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Hawksford

Singapore new business trends

Q1 2017

Preface and economic review

Hawksford Singapore has been publishing the Singapore New Business Trends (previously known as the Singapore Business Formation Report), a quarterly report, since 2010.

The source of the statistics is from Singapore Commercial Credit Bureau. The report provides data on new business formation activities in the country. In addition to offering statistical data, the report also analyzes the factors affecting business formations in Singapore.

This report is a summary of the business formation activities in Q4 2016.

Economic review Q1 2017

The first quarter of 2017 started on a good note.

The continued bolstering of global economic recovery has improved optimism on the whole, urging economists and international agencies to upgrade their forecasts for global growth. Dominant themes in Q1 2017 include the continued recovery of the US economy, the Federal Reserve's move towards monetary normalisation, higher-than-anticipated growth and optimism in both the UK and the Eurozone, the recovery of Chinese exports and industrial production, India's post-demonetisation reboot, as well as the stabilisation and recovery of commodities and revival of exports in the Asian economies.

In the US, business and consumer sentiments were upbeat in the first quarter. The country's economic recovery continued to firm up and inflation increased to match the Fed's target. In addition, a hike in the Federal Reserve rate by 25 basis points in March marked the beginning of a new phase of US monetary policy normalisation. Further rate hikes are expected this year, by the end of which the rate is anticipated to stand at 1.4%. Though employment and wage growth surged in the quarter, the GDP expanded by just 0.7% while business investments and lending remained muted during the quarter. Overall, business optimism surged amid hopes for pro-growth policies promised by the new administration.

Despite Brexit fears, the UK economy is gaining momentum. A weak pound and sustained global recovery have boosted exports, thereby improving business confidence. As a result, economists have hiked the growth forecast for the year. Aided by consumer spending and strong exports, the UK economy expanded by 0.2% in the first quarter. However, the weaker pound may push import costs and cause inflation to spike, in which case, the impact on consumer spending remains to be seen.

The Eurozone economy surprised observers with its resilience despite Brexit uncertainties. Key indicators have held strong since the beginning of the year; employment rates and business sentiments in the economic bloc were upbeat in the first quarter, which marked the 14th consecutive quarter of growth. The European Central Bank's accommodative policy stance has also aided the sustained recovery of member countries. The economic bloc is estimated to have expanded by 0.6% in the first quarter, with the bulk of it contributed by two of the bloc's largest economies, France and Germany – both of which have general elections scheduled in 2017. Spain enjoyed the steepest growth of over 0.8% in the region. Overall, Q1 2017 was the best quarter for the single currency union in six years.

With the uptick in global demand, China also appears to have had a great start this year. The government continued to inject stimuli complementing the boom in exports, retail sales, property, and industrial output. In the first quarter, the economy grew 6.9%, which is faster than expected, considering the government's growth forecast of 6.5% for the year.

The Indian economy, though yet to fully recover from its demonetisation-induced cash crunch, will continue to hold its tag as one of the fastest–growing economy in the world. Year-on-year (YoY), the GDP dipped to 6.1% in the quarter ending March. However, economists are of the view that growth in consumption, industrial activity and investments will accelerate in the subsequent quarters, as aided by lower lending rates, pent-up demand and remonetisation.

Russia, which has managed to wriggle out from the prolonged period of contraction in the preceding quarter, appeared to have sustained recovery in the first quarter of 2017. Economists estimate its Q1 growth to be around 0.5%. Putin's government seems bent on underpinning the growth momentum through targeted policies to tame inflation and achieve real income growth.

Economic activity in Brazil grew at its fastest in 7 years. Unfazed by recent corruption scandals, investor confidence in the largest Latin American economy remained strong. In the quarter, the Brazilian real strengthened and inflation eased, thus pushing up consumption. More importantly, the country has benefited from the resurgence of commodity prices and demand. After reversing a two-year recessionary trend, the country's GDP is anticipated to have expanded by 0.4% in the first quarter.

The Asian economies, particularly those with exposure to commodities, have benefited from the rebound in global manufacturing. In reviewing the economic performances of these countries for Q1, the 'recovery in exports' was found to be a common theme. Japan, which was plagued by deflation and sporadic recession for over two decades, has started showing signs of recovery – both its factory output and exports have gathered momentum. Government spending and corporate earnings, aided by a weaker yen and recovery in oil prices, contributed to the country's GDP growth, which analysts expect a 1.7% YoY growth in Q1 2017. However, household expenditure remains muted.

