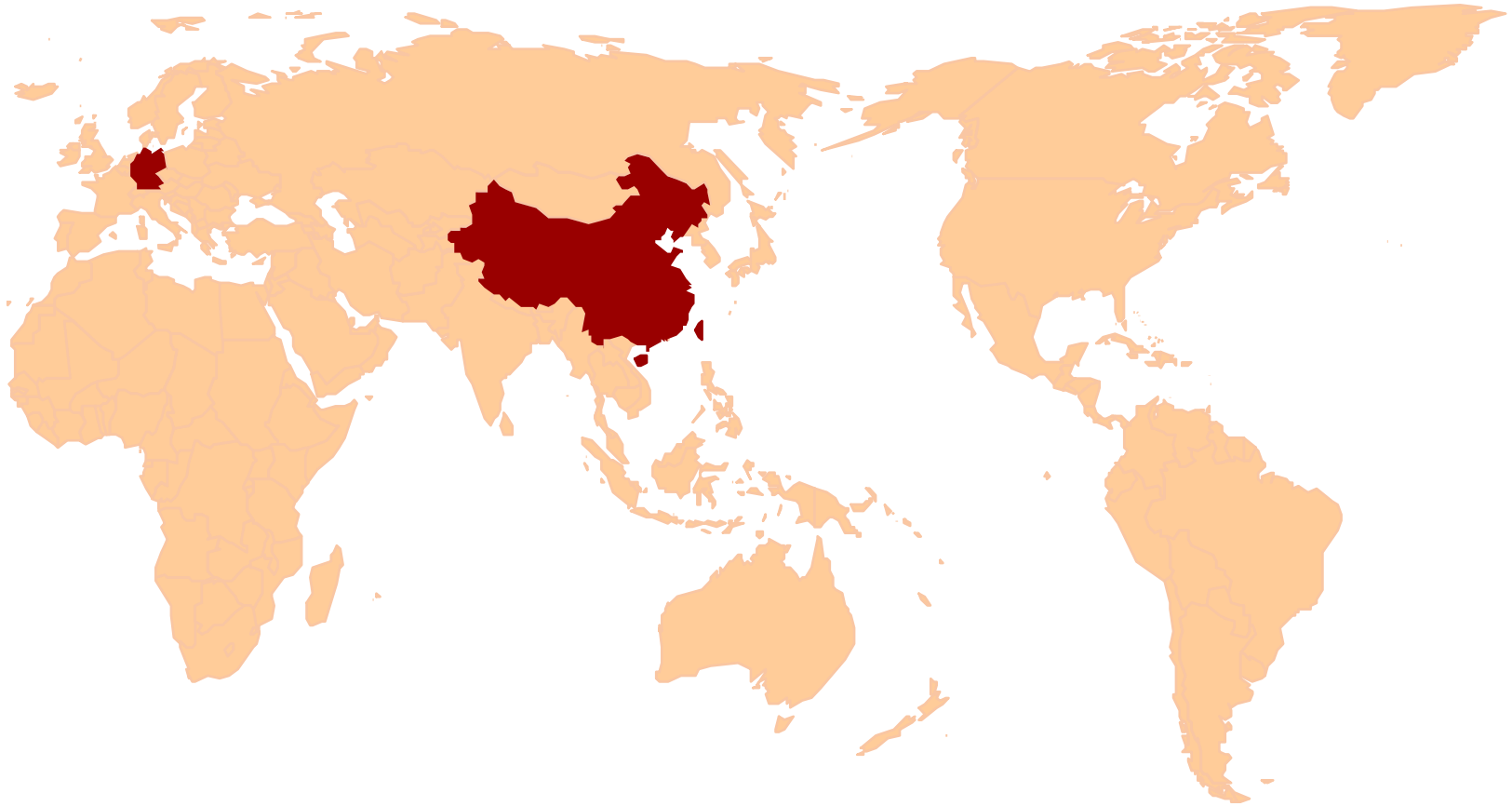


# MSM

MANDARIN STRATEGY MANAGEMENT  
CONSULTING GMBH



**MSM –  
YOUR STRATEGIC PARTNER FOR CHINA**

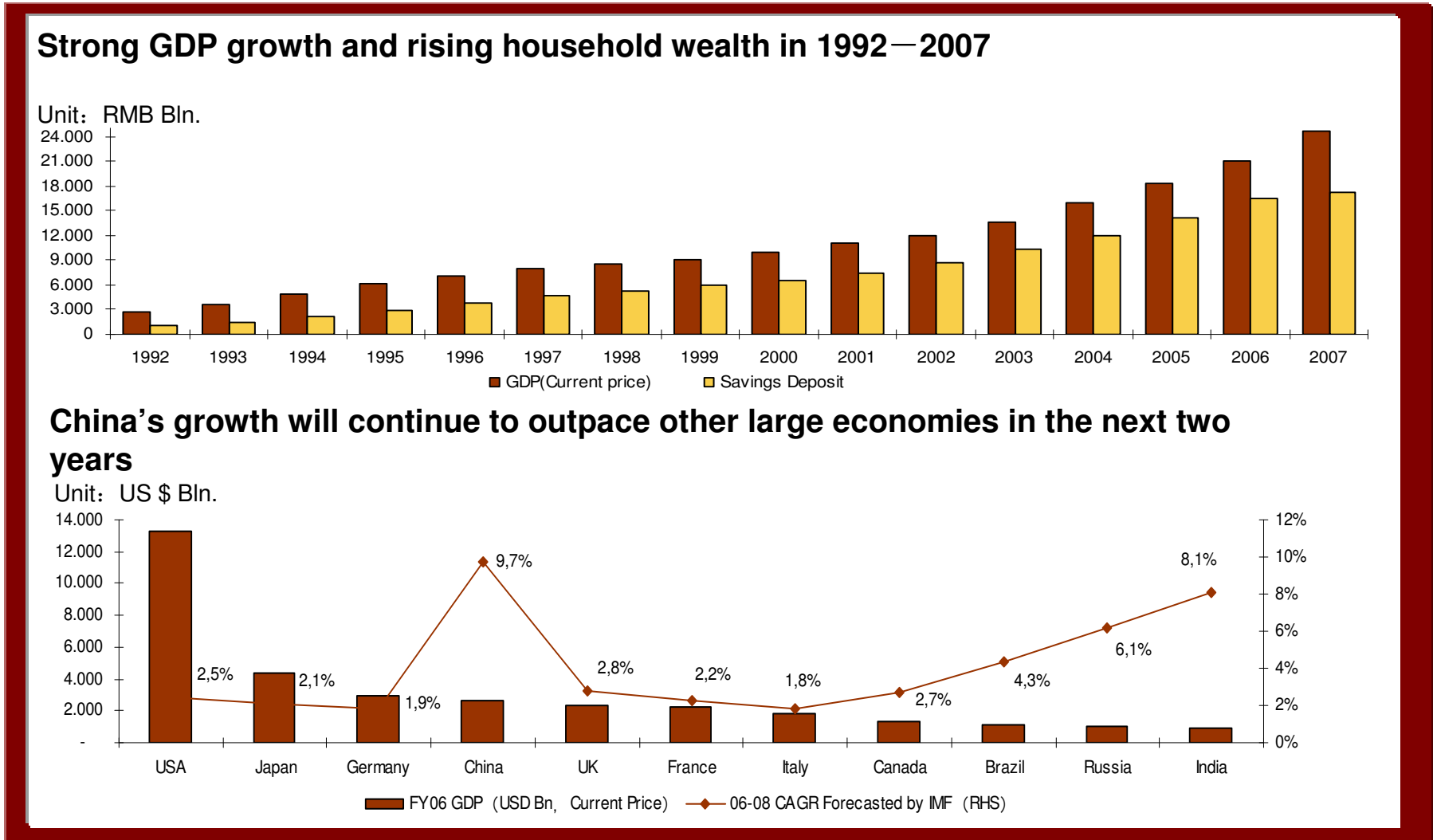
**Industry Up-date/I. 2008**  
**China's Financial Institutions**

<b>1</b>	<b>Overview China's economic development</b>
2	China's Banking Industry (Outlook)
3	China's PE Market (Outlook)
4	China's Insurance Market (Outlook)
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## MSM overview of the Chinese economy

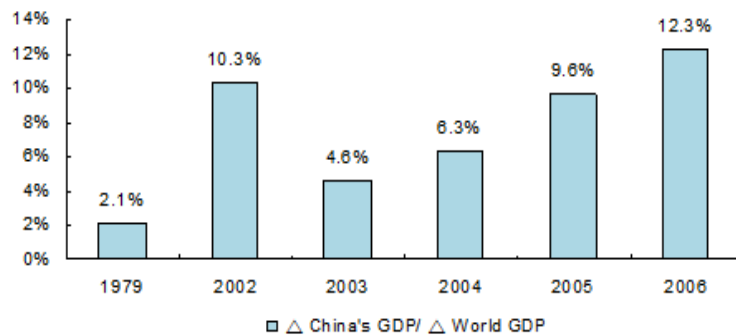
<b>GIANT EMERGING ECONOMY</b>	<ul style="list-style-type: none"><li>■ GDP (purchasing power parity) - 6,992 Bln USD (2007 est.) - Rank No. 2</li><li>■ GDP 2007 (official exchange rate) 3,251 Bln USD</li><li>■ GDP per Cap.: 2,454 USD ----- With the largest population 1.3Bln</li></ul>
<b>FAST GROWING OUTPUT</b>	<ul style="list-style-type: none"><li>■ GDP real growth: 11.4% ----- Compared to world: 5.2% in 2007 est.</li><li>■ Real domestic demand growth ----- 9.5% in 2007</li></ul>
<b>STRONGER CURRENCY</b>	<ul style="list-style-type: none"><li>■ Regime: Managed Exchange-Rate System</li><li>■ RMB has appreciated 15% against U.S. Dollar since July 2005</li><li>■ Spot Rate: 7.05 RMB/USD 10.99 RMB/Euro (20 Mar. 2008)</li></ul>
<b>MAJOR PLAYER IN GLOBAL TRADE</b>	<ul style="list-style-type: none"><li>■ Trade Surplus: 262 Bln USD</li><li>■ Export: 1,218 Bln USD -----Share in world 2006: 8.02%, Rank: No.3</li><li>■ Import: 956 Bln USD ----- Share in world 2006: 6.38%, Rank: No.3</li><li>■ FDI: 82.7 Bln USD, Total Reserve: 1,530 Bln USD</li></ul>

## China's strong economic growth will continue



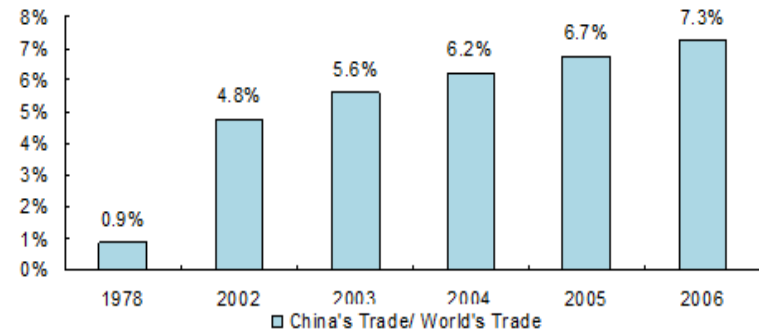
... with increasing influence on the world economy

