operations, surplus and changes in net assets and supplementary information for the six months ended May 31, 2004 and 2003 and the financial highlights for the six months ended May 31, 2004 and May 31, 2003 and the years ended November 30, 2003 and 2002. These financial statements, financial highlights and supplementary information are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, financial highlights and supplementary information based on our audits. The financial highlights for years presented prior to November 30, 2002 were audited by other auditors who have ceased operations and whose report dated December 18, 2001 expressed an unqualified opinion on those financial highlights.

We conducted our audits in accordance with the standards of the Public Accounting Oversight Board (United States). 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

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disclosures in the financial statements, financial highlights and supplementary information. Our procedures included the confirmation of securities owned as of May 31, 2004 and 2003, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements, financial highlights and supplementary information referred to above present fairly, in all material respects, the financial position of ASA Limited as of May 31, 2004 and 2003, the results of its operations, its surplus, the changes in its net assets, and supplementary information for each of the six month periods then ended and the financial highlights for the six months ended May 31, 2004 and 2003 and the years ended November 30, 2003 and 2002 in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP
New York, N.Y., U.S.A.

Ernst & Young
Johannesburg, SA

July 16, 2004

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STATEMENT OF ADDITIONAL INFORMATION

APPENDIX A

ASA LIMITED PROXY VOTING POLICIES AND PROCEDURES

The following is a statement of the proxy voting policies and procedures of ASA Limited.

PROXY ADMINISTRATION

ASA understands its proxy voting responsibilities and that proxy voting decisions may affect the long-term interests of its shareholders. ASA attempts to process every proxy vote it receives. However, voting proxies for shares of certain non-U.S. companies may involve significantly greater effort and cost than for shares of U.S. companies. There may be situations where ASA may not or cannot vote a proxy. For example, ASA may receive proxy material too late to act upon or the cost of voting may outweigh the benefit of voting.

Authority and responsibility to vote proxies with respect to ASA's portfolio securities has been delegated to the Chairman of the Board and, in the event of his inability to act, to the Managing Director of ASA. In evaluating proxy proposals, the Chairman (or Managing Director) may consider information from various sources, including management of the company presenting a proposal as well as independent sources. The ultimate decision rests with the Chairman (or Managing Director), who is accountable to the Board of Directors of ASA.

GENERAL PRINCIPLES

In voting proxies, ASA will act solely in the best economic interests of its shareholders with the goal of maximizing the value of ASA's portfolio. These policies and procedures are designed to promote accountability of a portfolio company's management and board of directors to its shareholders and to align

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their interests with those of shareholders. These policies and procedures recognize that a portfolio company's managers are entrusted with the day-to-day operations of the company, as well as longer-term strategic planning, subject to the company's board of directors.

ASA believes that the quality and depth of a portfolio company's management, including its board of directors, is an important consideration in determining the desirability of an investment. Accordingly, the recommendations of management on many issues are given substantial weight in determining how to vote a proxy. However, each issue is considered on its own merits, and the position of the portfolio company's management will not be supported whenever it is determined not to be in the best interests of ASA and its shareholders.

SPECIFIC POLICIES

A. ROUTINE MATTERS

1. Election of Directors. In general, ASA will vote in favor of management's director nominees if they are running unopposed. ASA believes that management is in the best position to evaluate the qualifications of directors and the needs of a particular board. Nevertheless, ASA will vote against, or withhold its vote for, any nominee whom it feels is not qualified. When management's nominees are opposed in a proxy contest, ASA will evaluate which nominee's publicly-announced management policies and goals are most likely to maximize shareholder value, as well as the past performance of the incumbent.
2. Ratification of Selection of Auditors. In general, ASA will rely on the judgment of management in selecting the independent auditors. Nevertheless, ASA will examine the recommendation of management in appropriate cases, e.g., where there has been a change in auditors based upon a disagreement on accounting matters.

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3. Stock Option and Other Equity Based Compensation Plan Proposals. ASA will generally approve management's recommendations with respect to the adoption or amendment of stock option plans and other equity based compensation plans, provided that the total number of shares reserved under all of a company's plans is reasonable and not excessively dilutive.

B. ACQUISITIONS, MERGERS, REINCORPORATIONS, REORGANIZATIONS AND OTHER TRANSACTIONS

Because voting on transactions such as acquisitions, mergers, reincorporations and reorganizations involve considerations unique to each transaction, ASA does not have a general policy in regard to voting on those transactions. ASA will vote on a case-by-case basis on each transaction.

C. CHANGES IN CAPITAL STRUCTURE

ASA evaluates proposed capital actions on a case-by-case basis and will generally defer to management's business analysis in support of such actions. In cases where proposed capital actions

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support proxy defenses or act to reduce or limit shareholder rights, particular consideration will be given to all the effects of the action and ASA's vote will be made in a manner consistent with the objective of maximizing long-term shareholder value.

D. ANTI-TAKEOVER PROPOSALS

In general, ASA will vote against any proposal which ASA believes would materially contribute to preventing a potential acquisition or takeover, including proposals to:

- . Stagger the board of directors;
- . Introduce cumulative voting;
- . Introduce unequal voting rights;
- . Create supermajority voting;
- . Establish preemptive rights.

In general, ASA will vote in favor of any proposals to reverse the above.