Malaysia's export-dependent economy is benefitting from strong export growth for both commodities and manufactured products. The country is expected to post a strong first quarter growth of around 5.6%. Though in favour of exporters, the weaker ringgit is pushing the cost of imports and exacerbating inflation. To some extent, the government's household support scheme, the 1Malaysia People's Aid (BR1M), will help boost consumption, albeit moderately.

"Singapore maintained its 2017 growth forecast as its economy expands 2.7% YoY in Q1 2017."

Thailand's economy has expanded by 3.3% in Q1, as aided by government spending on infrastructure. Similarly, the Indonesian economy was seen expanding 5% YoY in Q1 2017, as largely aided by government expenditure and private investment. Due to a fall in disposable income caused by higher electricity tariffs, private household consumption in the country was largely muted. In the Philippines, GDP grew 6.4% in the first quarter, owing to government spending on infrastructure, private investment and domestic consumption. Remittance from overseas remained high, and spikes in both domestic consumption and private consumption were observed due to business optimism and high consumer confidence.

Singapore maintained its 2017 growth forecast as its economy expands 2.7% YoY in Q1 2017. The 1.9% Quarter-on-Quarter (QoQ) decline should be viewed vis-à-vis the phenomenal peaking of growth in Q4 2016, when the country logged a 12.3% QoQ growth. Therefore, the contraction in Q1 2017 is not indicative of any alarming decline in economic activity. Compared to the preceding quarter, manufacturing and service sectors have receded. However, on YoY basis, the manufacturing sector expanded by 6.6% in the quarter. Due to a slowdown in the construction sector, the construction sector contracted by 1.1% on a YoY basis. Supported by growth in wholesale & retail trade, as well as in transportation & storage, the service sector expanded by 1.5% on a YoY basis.

Addressing the country's urgent needs and concerns, Singapore's 'Budget 2017' underscored key themes such as nurturing innovation, promoting internationalisation, driving digitalisation, encouraging collaborations and retraining local talent to transform the economy and sustain its competitiveness. To help SMEs in their digitalisation efforts, the government has set aside S$80 million. Likewise, a new S$600 million International Partnership Fund will help Singapore companies expand globally.

In order to help SMEs that are hard hit by shifts in the global economy, the government also announced measures such as the deferral of a foreign worker levy hike for the marine and process sectors, the extension of a co-sharing scheme for working capital loans, the enhancement and extension of an income tax rebate, as well as the extension of the Wage Credit and Special Employment Credit schemes, all of which are targeted at helping SMEs:

- On the whole, the year started on a good note with most major economies showing signs of recovery after years of tepid growth. Barring any geo-political threats and economic shocks, 2017 is set to reinforce global recovery. However, businesses and investors should note the following factors which could affect the course of global recovery: The impact of protectionist policies in the key western economies remains unclear, although when gathered steam, these policies are expected to make an impact on the Asian economies that are exposed to these markets.
- The UK is heading for a poll this June; Prime Minister Theresa May is keen on securing a strong mandate for her conservative party as early as she can to steer Brexit negotiations and to dismiss criticisms and uncertainties regarding her leadership.
- China is cautiously treading towards monetary tightening in anticipation of capital outflow in the event of quicker-than-expected US rate hikes; in fact, China's loose monetary policy cannot be sustained indefinitely. Therefore, businesses must brace for tighter credit scenarios that may affect consumer and business spending.
- This July, India will enact a unified tax regime with the rollout of a Goods and Services Tax (GST). Experts believe that the system will facilitate a smoother flow of goods and services throughout the nation and will also help reduce business costs, which will effectively add to the GDP.
- Regardless of federal rates, the central banks of most South East Asian economies are expected to maintain their accommodative monetary policies, at least for this year.
- As for Singapore, while business costs may go up due to the hike in water and energy tariffs, businesses are still banking on the overall competitiveness of Singapore and remain confident that the government will promptly intervene with support measures to help companies maximise their growth prospects. In addition, Singapore's strong economic fundamentals and sound policies will continue to provide leverage for businesses operating from Singapore. We anticipate Singapore's business formation trend to remain positive and robust throughout the year.