**China Contributes More to the World Economy**



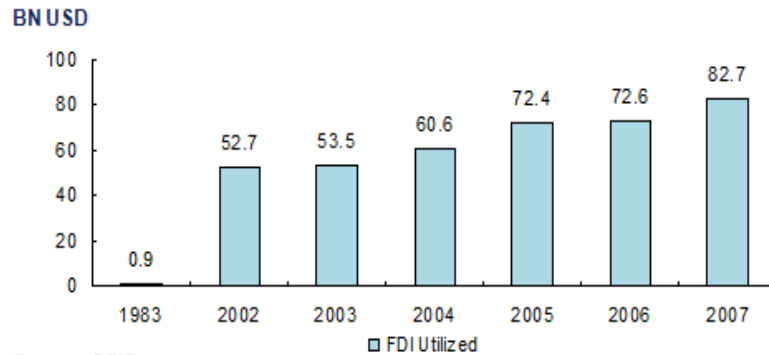
Source: World Bank, CICC Research

**China's Trade is Taking Bigger Proportion**



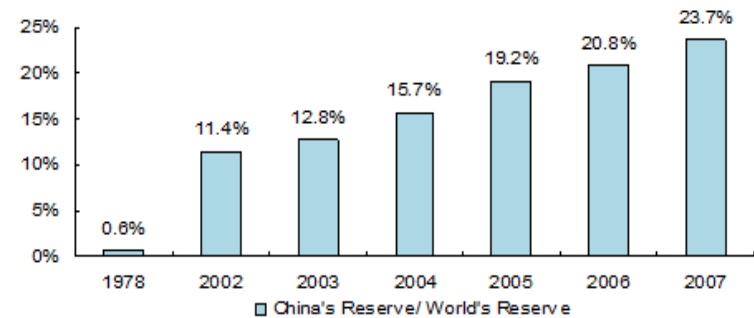
Source: IMF, CICC Research

**More FDI is Attracted into China**



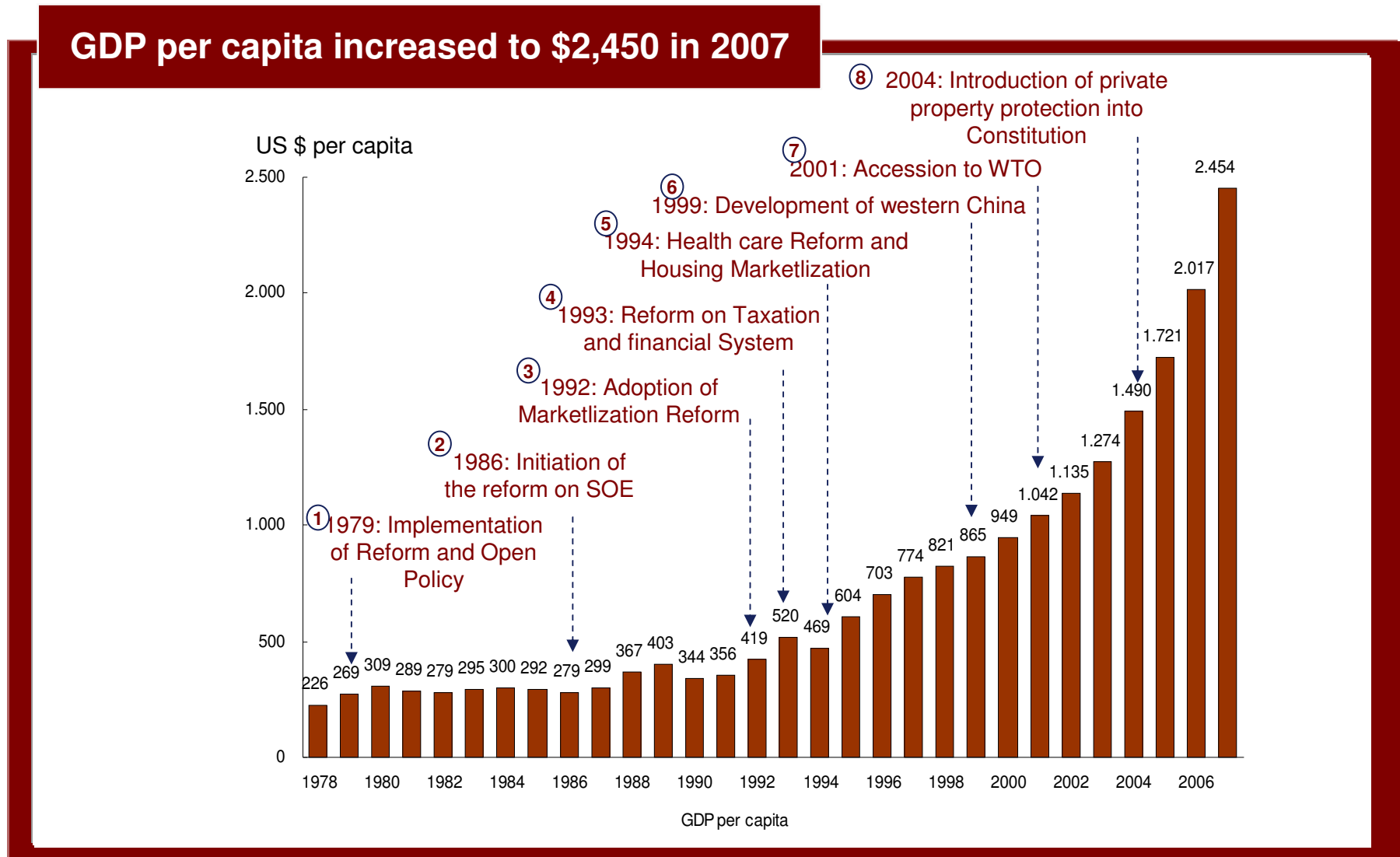
Source: CEIC

**China's Reserve is now the Largest in the World**

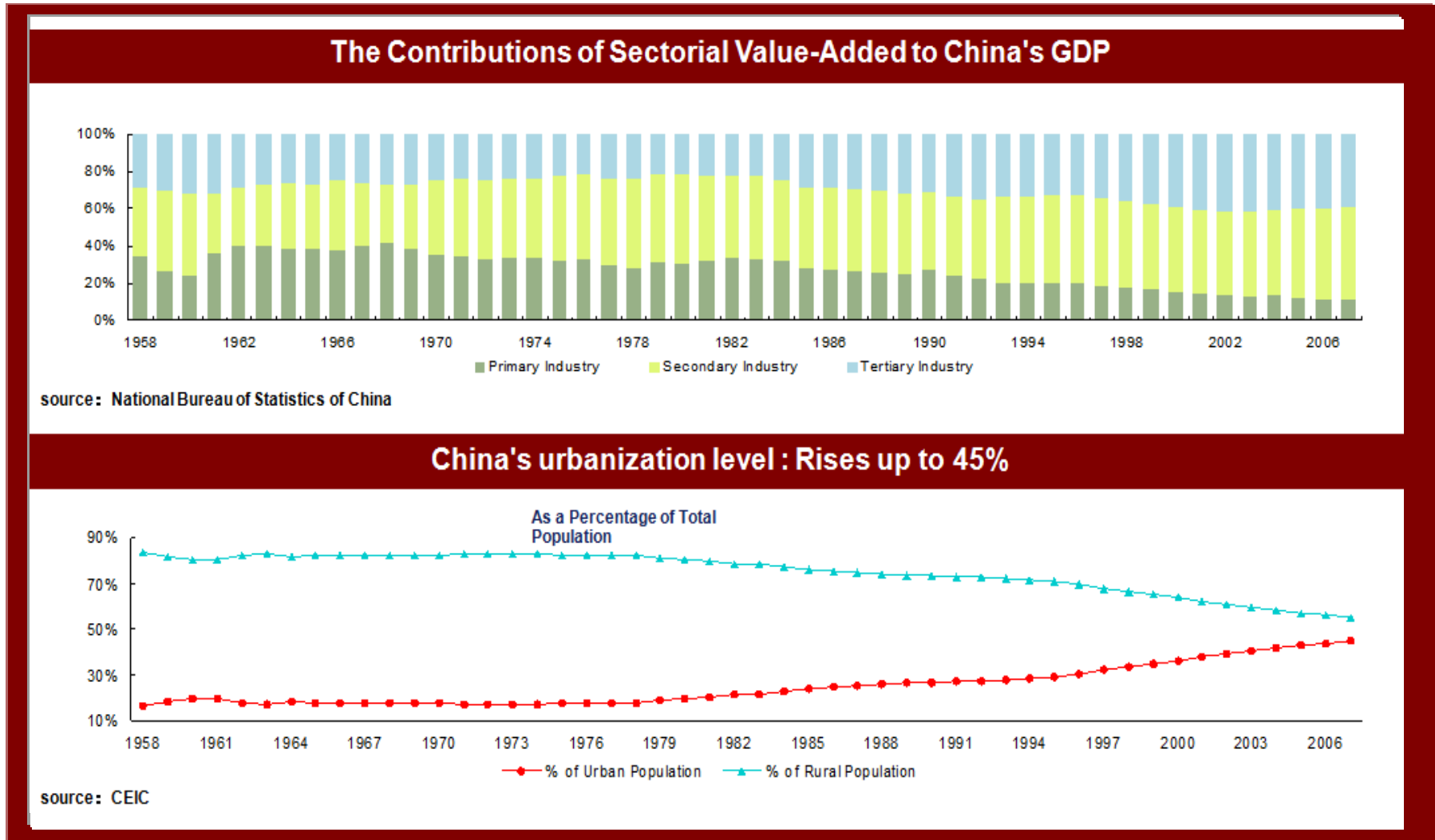


Source: IMF, CICC Research

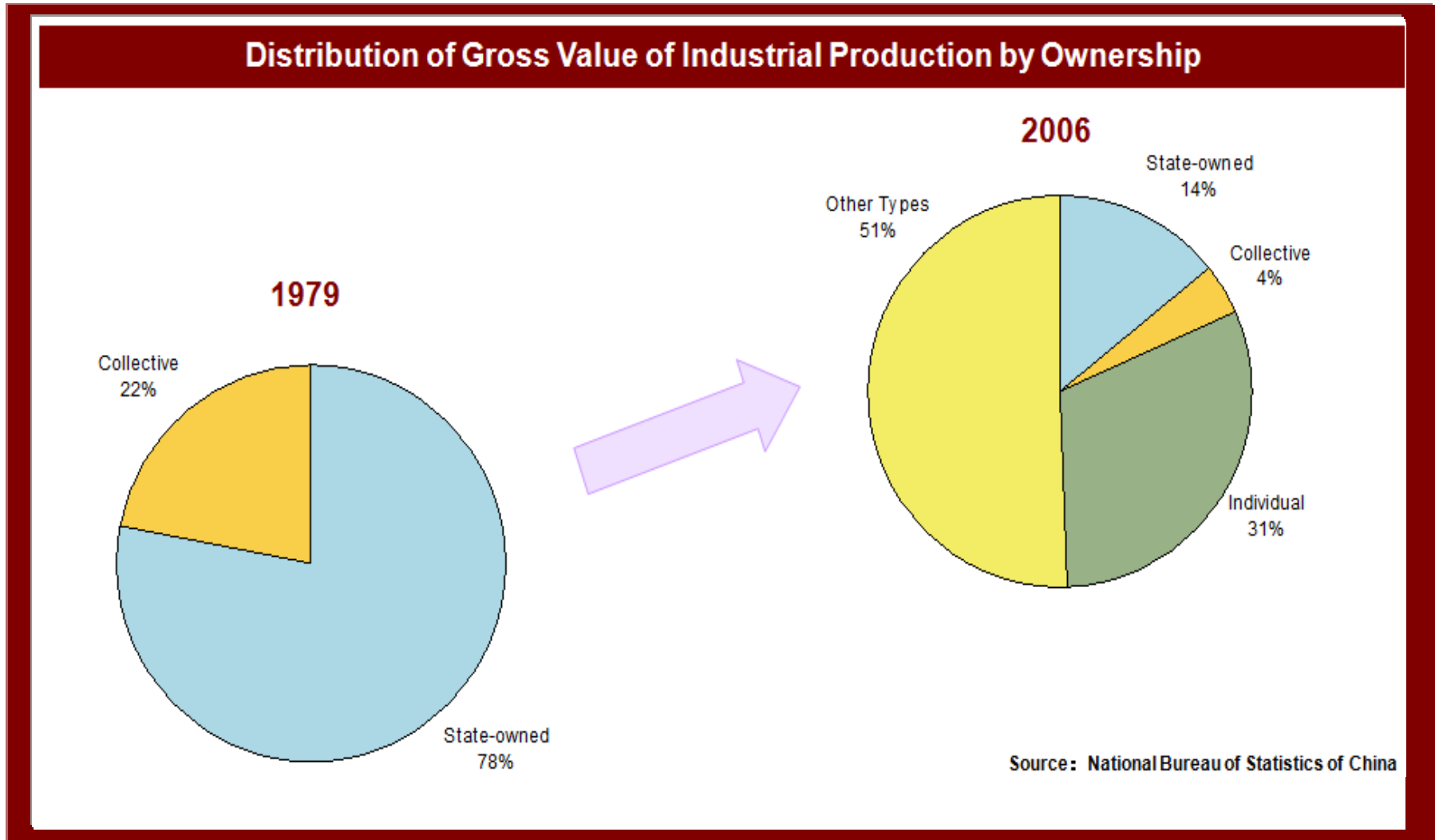
## Market-oriented reform has been progressing steadily