E. SHAREHOLDER PROPOSALS INVOLVING SOCIAL, MORAL OR ETHICAL MATTERS

In general, ASA will vote in accordance with management's recommendation on issues that primarily involve social, moral or ethical matters, although exceptions may be made in certain instances where ASA believes a proposal has substantial economic implications.

F. CONFLICT OF INTEREST

In view of the fact that ASA is internally managed and does not have an investment advisor, it is unlikely that conflicts of interest will arise in voting the proxies of ASA's portfolio companies. ASA maintains a record of the affiliated persons of each director and officer of ASA including the Chairman and the Managing Director. The Compliance Officer reviews proxy statement proposals to determine the existence of a potential conflict of interest. In the event that the Chairman (or the Managing Director) has a personal conflict of interest, he shall remove himself from the voting process. In cases of a conflict of interest, a record shall be maintained confirming that ASA's vote was made solely in the interests of ASA and without regard to any other consideration.

Date: November 6, 2003

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PART C

OTHER INFORMATION

Indemnification -----

Reference is hereby made to Sections 103 to 107 and Section 151 of the Registrant's Bye-Laws, incorporated by reference to the Registrant's Registration Statement on Form N-2, SEC File No. 811-21650, as filed with the

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Securities and Exchange Commission on October 5, 2004.

The Registrant's directors and officers will be insured under an errors and omissions liability insurance policy. The Registrant will be insured under the fidelity bond required by Rule 17g-1 under the Investment Company Act of 1940.

Exhibits

- (1) Memorandum of Association 1/
- (2) Bye-Laws 1/
- (3) Voting trust agreement -Not applicable.
- (4) Form of Agreement and Plan of Reorganization -Included as Appendix A to the Prospectus/Proxy Statement in this Registration Statement.
- (5) Instruments Defining the Rights of the Securities Holders - See Exhibit 2.
- (6) Investment Advisory Contracts -Not applicable.
- (7) Underwriting or Distribution Contracts -Not applicable.
- (8) Pension Arrangements--To be filed by Amendment
- (9) (a) Form of Custodian Contract between the Registrant and JPMorgan Chase Bank 1/
(b) Subcustodian Contract 1/
- (10) Plan pursuant to 12b-1 or 18f-3 - Not applicable.
- (11) Opinion and consent of Counsel regarding the legality of securities being registered -Filed herewith.
- (12) (a) Opinion and consent of KPMG Services (Proprietary) Limited, South Africa, regarding certain tax matters -Filed herewith.
(b) Opinion and consent of Kirkpatrick & Lockhart LLP, regarding certain tax matters--To be filed by Amendment.
- (13) (a) Shareholder Services Contract with LGN Associates 1/
(b) Accounting Services Agreement with Kaufman, Rossin & Co., P.A. 1/
(c) Administrative Services Agreement with Appleby Corporate Services (Bermuda) Ltd. 1/
- (14) (a) Consent of Ernst & Young LLP, New York, New York -Filed herewith.
(b) Consent of Ernst & Young, Johannesburg, South Africa - Filed herewith.
- (15) Financial statements omitted from prospectus - Not applicable.
- (16) Power of Attorney - Filed herewith.
- (17) Additional Exhibits

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(a) Form of Proxy -Filed herewith.

1/ Incorporated by reference to the Registrant's Registration Statement on Form N-2, SEC File No. 811-21650, as filed with the Securities and Exchange Commission on October 5, 2004

Undertakings

(1) The undersigned Registrant agrees that prior to any public re-offering of the securities registered through the use of the prospectus which is a part of this Registration Statement by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c) of the Securities Act of 1933, the re-offering prospectus will contain the information called for by the applicable registration form for re-offering by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

(2) The undersigned Registrant agrees that every prospectus that is filed under paragraph (1) above will be filed as a part of an amendment to the Registration Statement and will not be used until the amendment is effective, and that, in determining any liability under the Securities Act of 1933, each post-effective amendment shall be deemed to be a new Registration Statement for the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering of them.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant, ASA (Bermuda) Limited, has duly caused this Initial Filing of the Registrant's Registration Statement on Form N-14 to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Buffalo and State of New York, on the 5th day of October, 2004.

ASA (BERMUDA) LIMITED

By: /s/ Robert J.A. Irwin

Robert J.A. Irwin
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Initial Filing of the Registrant's Registration Statement on Form N-14 has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
----- /s/ Robert J.A. Irwin -----		October 5, 2004
Robert J.A. Irwin	Chairman of the Board, Director, President, Chief Executive Officer and Treasurer	
Chester A. Crocker*	Assistant Secretary and Director	

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Ronald L. McCarthy*	Assistant Treasurer and Director
Henry R. Breck*	Director
Harry M. Conger*	Director
Joseph C. Farrell*	Director
James G. Inglis*	Director
Malcolm W. MacNaught*	Director
Robert A. Pilkington*	Director
A. Michael Rosholt*	Director

*By /s/ Robert J.A. Irwin

Robert J.A. Irwin
Attorney-in-Fact

Date: October 5, 2004

EXHIBIT INDEX

- (11) Opinion and consent of Appleby Spurling Hunter regarding the legality of securities being registered
- (12) Opinion and consent of KPMG Services (Proprietary) Limited, South Africa, regarding certain tax matters
- (14) (a) Consent of Ernst & Young LLP, New York, NY
(b) Consent of Ernst & Young, Johannesburg, South Africa
- (16) Power of Attorney
- (17) (a) Form of Proxy