Report highlights

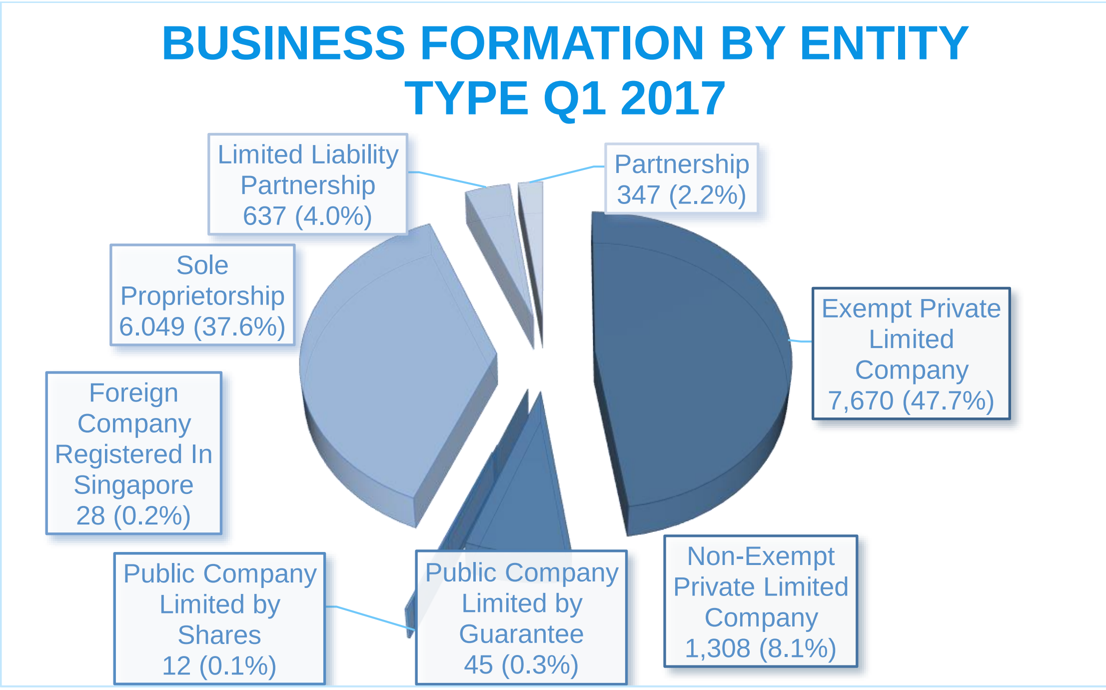
- A total of 16,096 businesses were formed in Q1 2017, logging a sharp increase of 6.3% over Q4 2016. Compared to Q1 2016, this figure marked a moderate increase of 1.2%.
- As in previous quarters, Private Limited Companies accounted for the bulk of business formation. In Q1 2017, this category accounted for 55.8%, or 8,978, of registrations.
- Against Q4 2016, the Private Limited Company category marked a sharp increase of 7.6%. The bulk of this increase stemmed from a sharp rise in the registration of Exempt Private Limited Companies (EPCs).
- With 7,670 registrations, EPCs accounted for 85.4% of private companies formed during the quarter. This category also held the largest share of 47.7% in the quarter's total business formation.
- The formation of Non-Exempt Private Limited Company has fallen by 9.2% against Q4 2016 with 1,308 registrations. The category accounted for 8.1% of total registration.
- Sole Proprietorships, with 6,049 registrations, held the second largest share at 37.6%, declining from the 38.3% share held in the previous quarter.
- Wholly locally owned companies accounted for half of company formations in the quarter. The category also gained two percentage points over the preceding quarter. The share of companies with 100% foreign shareholding dropped to 37% from 40% in Q4 2016.
- The (i) Wholesale Trade, (ii) Financial Services and (iii) Head Office & Management Consultancy Activities sectors continued to reign as the top three industry sectors with the largest number of business formations.
- Companies from the British Virgin Islands, Australia, Hong Kong, the United States, China, Japan and India were among the top to set up subsidiaries in Singapore during the quarter. Interestingly, compared to the preceding quarter, the share of foreign subsidiaries in company formation increased by two percentage points to 49% in Q1.
- The majority of these foreign individual shareholders were from Malaysia, China, India, Australia and Indonesia. The share of foreign individual shareholders dropped to 43% from 45% in the preceding quarter.

1 Entity Type

A total of 16,096 businesses were formed in Q1 2017, which was a 6.3% increase over the preceding quarter, during which a total of 15,147 businesses were formed.

Business formation numbers typically go up in the first quarter, as prompted by ‘new year, new beginnings’ sentiments. However, this year’s first quarter marked a moderate increase on a YoY basis at 1.2%.

Nonetheless, the bumper crop of businesses formed is reflective of business optimism that is strengthened by the global economic momentum. As a regional business hub with strong economic fundamentals and strategic business support measures, Singapore is set to witness a robust business formation trend this year.