... achieving higher level of industrialization and urbanization

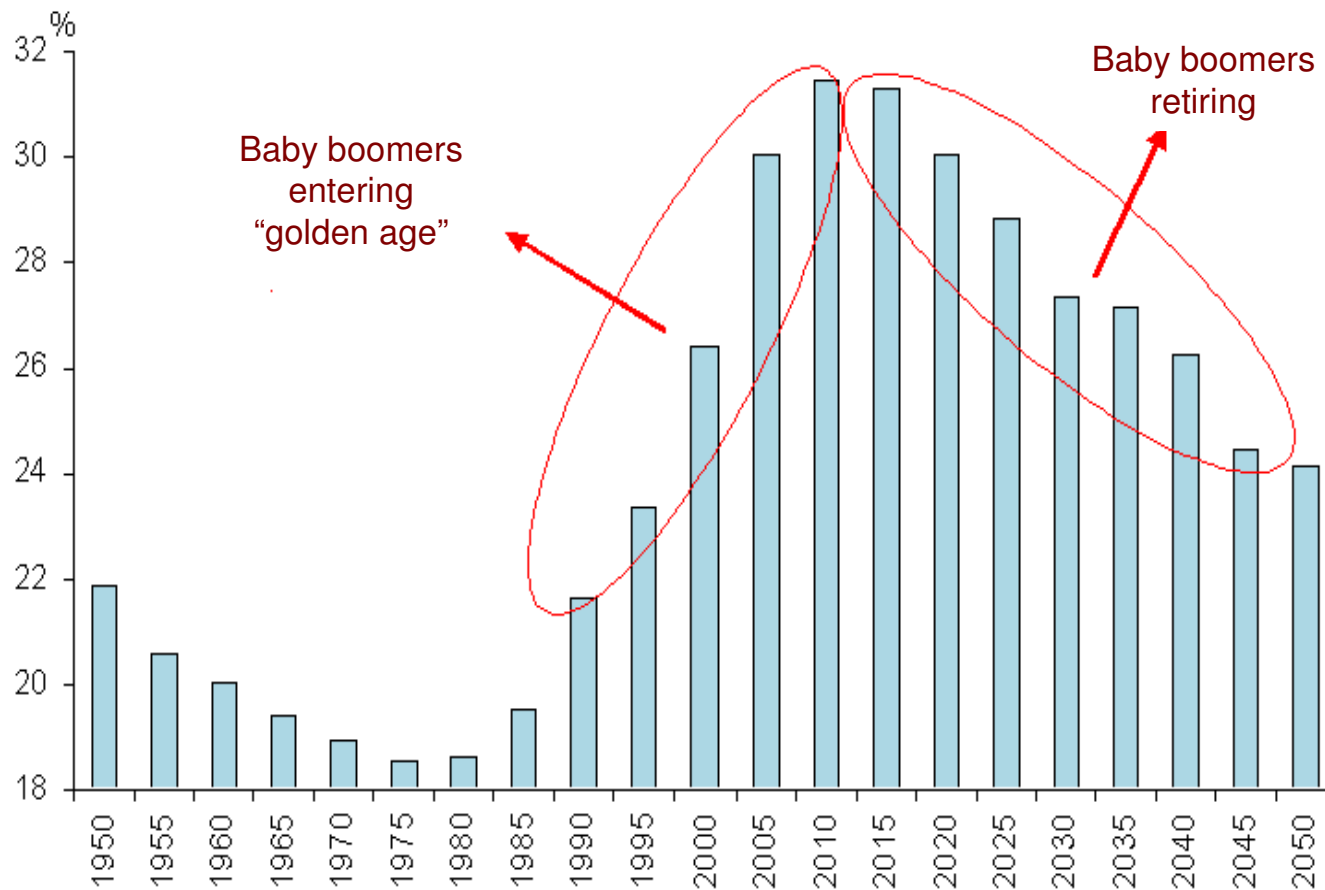


... and profound progress in ownership diversification and SOE reform



## China's demographic trend changes and will challenge future growth

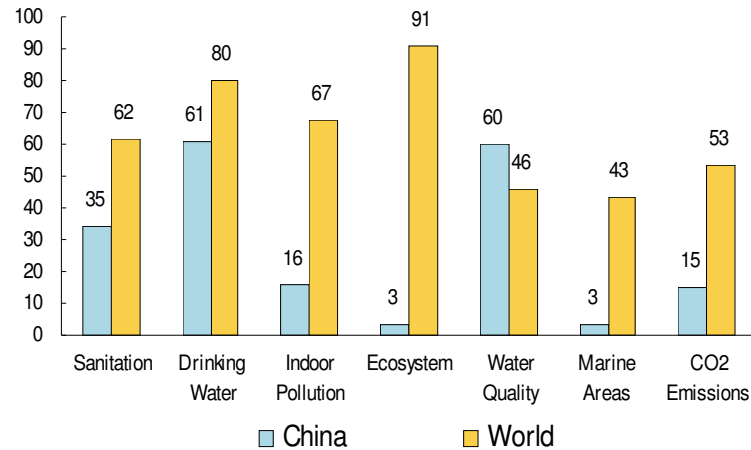
### The percentage of Age 35-54 group in population



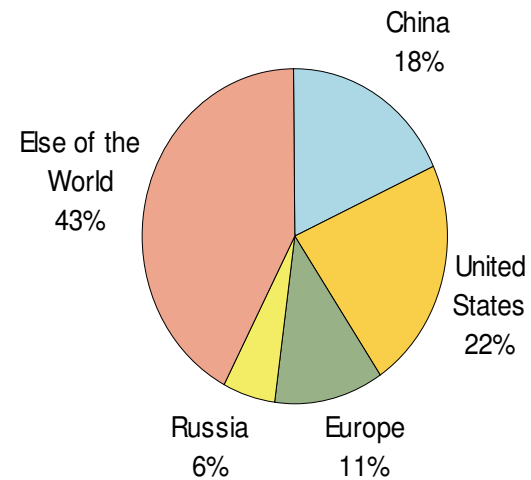
## Environmental challenges of China's economic development

### China's environmental performance 2007-2008

**Environmental Performance Index 2008**

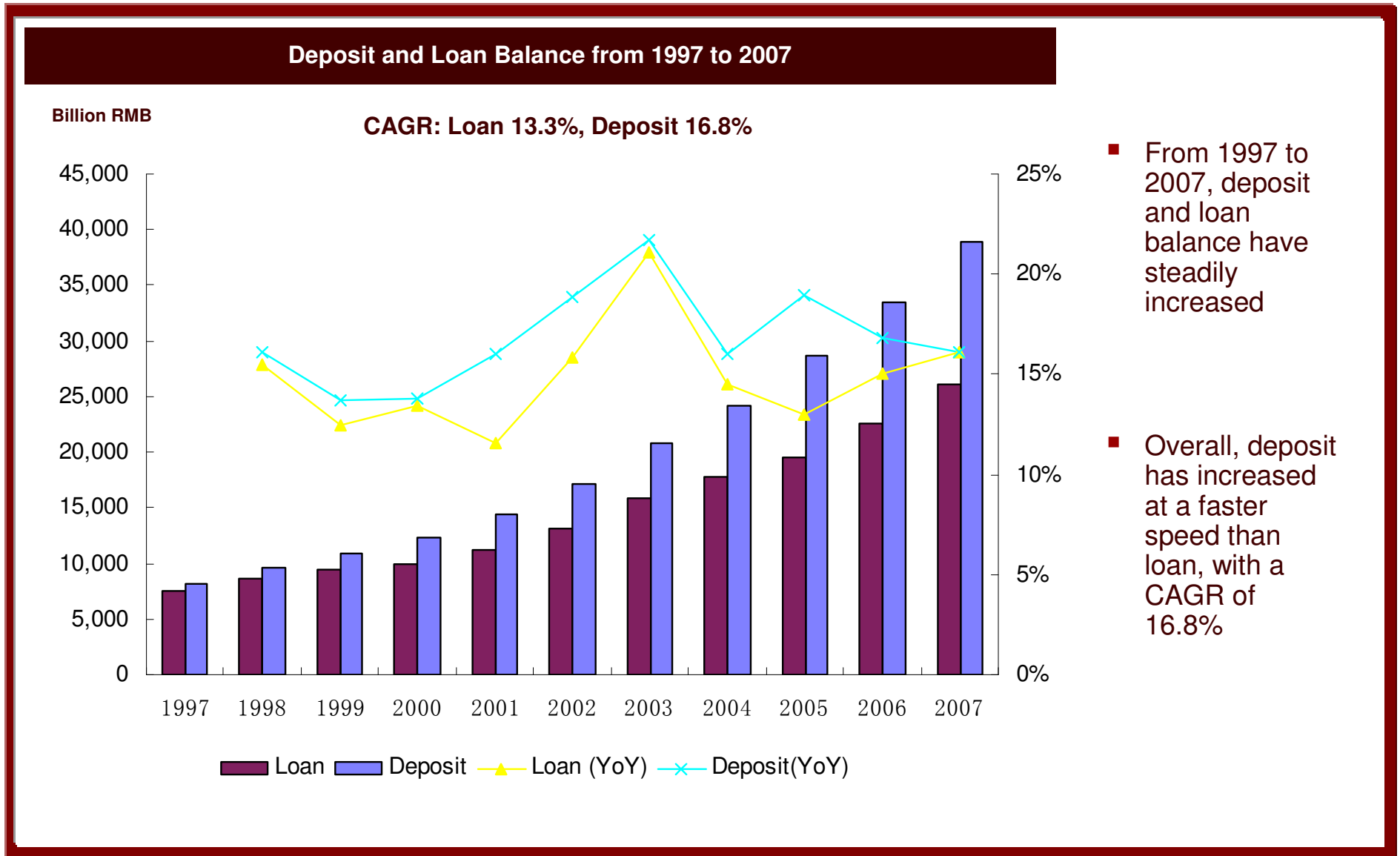


**CO2 emission Proportion**



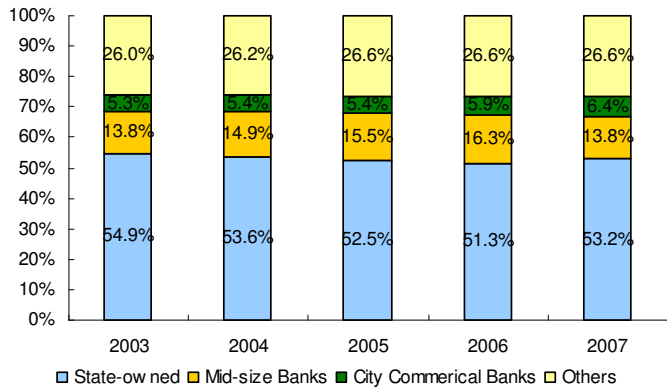
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## Deposit and Loan Steadily Increased

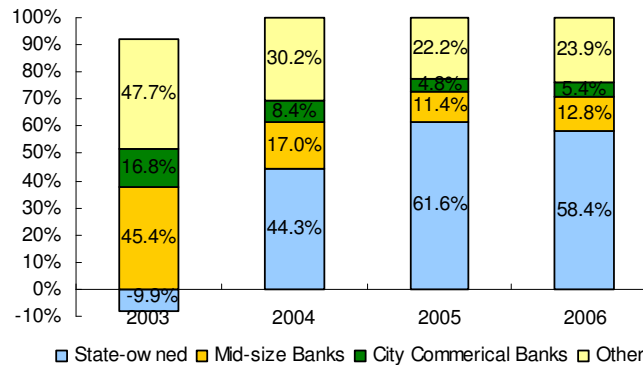


## State-owned Banks, pillar of China's banking sector

**Asset Breakdown (2007)**



**Profit (EBT) Contribution (2006)**



■ The Big Four still control half of China's banking sector, although mid-size banks like CMB and CITIC Bank are growing rapidly.

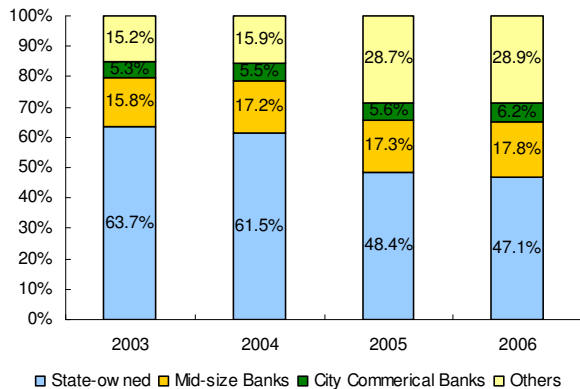
**Total assets (2006)**

- Big Four 51.3%
- Mid-size 16.3%

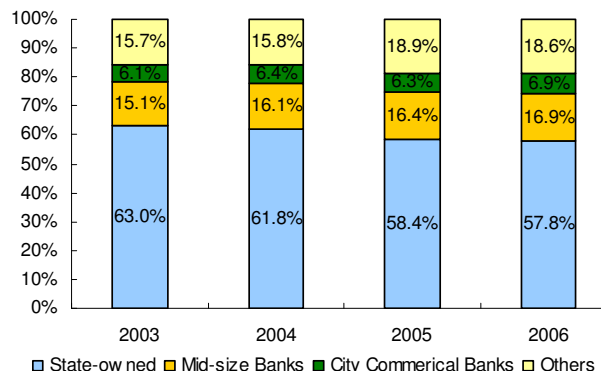
**Profit (2006)**

- Big Four 58.4%
- Mid-size 12.8%

**Loan Breakdown (2006)**



**Deposit Breakdown (2006)**



**Loans (2006)**

- Big Four 47.1%
- Mid-size 17.8%

**Deposits (2006)**

- Big Four 57.6%
- Mid-size 16.9%

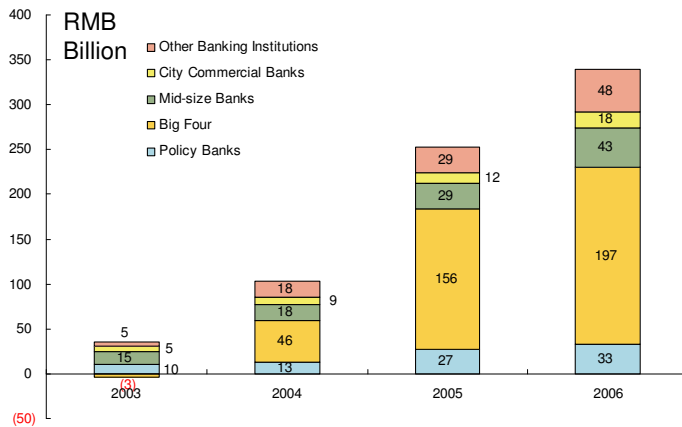
Source: CEIC, CICC Research

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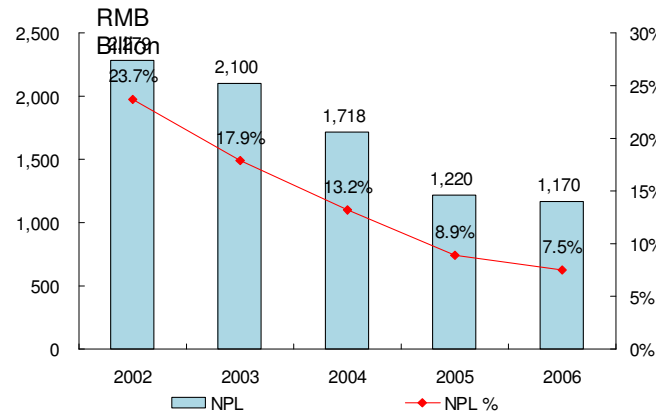
Note: other banking institutions include policy banks, rural commercial banks, rural cooperative banks, postal savings bank, foreign banks and other non-bank financial institutions

## Tremendous achievements in sector reform

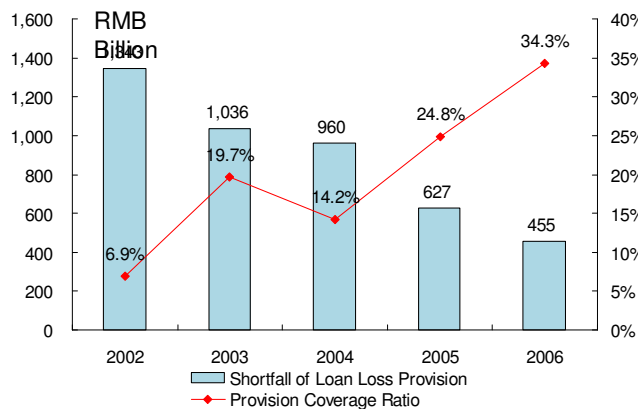
### Surging profits



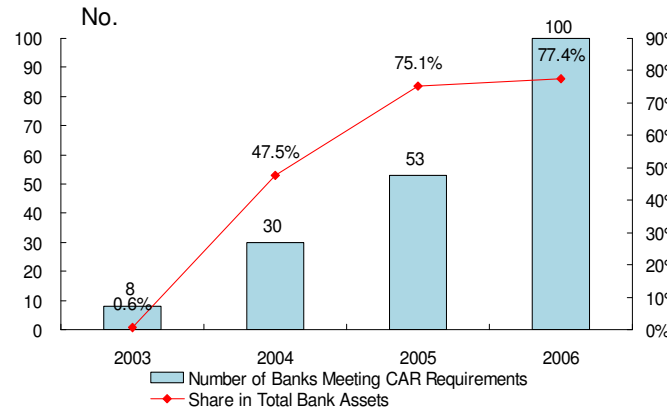
### Decreasing NPL and NPL ratio



### Expanding provision coverage



### Rising CAR



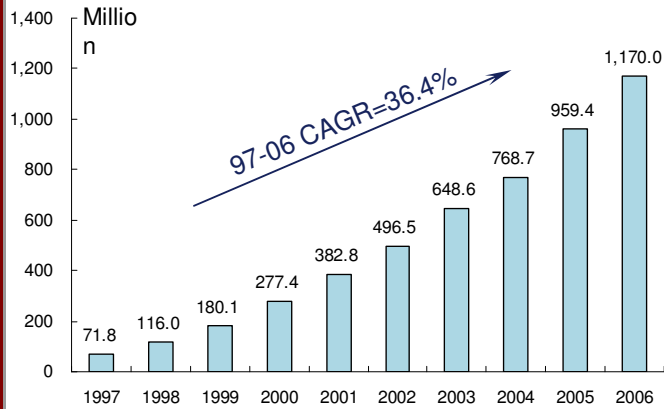
- Profits of domestic banks increased almost tenfold from 2003 to 2006, registering a CAGR of 119%. The big four posted even faster bottom line growth: - Rmb3.2bn in 2003 to Rmb197.5bn in 2006.
- NPL balance halved from 2002 to 2006 and NPL ratio fell from 23.7% to 7.5%.
- Provision coverage surged from 6.9% to 34.3%, up to as high as 87% for listed banks.
- The number of banks meeting the CAR requirement was only 8 in 2003 but increased to 100 in 2006. They control 77% of total sector assets.

Source: CBRC, CICC Research

Source: CBRC, CICC Research

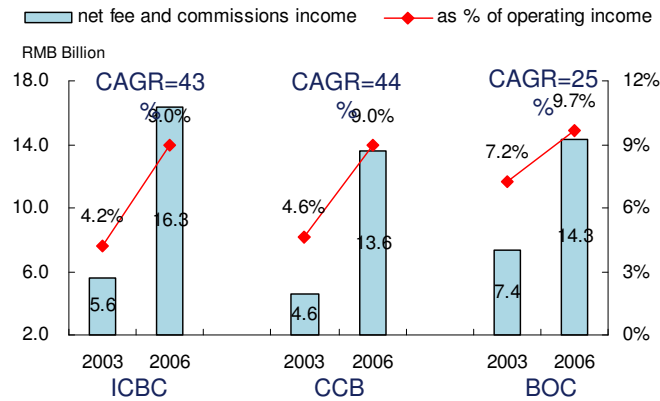
## Tremendous achievements in sector reform (cont'd)

### Number of bank cards keeps increasing



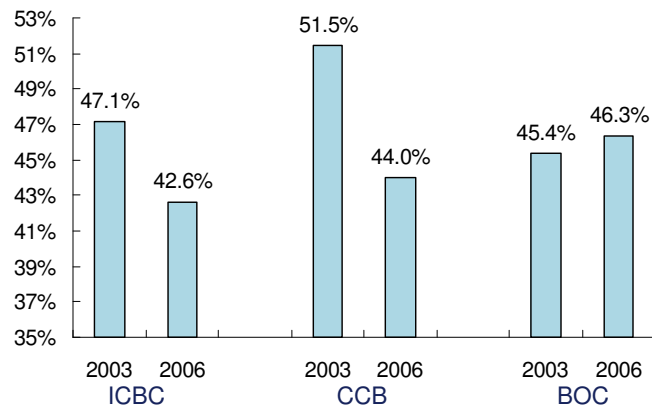
Source: CEIC, CICC Research

### Great increase in net fee and commissions income



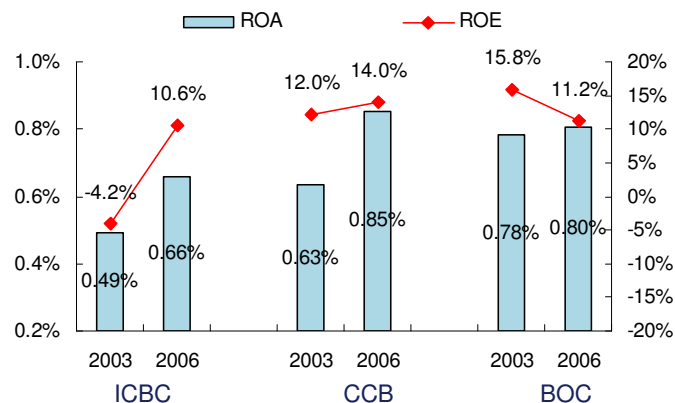
Source: Company Report, CICC Research

### Cost income ratio



Source: Company Report, CICC Research

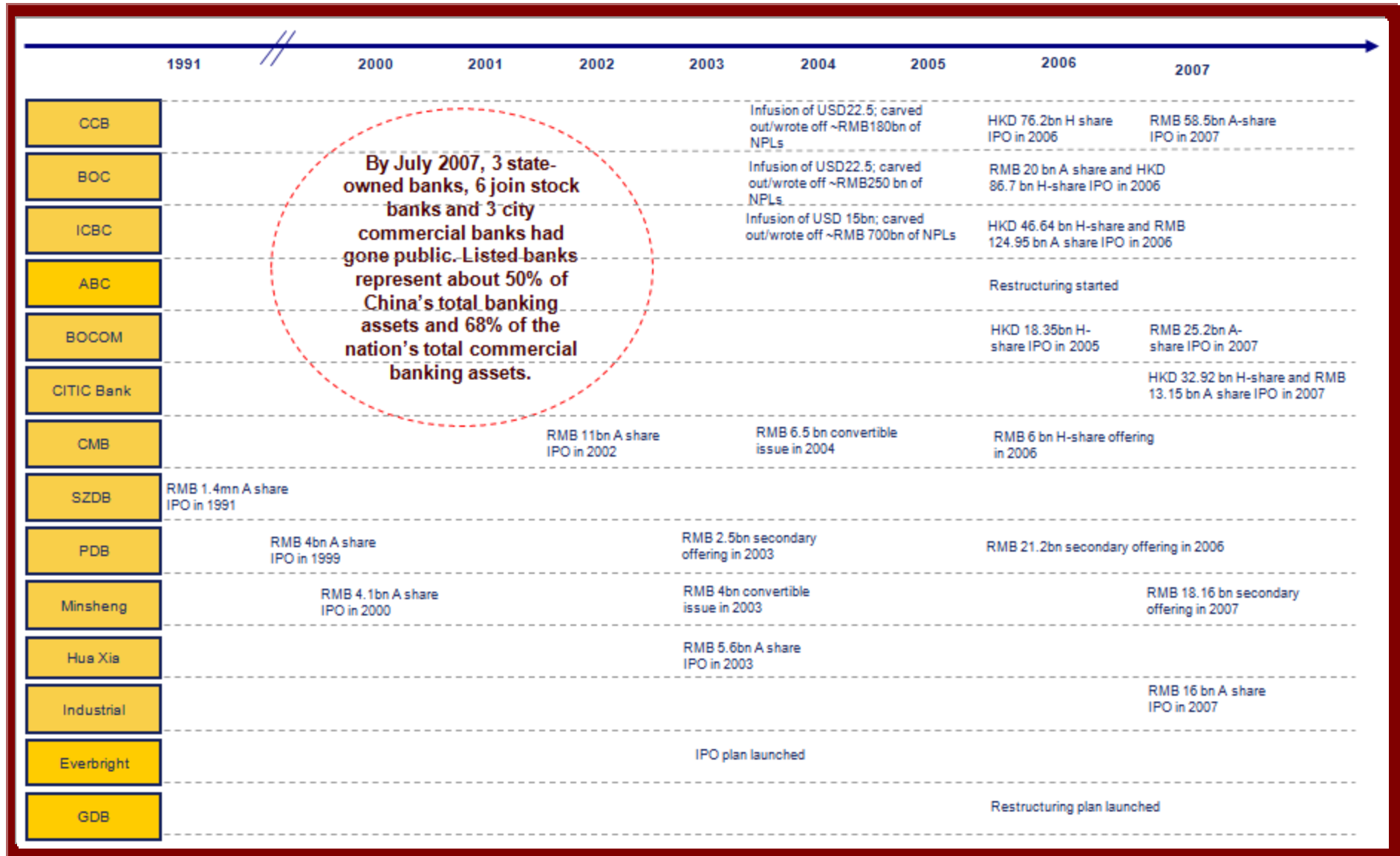
### Improving profitability



Source: Company Report, CICC Research

- Great development of other businesses:
  - The balance of bank cards increased 36% annually on average over 1997~2006.
  - In 2003~06, net fee income and commissions grew 43% annually on average for ICBC, 44% for CCB and 25% for BOC.
  
- Internal management improved significantly with the cost income ratio remaining stable or even declining to some degree
  
- ROA improved for all banks.

## Bank restructure and IPO



## Domestic Banks have drawn attention in the global Banking business

### 3 Domestic Banks Ranked Top 15 World Banks by «The Banker» in 2007

2006 Ranking	2005 Ranking	Name	Tier One Capital (\$ Mn.)	Total Assets (\$ Mn.)
1	3	Bank of America	91,065	1,459,737
2	1	Citigroup	90,899	1,882,556
3	2	HSBC	87,842	1,860,758
4	6	Credit Agricole	84,937	1,818,341
5	4	JP Morgan Chase	81,055	1,351,520
6	5	Mitsubishi UFJ	68,464	1,579,390
7	16	ICBC	59,166	961,576
8	7	Royal Bank of Scotland	58,973	1,710,703
9	17	BOC	52,518	682,262
10	10	Santander	46,805	1,098,213
11	24	BNP Paribas	45,305	1,896,935
12	14	Barclays Bank	45,161	1,956,786
13	12	HBOS	44,030	1,160,245
14	11	CCB	42,286	697,740
15	9	Mizuho Financial	41,934	1,235,443

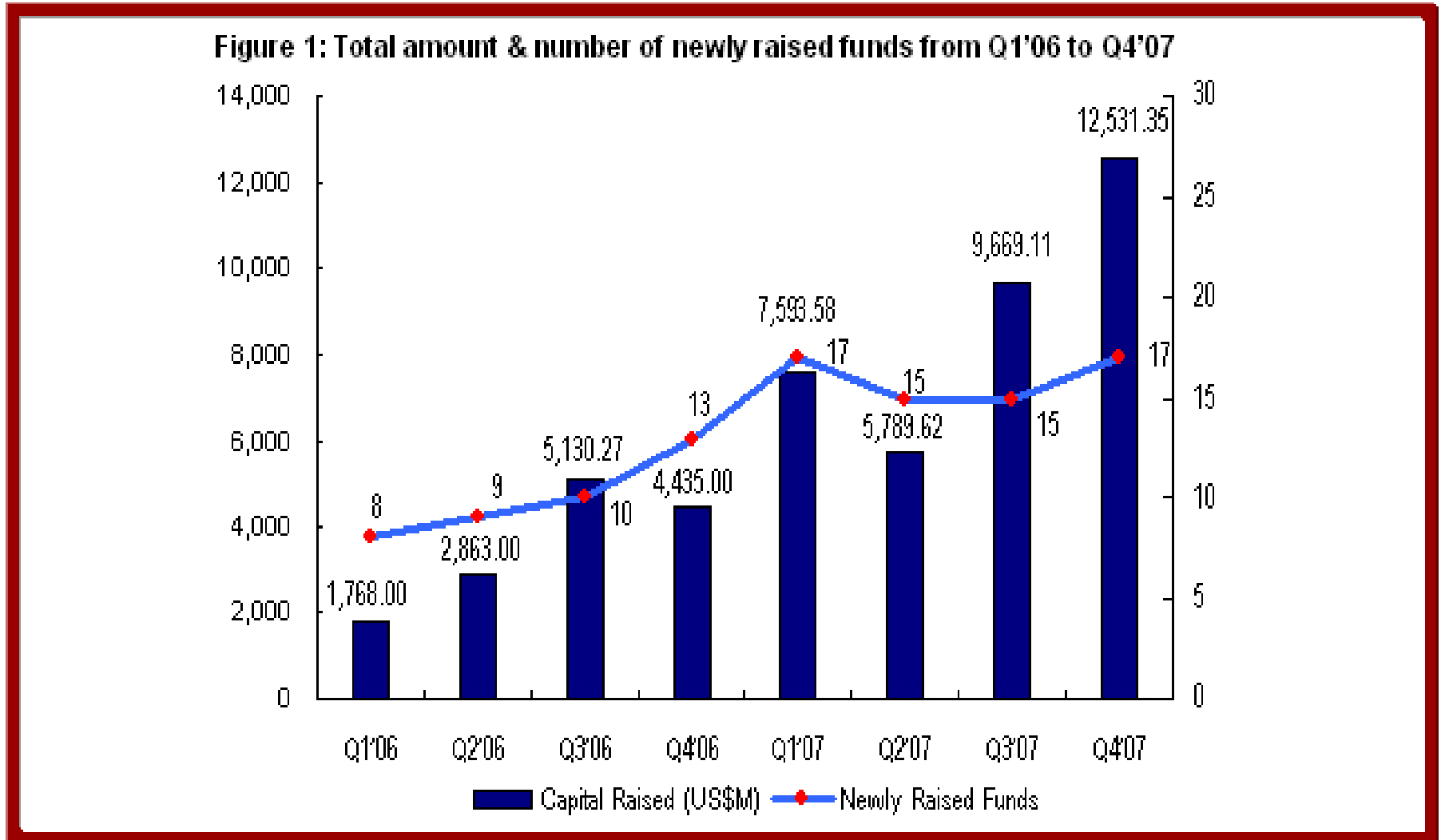
Source: The Banker, Top 1000 World Banks