With 8,978 registrations, the Private Limited Company category held the largest share of 55.8% among total businesses formed during the quarter. Exempt Private Limited Companies (EPCs), with 7,670 registrations, held a share of 47.7% of total businesses formed. At 85.4%, EPCs accounted for the largest share of private companies formed during the quarter. It is often preferred due to less stringent compliance requirements governing the entity type. For instance, EPCs are exempted from annual audit.

Besides companies that directly qualify as EPCs, a private limited company could also qualify for the audit exemption if it has satisfied at least two of the following three conditions for each of the two preceding financial years:

- Not exceeding $10 million in total annual revenue for the financial year;
- Not exceeding $10 million in total assets for the financial year; and/or
- Not exceeding 50 employees at the end of the financial year.

With 1,308 registrations, the share of Non-Exempt Private Limited Companies in total businesses formed dropped by 1.4 percentage points against the preceding quarter to 8.1% in Q1 2017. Large companies usually await the government's annual budget before planning their course of action. Secondly, most large entities are likely to be preoccupied with their annual tax return filings and financial reporting formalities during this period. Therefore, the registration of Non-Exempt Private Limited Company will typically surge in the second quarter.

The 6,049 Sole Proprietorships registered held a share of 37.6% in total registration in 1Q 2017, dropping marginally from the 38.3% share held in the previous quarter. This entity is a popular choice among owners of smaller-scale, home-based businesses and is often less risky as compliance requirements and costs involved are minimal.

A total of 984 Partnership businesses were formed in Q1, of which 637 were Limited Liability Partnerships (LLP). LLPs share has marginally increased from 3.8% in the preceding quarter to 4% in Q1 2017. The LLP type of entity bundles the benefits of both partnerships and limited liability entities. It involves minimal compliance costs, but more significantly, it limits the liability of its partners. This entity type is popular among professionals such as doctors, architects and engineers as they would be able to protect their personal assets from being attached in the event of litigation. With 347 registrations, the General Partnership category accounted for 2.2% of total businesses registrations in Q1.

28 Foreign Company branch offices were registered in Singapore during the quarter, accounting for 0.2% of total registrations. We anticipate a rise in the registration of foreign company branch offices in the second quarter.

45 Public Companies Limited by Guarantee and 12 Public Companies Limited by Shares were formed during the quarter, with shares of 0.3% and 0.1% respectively. Public Company Limited by Guarantee is commonly used for trade associations, charitable bodies and other similar non-commercial undertakings. Public Companies Limited by Shares can raise capital by offering shares and debentures to the public. A public company must register its prospectus with ACRA before making any public offers of its shares and debentures. There are strict regulatory requirements for such entities and compliance costs are also significantly high. The entity type is ideal for very large corporations.

Type of Entity	**Increase/(Decrease) QoQ**	**Increase/(Decrease) YoY**
Exempt Private Limited Company	11.1%	4.6%
Non-Exempt Private Limited Company	(9.2%)	46.1%
Public Company	(26.0%)	78.1%
Foreign Company Registered In Singapore	(42.9%)	(33.3%)
Sole Proprietorship	4.4%	(8.6%)
Limited Liability Partnership	11.4%	5.5%
Partnership	11.9%	(9.4%)

On a QoQ basis, except for the (i) Non-Exempt Private Limited Company, (ii) Public Company and (iii) Foreign Company categories, all other categories marked an increase. As stated earlier, entrepreneurs and investors are typically buoyed by "new year, new beginnings" sentiments – this is reflected in the increase in registrations in most categories, especially small business entities, in the first quarter. This also explains the surge in Sole Proprietorships and Partnerships. Overall, the global economic rebound has boosted business confidence among enterprises and entrepreneurs. Gloomy recessionary trends are receding, urging more private enterprises to be set up.

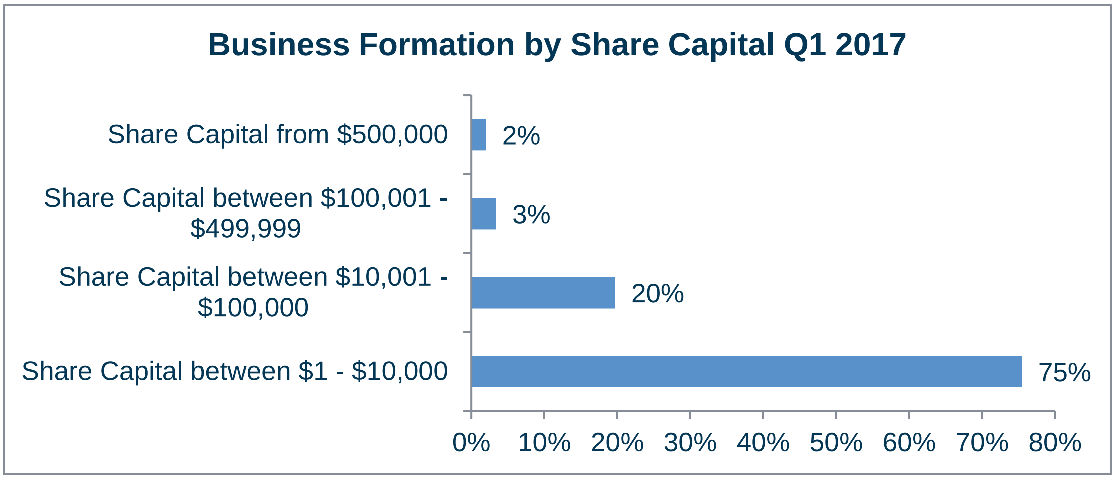
The Foreign Company category had the sharpest decline of 42.9% over the preceding quarter. However, it must be noted that foreign company formations increased sharply in the last quarter of 2016. Due to growing speculations of a Federal rate hike in March this year, most foreign companies would have wanted to cautiously defer their plans. The rate was indeed hiked in March, though the impact of the hike, and impending hikes, remains to be seen.

On a YoY basis, except for the (i) Foreign Company, (ii) Sole Proprietorship and (iii) General Partnership categories, all other categories marked an upsurge. Unlike last year, when the Fed announced a deferment of a rate hike until the second half of the year, there were strong indicators of a potential rate hike in March this year. The decline in Foreign Company registration is thus attributable to the cautionary approach taken with respect to these signs.

Declines observed in both the Sole Proprietorship and Partnership categories are largely corrective in nature. The registration of small entities such as Sole Proprietorships and Partnerships usually shoots up amid tepid economic conditions and lackadaisical employment growth. The unemployed and laid-off, and those who have taken pay cuts, usually venture out on their own by setting up business entities. The beginning of 2016 was one such year mired in uncertainty, hence the rise in registration of such entities. In 2017, with improved predictability and optimism in the economy, the registration of such small entities was found to be declining. The sharp YoY surge in Non-Exempt Private Limited companies testifies to the growing business confidence in Singapore and an uptick in Singapore’s economy.

2 Share capital

The majority of formations were entities with a share capital of less than S$10,000.



This is because Singapore's pro-business regulatory regime allows for companies to be incorporated with a share capital of just one Singapore dollar. The simplicity of this business formation criterion in Singapore facilitates quick and easy company registration, and often gets capitalised on by entrepreneurs. In fact, owing to this nominal share-capital requirement, small-scale and first-time entrepreneurs are not precluded from their business aspirations. This is one of the key reasons why Singapore is consistently ranked as the easiest place in Asia (second easiest in the world) to do business in the World Bank's Doing Business survey.

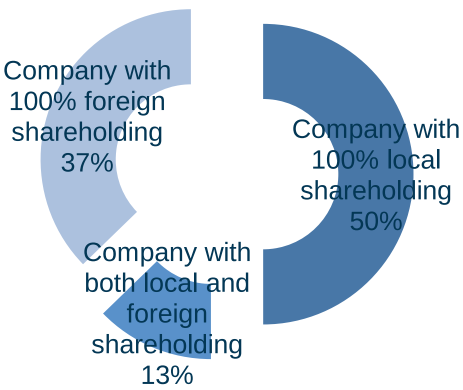
In Q1 2017, 75% of company formations had a share capital of less than S$10,000, which narrowly declined from its 76% share held in Q4 2016. Notably, the share of companies formed with a share capital of S$10,001 – S$100,000 went up marginally by one percentage point to 20% against 19% in Q4 2016. The share of other capital tiers covered in the report remained unchanged against the preceding quarter.

With the upturn in the economy and return of business optimism, it is clear that the share of companies with higher share capital is inching up.

3 Shareholding structure

Q1 2017 reveals an equal share of both wholly locally owned companies and companies with foreign ownership.