### 31 Domestic Banks Ranked Top 1000 World Banks

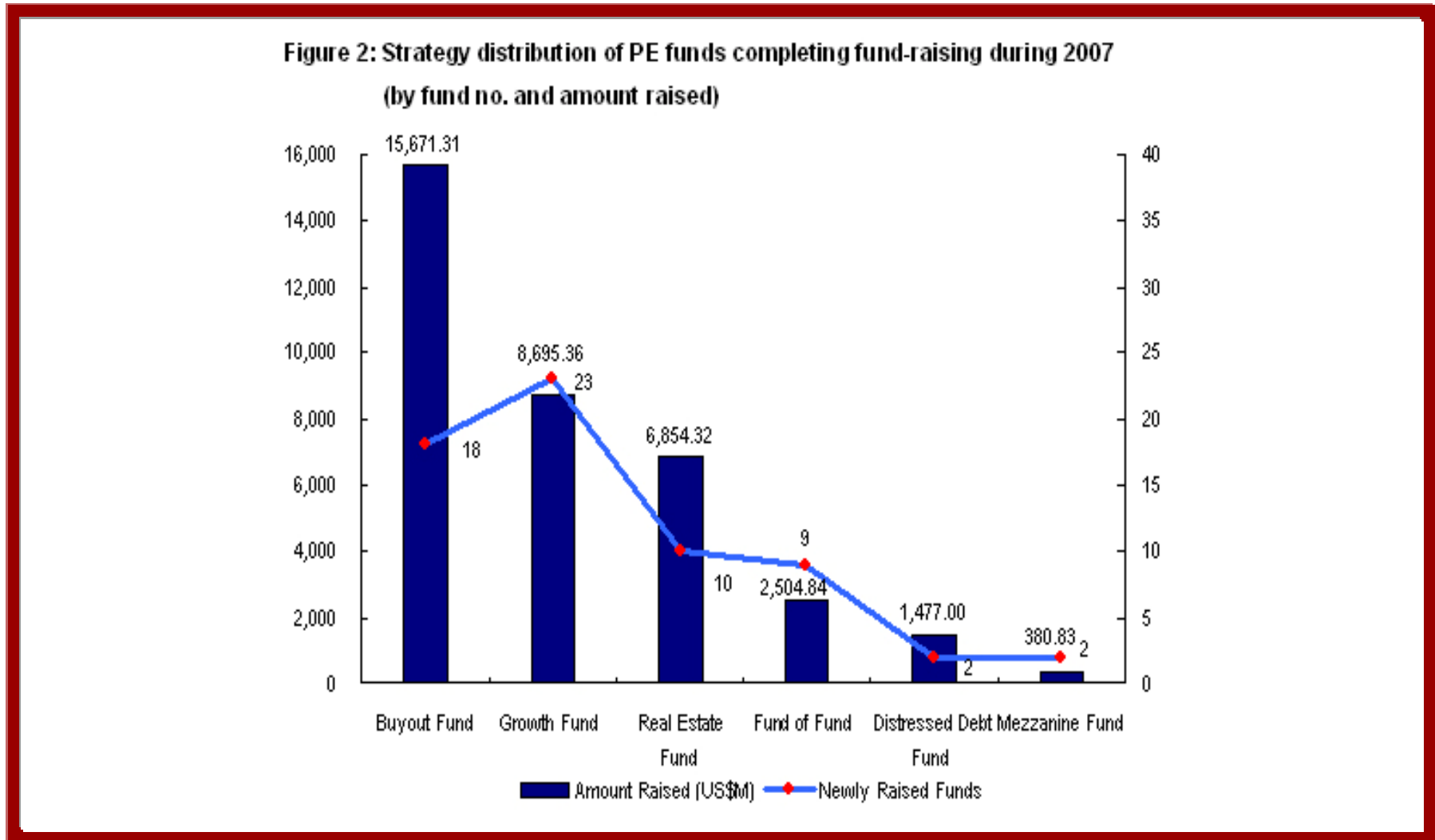
2006 China Ranking	2006 Global Ranking	Name	Tier One Capital (\$ Mn.)	Total Assets (\$ Mn.)
4	65	Agricultural Bank of China	11,425	684,349
5	68	Bank of Communications	10,647	220,198
6	101	China Merchants Bank	6,803	119,622
7	159	China CITIC Bank	3,984	90,503
8	190	Shanghai Pudong Development Bank	3,002	88,277
9	229	China Minsheng Banking Corp.	2,363	89,700
10	259	Industrial Bank	2,032	79,104
11	313	Bank of Shanghai	1,555	34,582
12	335	Huaxia Bank	1,432	56,994
13	388	Bank of Beijing	1,090	28,817
14	457	Beijing Rural Commercial Bank	873	19,816
15	474	Shenzhen Development Bank	817	33,370
16	477	Shanghai Rural Commercial Bank	812	17,435
17	587	Tianjin City Commercial Bank	620	10,394
18	588	Shenzhen Commercial Bank	616	10,466
19	589	Bohai Bank	610	1,964
20	670	Dalian City Commercial Bank	485	7,821
21	733	Ningbo Commercial Bank	409	7,241
22	764	Hangzhou City Commercial Bank	378	7,280
23	789	Shenzhen Rural Commercial Bank	358	6,754
24	844	Nanjing City Commercial Bank	311	7,418
25	866	Chongqing Commercial Bank	300	4,176
26	900	Dongguan City Commercial Bank	279	6,452
27	947	Harbin City Commercial Bank	259	5,597
28	951	Xi'an City Commercial Bank	257	4,910
29	989	Xiamen International Bank	238	3,918
30	991	Jinan City Commercial Bank	237	4,150
31	999	China Zheshang Bank	231	4,689

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## Active chinese PE investment market: US\$35.59 Bln. raised during 2007

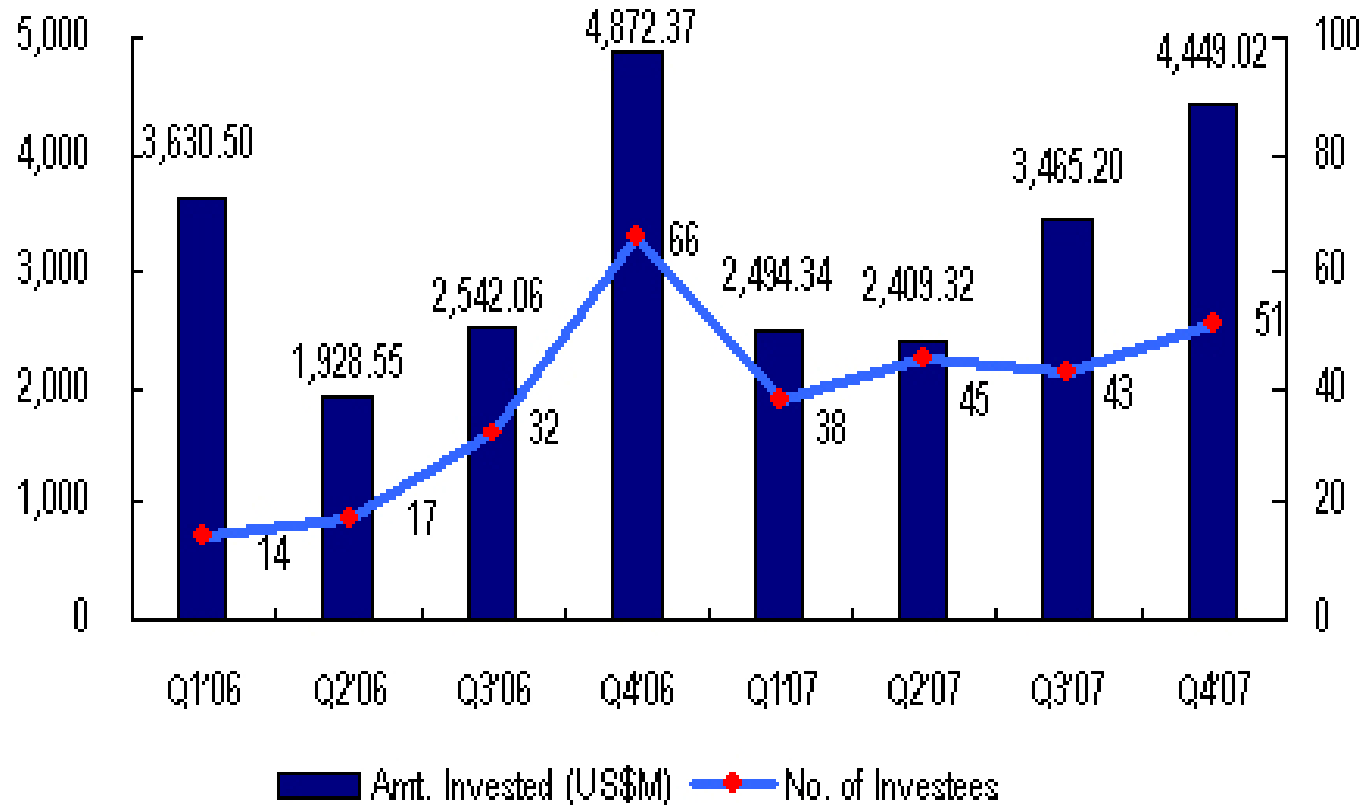


## The majority of Chinese PE-funds cover buy-out, growth and real estate

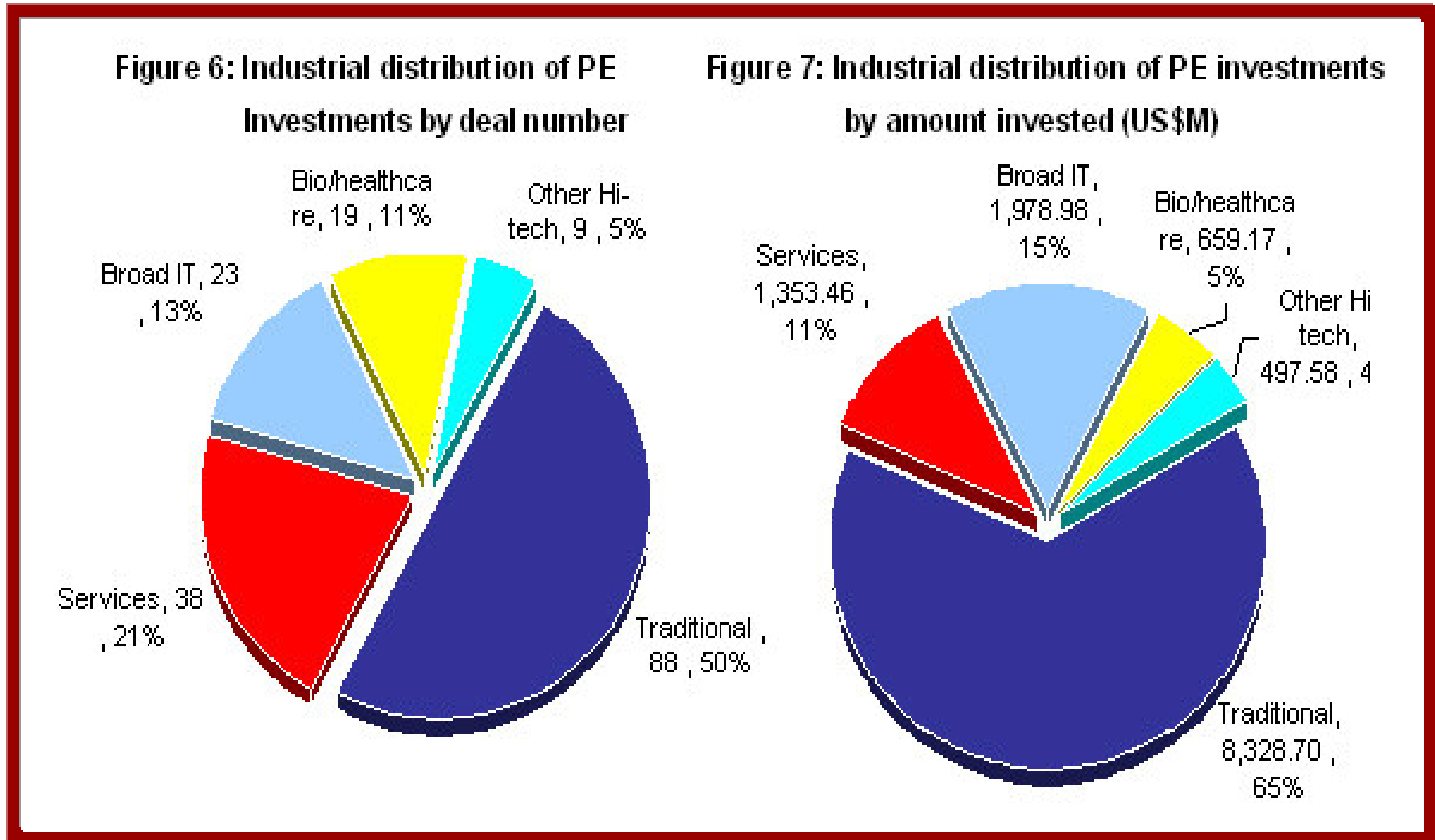


## China's PE companies have invested almost USD 13 Bln. in 2007

Figure 5: Overall investment by quarter from Q1'06 to Q4'07



## China's PE funds have primarily invested in traditional industries



## China's PE companies have diversified their investments

Figure 8: PE strategy allocation by deal number

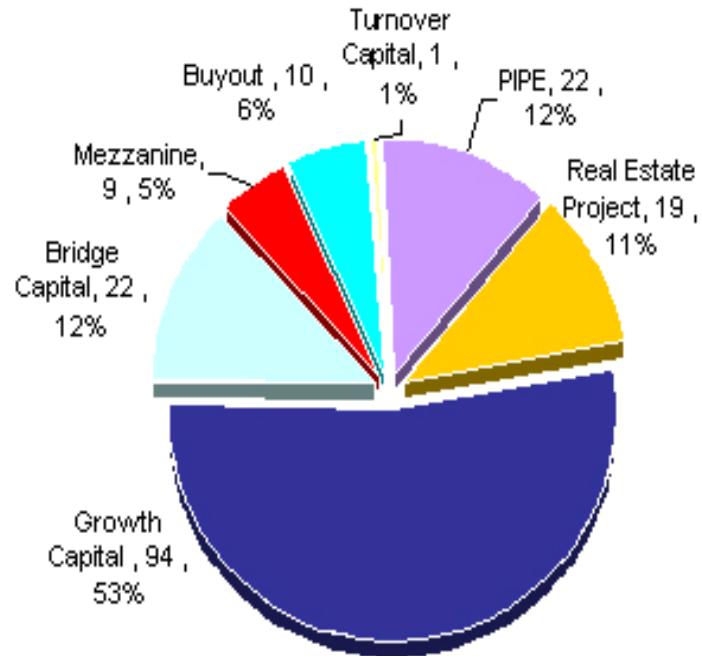
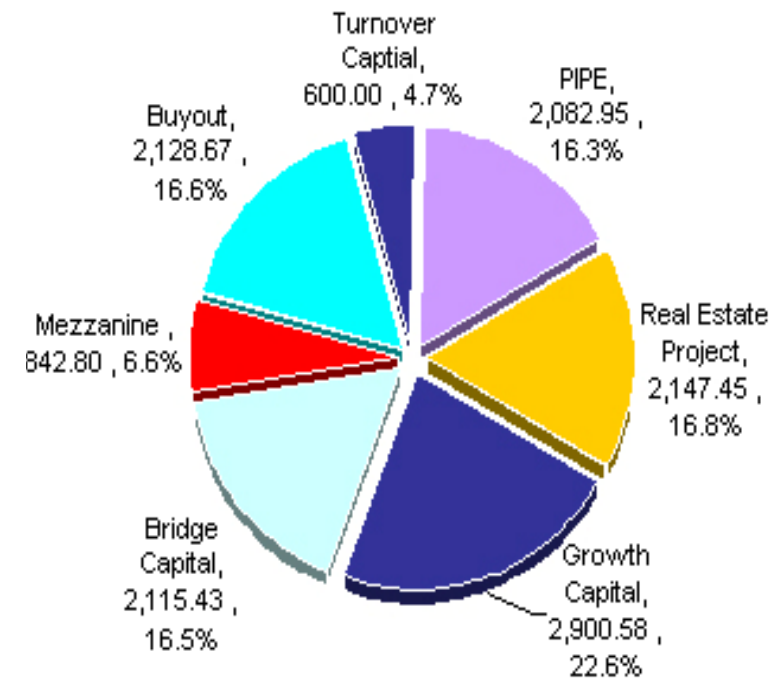
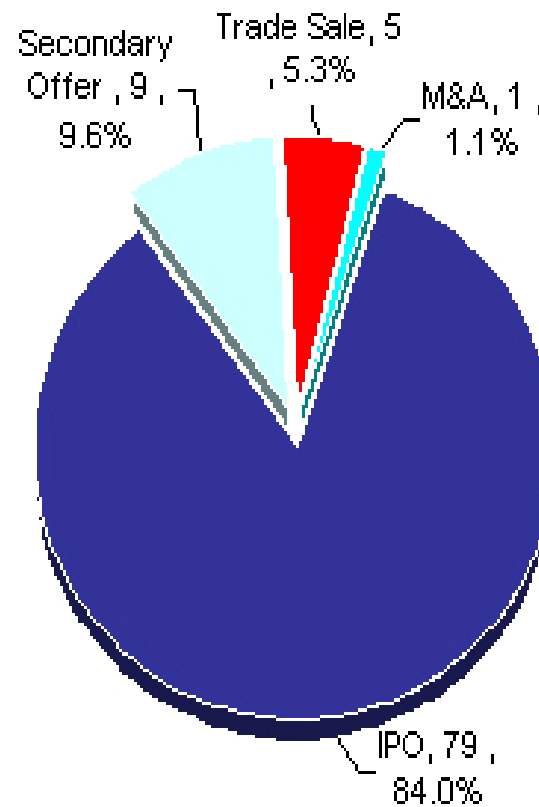


Figure 9: PE strategy allocation by Amount Invested (US\$M)

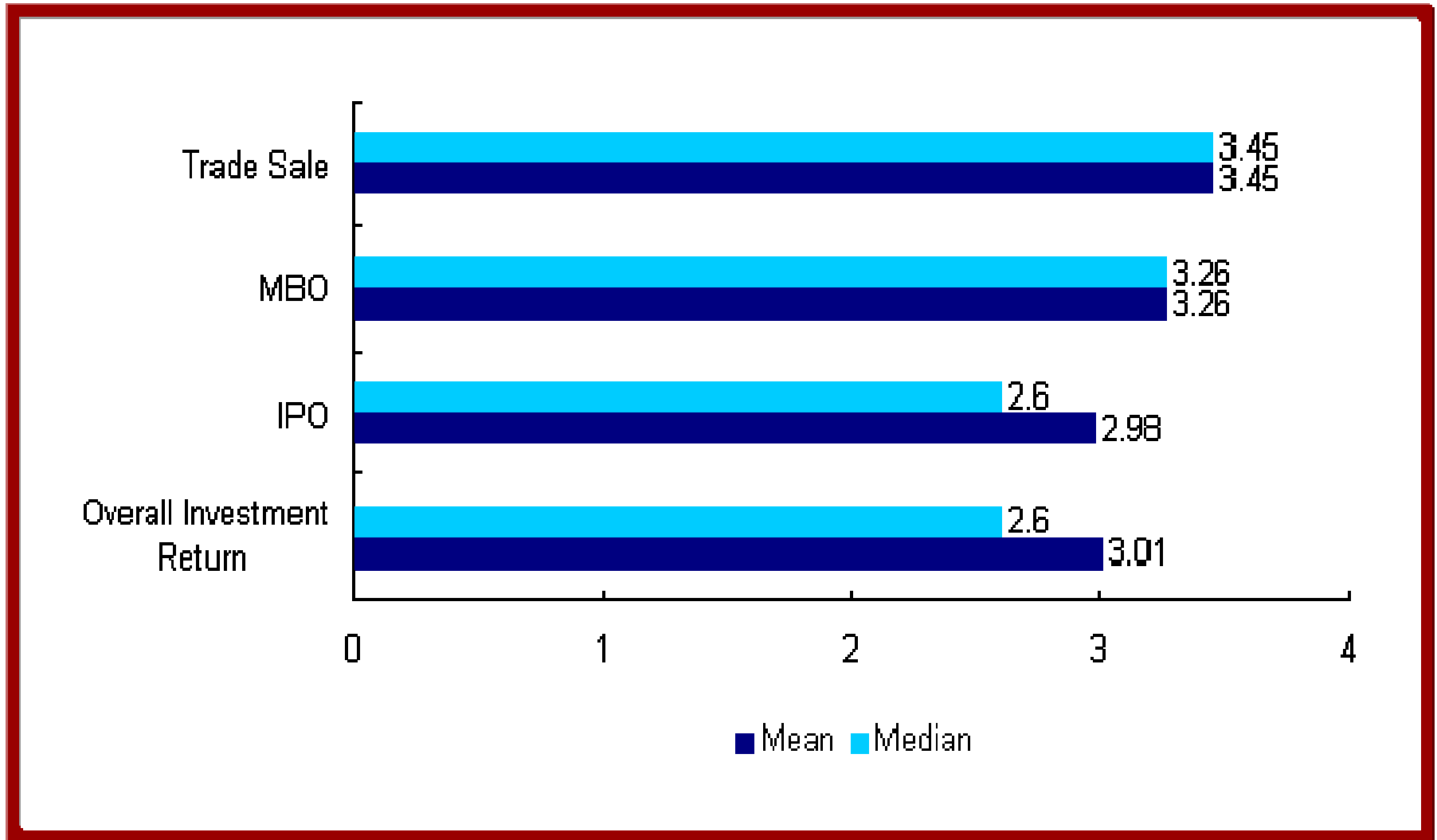


## Due to the attractive IPO market most exits pursued this way

Figure 10: Exit distribution by option



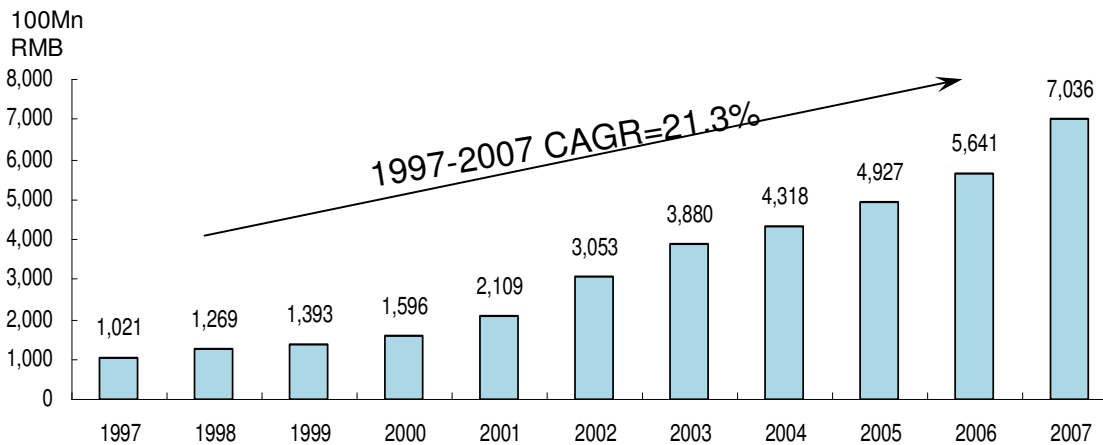
## Due to China’s thriving IPO market PE funds show an exceptional performance rate



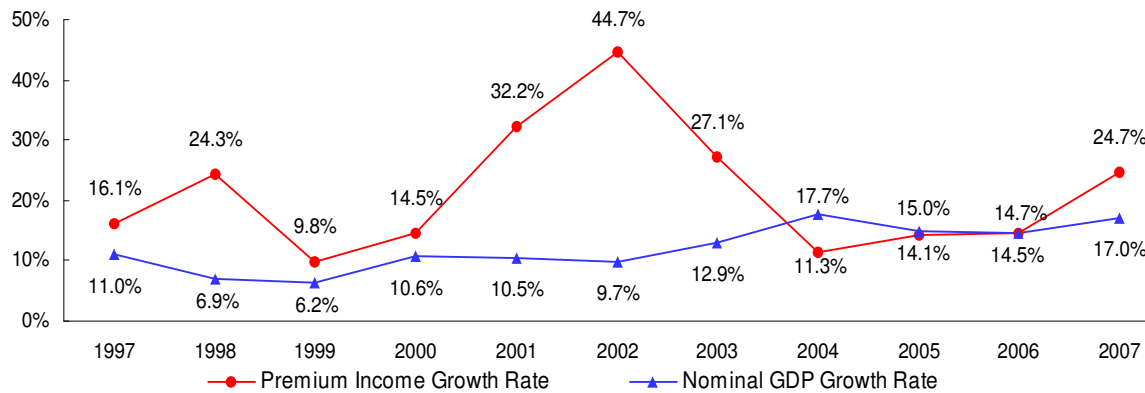
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## Insurance premium steadily increased, beating GDP growth rate

Insurance Sector Reported Steady Increase in Premium Income Over the Last 10 Years



Insurance Sector Reported Steady Increase in Premium Income Over the Last 10 Years