Business Formation by Foreign Vs Local Shareholding

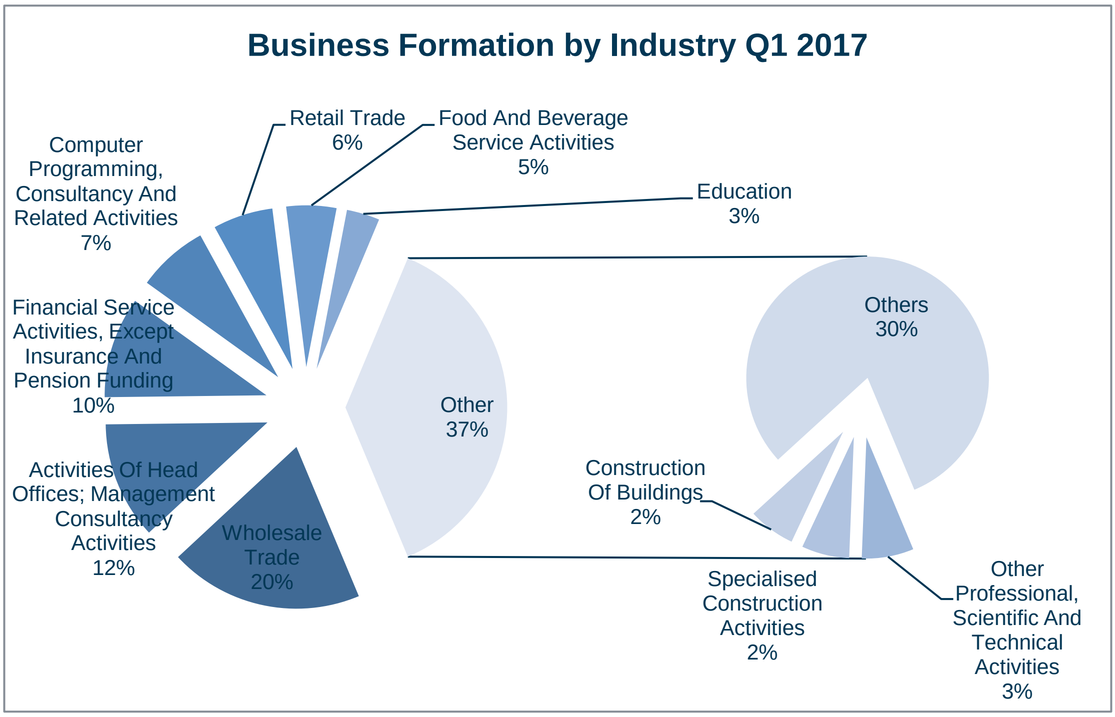


However, the share of wholly foreign held companies dropped to 37% from 40% in Q4 2016. The share of companies with mixed shareholding marginally increased to 13% against 12% in the preceding quarter.

The federal rate hike appeared to have prompted foreign companies to tread cautiously. Nonetheless, it is interesting to note the rise in the share of wholly locally owned companies after consecutive quarters of decline. This reflects a resurgence of business optimism and renewed vigour among local enterprises and entrepreneurs.

4 Industry

In line with historical trends, the highest number of business formations was in the Wholesale Trade industry, followed by Head Office & Management Consultancy Activities, which marginally increased from 11% in the preceding quarter to 12% in Q1 2017.



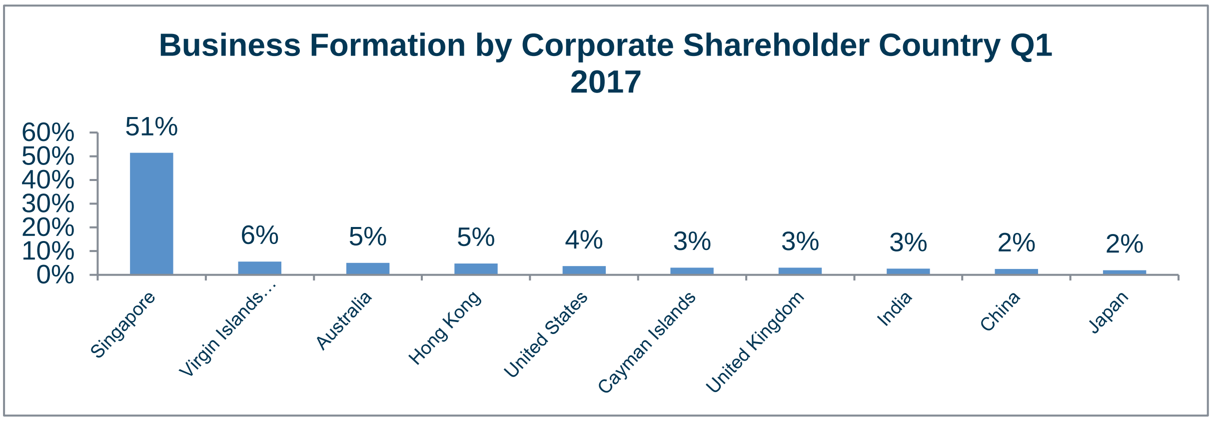
The Financial Services sector's 10% share in Q1 2017 included a two-percentage point decrease over the preceding quarter. The slowdown in this sector could be prompted by the Federal Reserve's shift towards monetary normalisation.