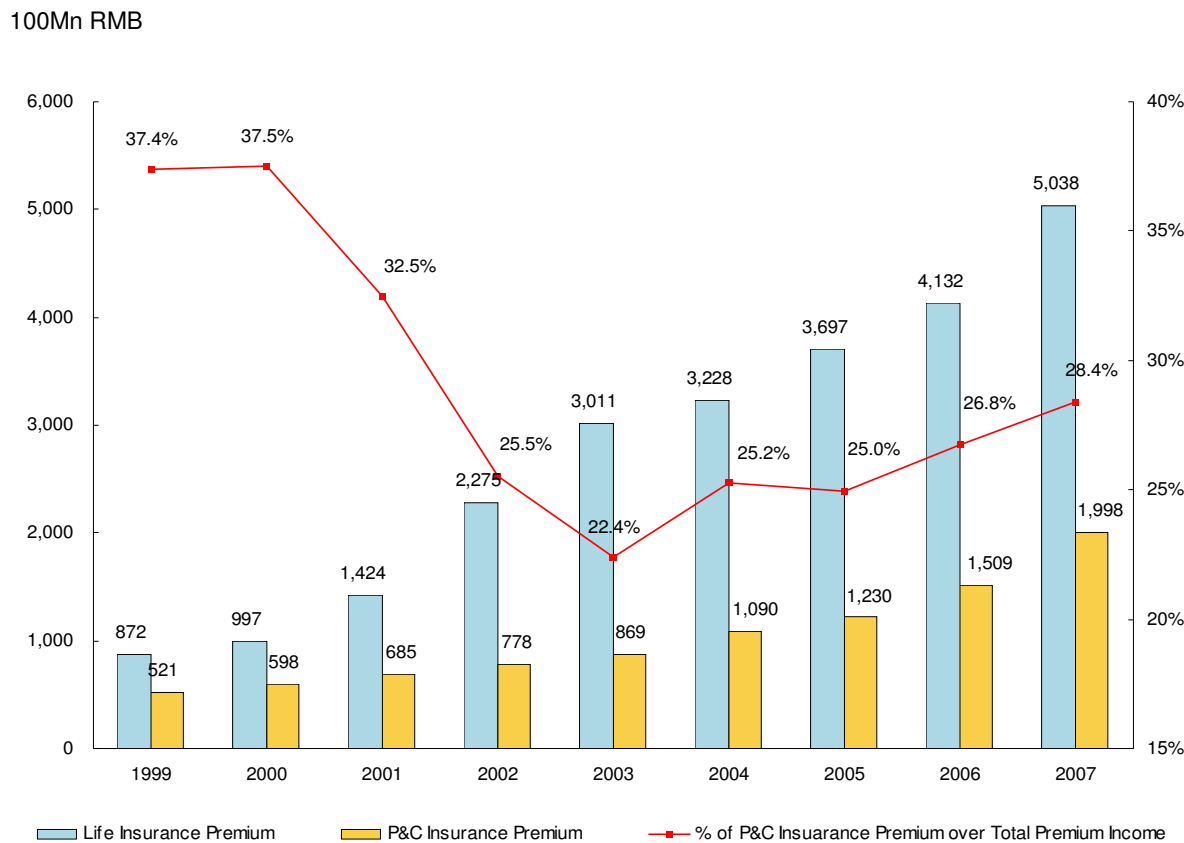


Source: CIRC, CICC Research

- After 1978, the insurance sector started to recover
- Premium income has grown steadily over the last 10 years, reaching a record 703.6bn RMB in 2007, registering 21.3% CAGR from 1997 to 2007
- Annual growth rate in insurance premium income has exceeded nominal GDP growth. Over the 1997 to 2007 period, nominal GDP reported a 12.1% annual growth rate and real GDP 9.4%, while premium income growth rate more than doubled nominal GDP growth.

## Life insurance premium grew faster than P&C insurance premium, but the trend has started to reverse recently

Life Insurance and P&C Insurance Premium Change



Source: CIRC, CICC Research

- Premium income between 1999 and 2007 has a 22.4% CAGR, life insurance premium has grown at 18.3%, faster than the P&C insurance premium growth rate
- However, after 2003, P&C insurance premium has grown at a faster speed. Its percentage over total premium income has increased to 28.4%

## Competitive landscape in China's life insurance industry

Relatively stable life insurance market shares measured by premium income

Company Name	2000	2001	2002	2003	2004	2005	2006	2007
1 China Life (parent)	65.1%	57.2%	56.6%	9.1%	8.3%	6.9%	6.0%	4.2%
1 China Life (listco)	0.0%	0.0%	0.0%	45.1%	46.9%	44.1%	45.3%	39.7%
2 Ping An Life	22.4%	27.9%	23.5%	19.8%	17.2%	16.1%	17.0%	16.0%
3 China Pacific Life	8.4%	10.1%	10.9%	12.6%	10.8%	9.9%	9.3%	10.2%
4 Tai Kang Life	0.7%	1.1%	2.9%	4.5%	5.5%	4.9%	5.1%	6.9%
5 New China Life	1.5%	1.6%	3.5%	5.8%	5.9%	5.8%	6.6%	6.6%
6 Tai Ping Life	n.e.	n.e.	0.7%	1.1%	2.0%	2.2%	2.8%	3.2%
7 Sheng Ming Life	n.e.	n.e.	n.e.	0.0%	0.4%	0.9%	0.8%	1.3%
8 Min Sheng Life	n.e.	n.e.	n.e.	0.1%	0.4%	0.2%	0.3%	0.7%
9 He Zhong Life	n.e.	n.e.	n.e.	n.e.	n.e.	0.2%	0.4%	0.6%
Other Chinese life insurance companies (19 companies)	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.5%	2.5%
10 AIA	1.7%	1.5%	1.1%	1.2%	1.5%	1.8%	1.7%	1.8%
11 Generali China	0.0%	0.0%	0.0%	0.0%	0.1%	5.5%	1.3%	0.7%
12 Allianz-Dazhong	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.3%	0.6%
13 CITIC-Prudential	n.e.	0.1%	0.1%	0.1%	0.2%	0.3%	0.4%	0.6%
Other JV/foreign life insurance companies (20 companies)	0.0%	0.5%	0.5%	0.6%	0.7%	1.3%	2.2%	4.1%
<b>Total (53 companies)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
China Total (29 companies)	98.2%	98.0%	98.2%	98.0%	97.4%	91.1%	94.1%	92.0%
JV/Foreign Total (24 companies)	1.8%	2.0%	1.8%	2.0%	2.6%	8.9%	5.9%	8.0%

Source: CIRC, CICC Research

- Restricted by the pricing rate and agency commission, small-sized life insurance companies can not expand their market share through pricing competition. Domestic life insurers' market share is relatively stable
- Foreign life insurers grew rapidly in China after the country opened up the domestic market to them in 2005

## Relatively stable P&C insurance market shares measured by premium income

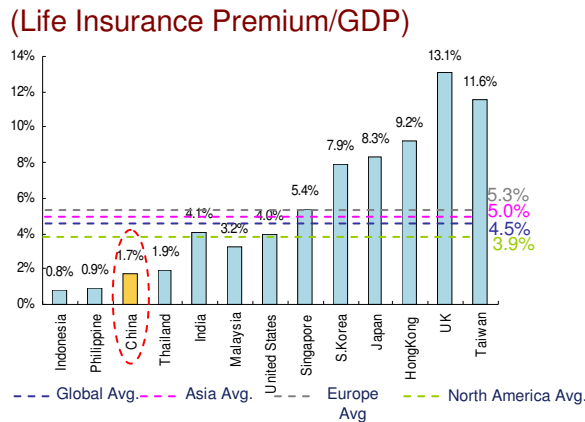
Company Name	2000	2001	2002	2003	2004	2005	2006	2007
1 PICC P&C	77.0%	74.1%	70.9%	67.5%	58.1%	51.5%	45.1%	42.5%
2 CPIC P&C	11.3%	12.4%	13.2%	12.4%	12.3%	11.3%	11.5%	11.2%
3 Ping An P&C	8.0%	9.4%	10.7%	9.8%	9.5%	9.9%	10.7%	10.3%
4 China Union	0.5%	0.6%	0.7%	2.2%	5.8%	8.1%	9.5%	8.8%
5 Continent	n.e.	n.e.	n.e.	0.0%	1.4%	3.0%	4.0%	4.8%
6 Tian An	0.4%	0.6%	0.9%	2.4%	4.6%	5.0%	4.0%	3.5%
7 Yong An	0.1%	0.2%	0.4%	0.9%	1.9%	2.5%	2.5%	2.7%
8 An Bang	n.e.	n.e.	n.e.	n.e.	n.e.	0.8%	2.2%	2.8%
9 Tai Ping Insurance	0.0%	0.0%	0.3%	0.6%	0.8%	1.1%	1.3%	1.6%
10 Hua Tai	0.8%	0.9%	1.0%	1.0%	0.9%	0.9%	0.9%	1.2%
11 Sinosure	0.0%	0.0%	0.0%	0.0%	1.4%	1.7%	1.8%	1.6%
12 Da Zhong	0.6%	0.6%	0.7%	1.1%	0.8%	0.8%	0.8%	0.6%
13 Sinosafe	0.5%	0.5%	0.4%	1.0%	1.3%	1.7%	1.8%	0.4%
Other Chinese P&C insurance companies (14 companies)	0.2%	0.2%	0.2%	0.2%	0.2%	0.7%	2.7%	6.9%
14 AIU	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%
15 Tokyo Marine	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%
Other JV/foreign P&C insurance companies (12 companies)	0.1%	0.1%	0.2%	0.3%	0.3%	0.4%	0.5%	0.6%
<b>Total (42 companies)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
China Total (27 companies)	99.4%	99.5%	99.4%	99.2%	99.0%	98.9%	98.9%	98.9%
JV/Foreign Total (15 companies)	0.6%	0.5%	0.6%	0.8%	1.0%	1.1%	1.1%	1.2%

Source: CIRC, CICC Research

- The P&C insurance market sees much fierce competition after pricing restrictions were lifted. PICC's market share has shrunk while small-sized P&C insurance companies report a noticeable increase in market share.
- Foreign P&C insurance companies only account for a relatively low market share.

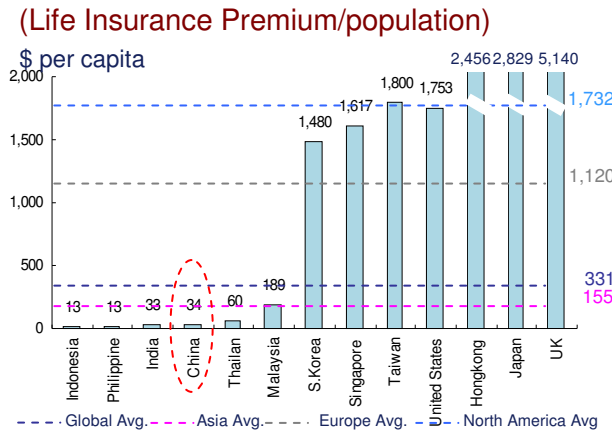
# Market growth potential

**Global Life Insurance Penetration (2006)**



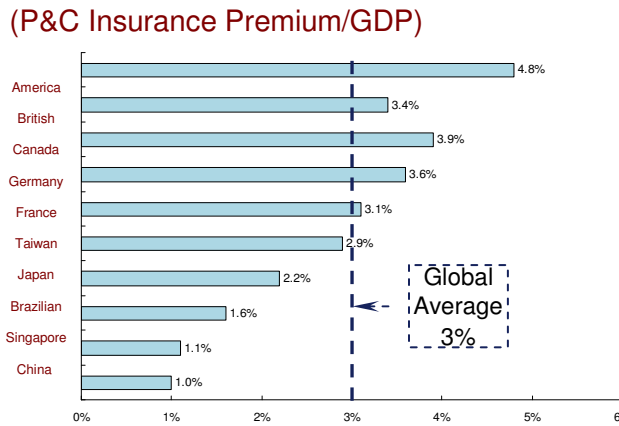
Source: Swiss Re, No 4/2007

**Global Life Insurance Density (2006)**



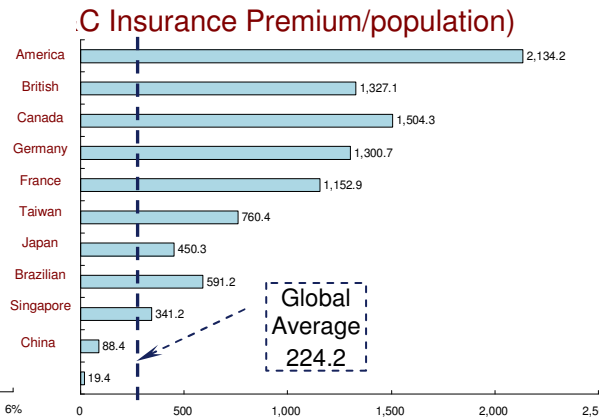
Source: Swiss Re, No 4/2007

**Global P&C Insurance Penetration (2006)**



Source: CICC Research

**Global P&C Insurance Density (2006)**



- Despite the outstanding growth rate, domestic insurance business is still in its infancy
- Compare to developed countries, penetration and density in the Chinese domestic insurance market are still low. The market sees tremendous potential for growth

1	Overview China's economic development
2	China's Banking Industry (Outlook)
3	China's PE Market (Outlook)
4	China's Insurance Market (Outlook)
<b>5</b>	<b>About MSM</b>

## Our value proposition is the key to your success





### Our value proposition is to work as an ...




independent management consultancy that ...  
tackles the strategic challenges from a pragmatic and operational point of view ...  
understands the strategic impact of Asia and China ...  
brings innovative thinking to work ...  
has a high industry expertise, and ...  
works "side by side" to make change happen.

## MSM has successfully developed several China strategies for leading European companies

### Strategy Development

- Market potential and competitor analysis
- Key success factor evaluation and corporate performance assessment
- Business unit strategy and corporate portfolio valuation along strategic fit and market attractiveness
- Development of organizational design and business unit alignment and transformation
- Development of management leadership principles
- Process mapping



### Case Example

	1 Develop common understanding	2 Definition of vision, ambition and goals	3 Development and evaluation of strategic options	4 Development of strategic master plan
<b>Steps</b>	<ul style="list-style-type: none"> <li>■ Understand starting situation – focus on the Chinese market</li> <li>■ Review drivers of the business for the Lanxess business units</li> <li>■ Understand the implications on Lanxess</li> </ul>	<ul style="list-style-type: none"> <li>■ Review ideal business models for market expansion</li> <li>■ Identify the gaps between ideal business models and Lanxess</li> <li>■ Draft realistic vision and ambition for Lanxess</li> </ul>	<ul style="list-style-type: none"> <li>■ Develop strategic options for the Lanxess business units                             <ul style="list-style-type: none"> <li>- I</li> <li>- II</li> </ul> </li> <li>■ Evaluate and detail attractive options</li> <li>■ Strategy Selection</li> </ul>	<ul style="list-style-type: none"> <li>■ Develop long-term transformation concept</li> <li>■ Define plan of strategic measures</li> <li>■ Implement</li> <li>Optional: Post integration support</li> </ul>
<b>Goal</b>	Development of a common information basis for the China venture	Definition of Lanxess's ambition in expanding in the Chinese market	Selection of strategy leading to sustainable success	Elaboration of action plans

### Results and Benefits

- China strategy and positioning
- Organizational redesign with improved performance
- Cooperation structure and partnership options for joint market entry / new business/ acquisition / Greenfield approach

## The strong intercultural differences call for a solid and well organized integration management system

Intercultural integration Management	Case Example	
<ul style="list-style-type: none"> <li>▪ Understanding the key cultural challenges</li> <li>▪ Change Management</li> <li>▪ Internal cultural &amp; communication issues</li> <li>▪ Identification &amp; selection of foreign service employees</li> <li>▪ Cultural integration of joint venture partners</li> <li>▪ Preparation &amp; training measures</li> <li>▪ International personnel development programs</li> <li>▪ Re-integration procedures for foreign experts</li> </ul>	 <p>What you see</p> <p>What you assume</p> <p>What you need to know</p>	<p>Politics, structures, processes e.g. incentives mechanism, controlling and budgeting regulations, planning process, job description, promotion guidelines</p> <p>Routines e.g. risk attitude, accuracy of planning, cost orientation, working mind set</p> <p>Personal views, mental models, estimations e.g. "younger employees need to learn first before promotion; females could not lead unit xyz,</p>
		<p style="text-align: center;"><b>Results and Benefits</b></p> <ul style="list-style-type: none"> <li>▪ Intercultural change</li> <li>▪ Performance measurement tools</li> <li>▪ Intercultural &amp; internal communication concept</li> <li>▪ Train-the-trainer &amp; coaching concepts</li> </ul>


# MSM's unique network and experience in government relations & lobbying are the key to success for your enterprise in the PR China

### Gov. Relations & Communication

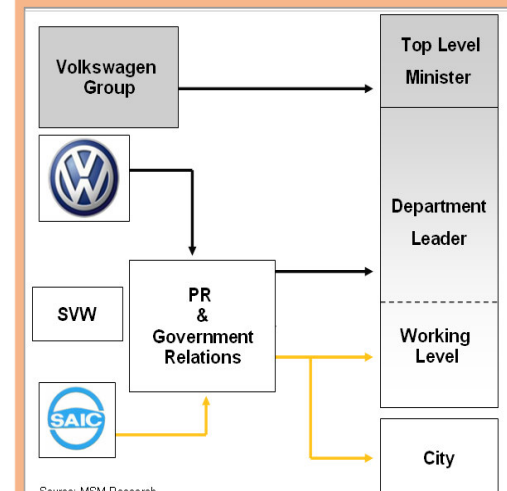
- Understanding the main drivers
- Building up personal networks
- Set-up Communication strategy and action plans
- Monitoring system
- Pro-active Lobbying
- Build up internal attention to GR

Communication Policy

- Control external communication
- Provide aligned internal communication procedures




### Case Example



Source: MSM Research

**COMMENTS**

- Top-level communication is controlled and maintained by Volkswagen Group
- Involvement of the JV-Partner is limited to high City level and on working level of Government departments



### Results and Benefits


- Clear GR & communications Roadmap & Action-plan
- CEO coaching & preparation of key staff
- Communication rules and responsibilities
- China Government Relations and Lobbying strategy
- GR- building & Monitoring system
- Pro-active lobbying & Joint initiatives

# MSM supports it's clients during the whole M&A process from preparation, target identification, negotiations, transitional- & post merger integration (PMI)

### MSM's M&A support

Wholistic side-by-side approach

- Understand the market/sector
- Understand the demographical, political and logistic requirements and circumstances
- Screen for potential partners
- Conduct feasibility study and commercial due diligence
- Understand administrative measures and processes in China
- Identify and negotiate transitional management and general HR implications
- Set-up appropriate government relations
- PMI



### Case Example

A structured, parallel screening process guarantees transparency and speed of transactional phase

Illustrative

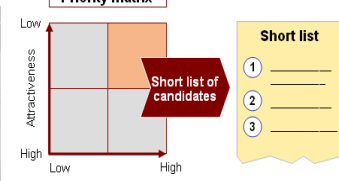
Screening criteria

Long list of candidates

We will apply OBO Bettermann's selection criteria to the priority matrix

Criteria	Attractiveness		
	low (1)	medium (2)	high (3)
Production	no	< 30 kt	> 30 kt
Critical size	< 10 mill.	10 – 50 mill.	100 mill.
System approval	no	n.a.	yes
R&D teams	no	n.a.	yes

Priority matrix



- MSM is able to make first (confidential) contact with attractive candidates
- MSM does offer also the full range of M&A related services

Source: MSM

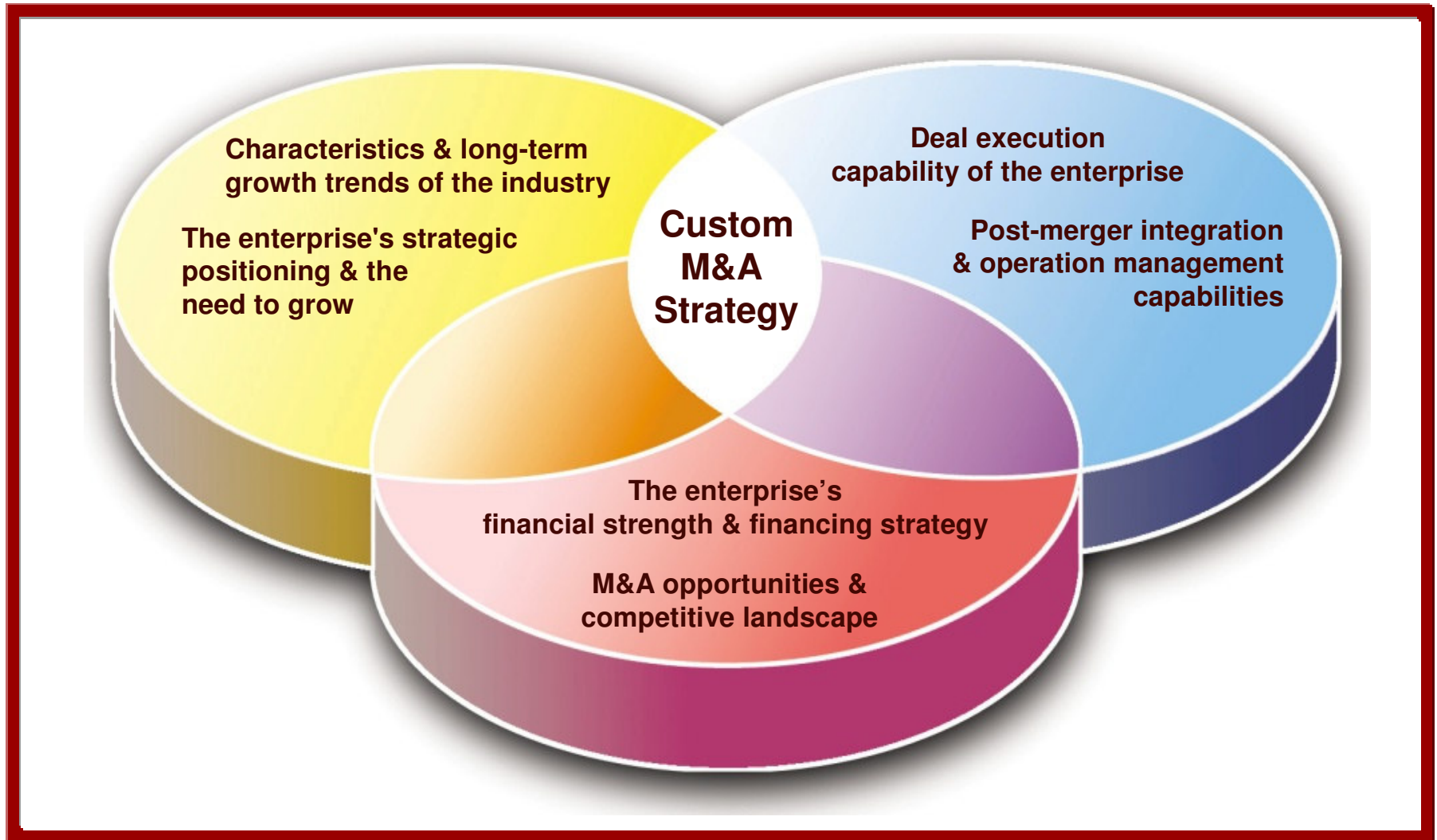
### Results and Benefits

- Clear and actual information from key experts of the relevant Chinese authorities, institutions & industries
- Reliable preparation, support for negotiations
- Trustworthy feasibility study & due diligence
- Understand administrative measures and processes

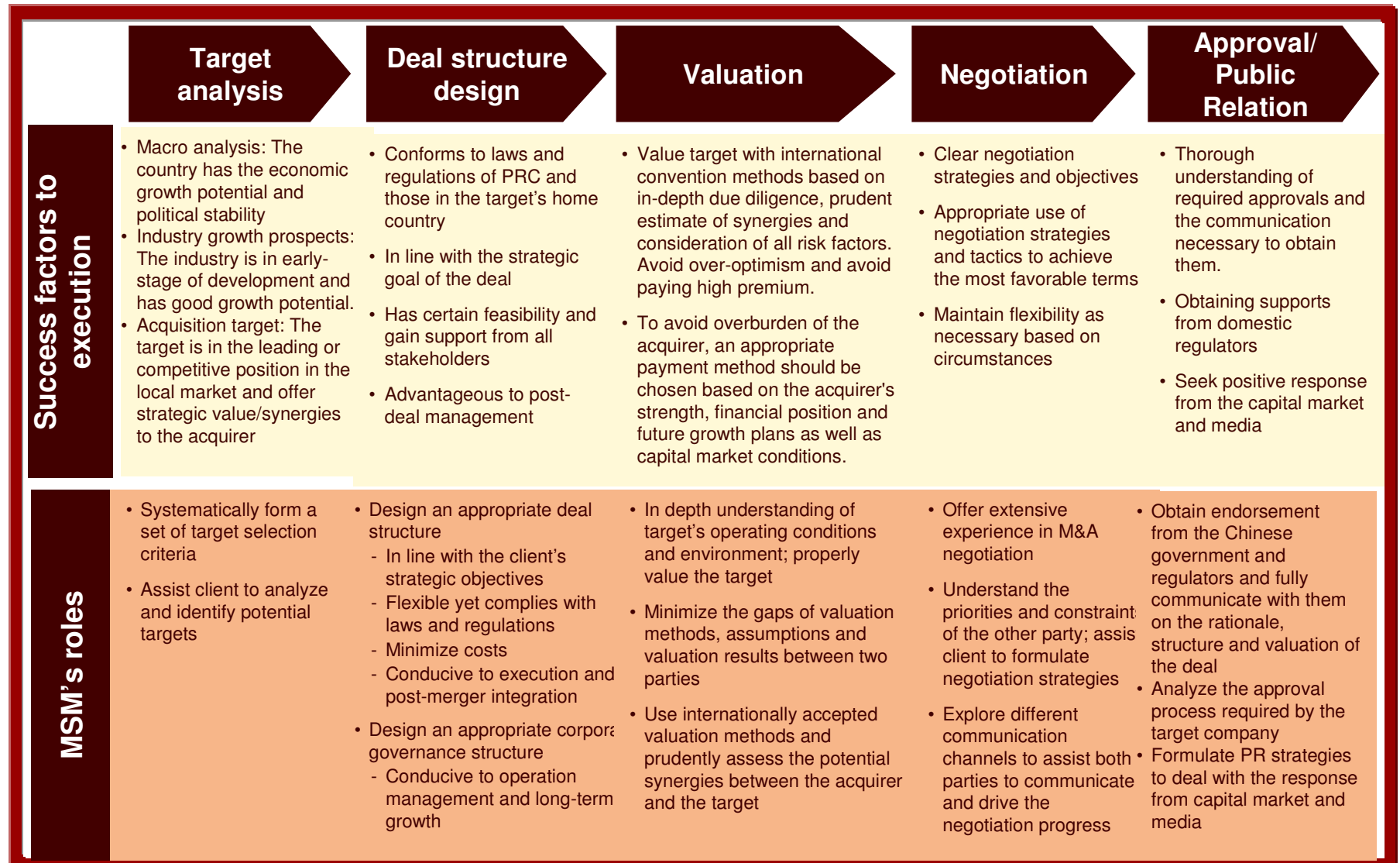
## MSM has a deep understanding of its clients interests, the Chinese M&A environment and broad experiences of the approval process in China



## Development of sustainable M&A strategies need to be based on a broad understanding



## M&A service overview/approach



MSM's top consultants have extensive experience helping companies enter the China market, or conduct China related businesses



## MSM contact



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