Singapore's dominance as a regional distribution hub remains unchallenged. Companies stationing their Head Office activities in Singapore stand to gain from both operational efficiency and tax benefits, as reflected by the high number of company formations in this sector. More importantly, companies recognise the benefits of doing business in Singapore, such as its conducive business environment, quality infrastructure and large talent pool, which complements their research, innovation and patent augmentation efforts. Recently in February, Zendesk, a US$2.73 billion New York-listed customer service software firm and The Trendlines Group, an Israel-based medtech and agritech incubator, inaugurated their headquarters in Singapore.

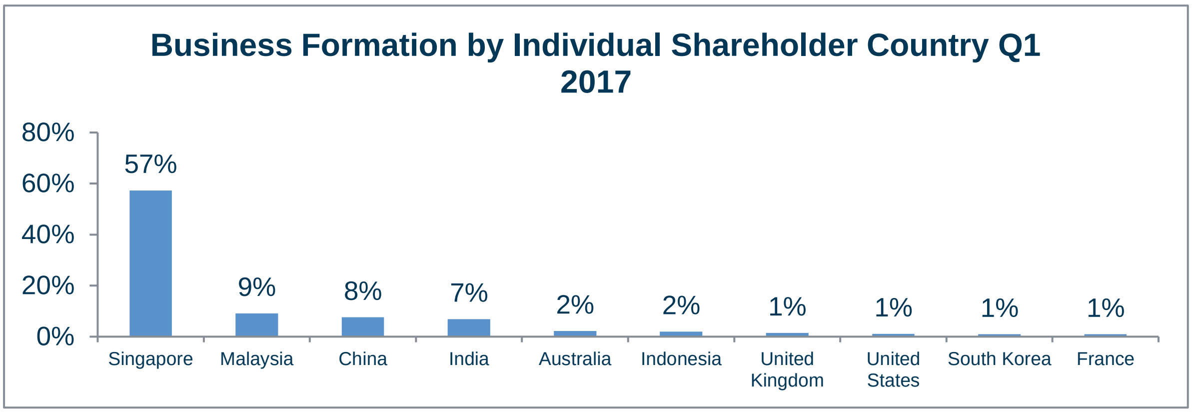
The share of other sectors remained unchanged against the preceding quarter.

5 Shareholders’ Country

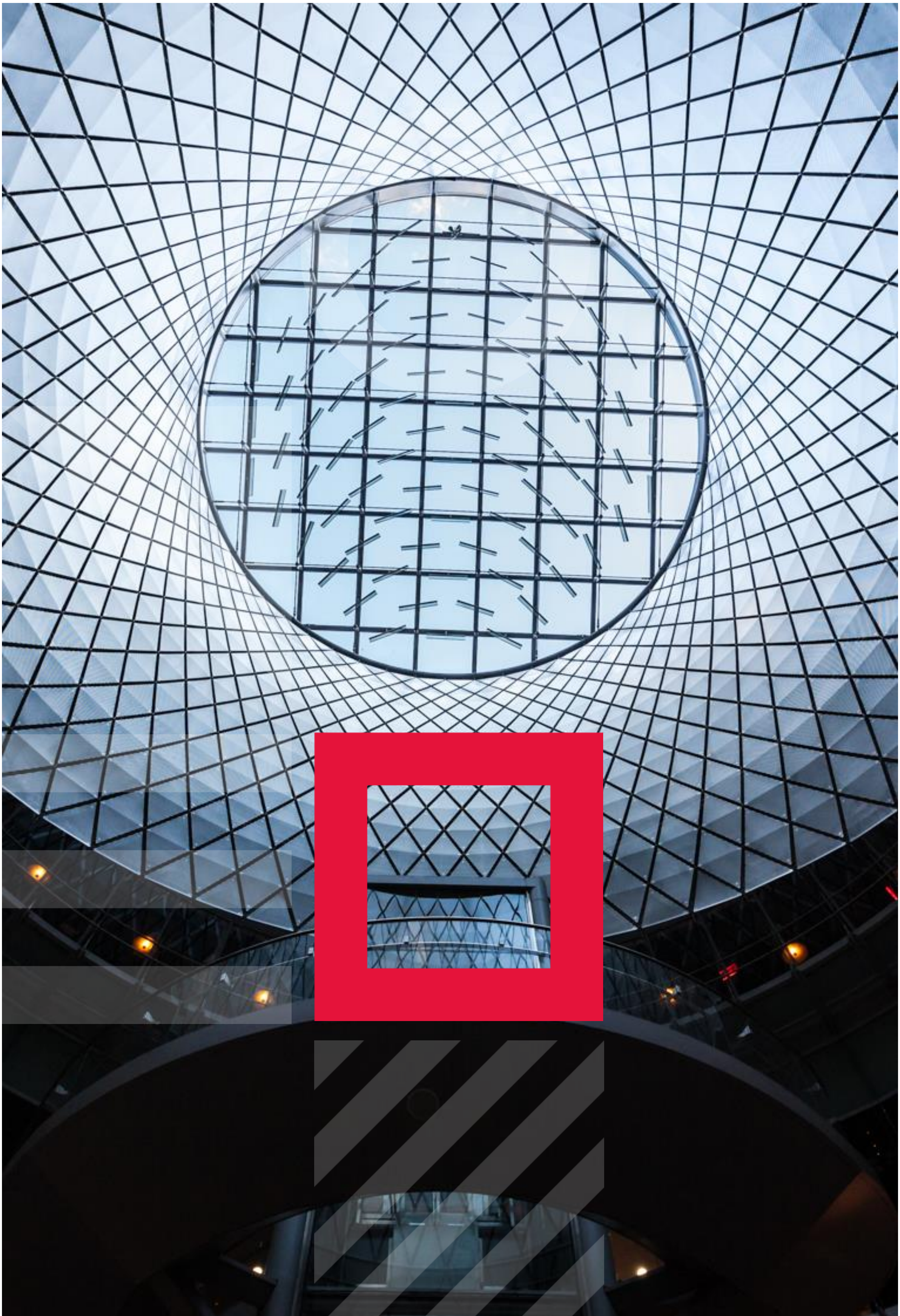
The registration of subsidiaries by foreign companies accounted for nearly half of subsidiaries formed.



49% of the subsidiaries formed in Singapore had corporate shareholders from foreign countries. The share of foreign subsidiaries in total company registration gained two percentage points over that in Q4 2016. In Q1 2017, the British Virgin Islands and Australia, with a share of 6% and 5% respectively, were the top foreign source countries of subsidiaries formed. Particularly, the share of Australian subsidiaries formed increased from 3% in the preceding quarter to 5% in Q1 2017; reading this in the backdrop of recovery in commodity prices underscores the traction of Singapore as a business location for companies from commodity-exporting economies like Australia.



In Q1 2017, the share of Singaporean shareholders increased to 57% from 55% in the preceding quarter. Correspondingly, the share of foreign individual shareholders dropped to 43% from the previous 45%. Singapore continued to attract individual investors and entrepreneurs from Malaysia, China, India, and Australia. Except for China, the share of other countries remained unchanged against the preceding quarter. The decline in the share of foreign individual shareholders could be attributed to the potential tightening of credit and the broad-based recovery of their domestic economies, urging foreign individuals to pursue opportunities that are familiar and closer to home.



Comparison of business formation activities over the last 4 quarters

	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Total Number of Business Registrations	16,096	15,147	16,603	17,628
Exempt Private Limited Company	7,670	6,904	7,488	7,904
Non-Exempt Private Limited Company	1,308	1,441	1,397	1,431
Sole Proprietorship	6,049	5,794	6,157	7,058
Partnership	347	310	346	453
Limited Liability Partnership	637	572	591	665
Public Limited Company	57	77	52	60
Foreign Company Registered in Singapore	28	49	32	57
Registration by Share Capital				
S$1 to S$10,000	75%	76%	76%	75%
S$10,001 to S$100,000	20%	19%	19%	20%
S$100,001 to S$500,000	3%	3%	4%	3%
Above S$500,000	2%	2%	1%	2%
Registration by Shareholding				
100% Local Shareholding	50%	48%	49%	48%
100% Foreign Shareholding	13%	12%	38%	39%
Both Local and Foreign Shareholding	37%	40%	13%	13%

Thinking beyond tomorrow

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Hawksford Singapore Pte. Ltd.

16 Raffles Quay #33-02

Hong Leong Building Singapore 048581

T +65 6222 7445

E info@hawksford.sg

www.hawksford.com

www.guidemesingapore.com