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The Impact of Hainan Free Trade Port Tax Policies on the Finances and Stock Price of Strait Holdings

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Abstract. Since the Chinese government constructively released the "Overall Plan for the Construction of Hainan Free Trade Port" in 2020, Hainan's tax policies have officially taken effect for registered and substantially operating incentivized enterprises. According to the implementation and promotion of relevant policies, this article aims to explore the short-term and long-term effects of the pre-closure trial tax policies and the series of post-closure policies of the Hainan Free Trade Port on the financial performance and stock prices of incentivized enterprises. This paper takes Strait Holdings as an example, using the event study method, combined with the company's financial statements, to analyze the multiple impacts of this tax policy on the financial and stock prices of Strait Holdings. The research results indicate that the tax policy of the Hainan Free Trade Port has an overall positive impact on the long-term financial performance of companies. Further research has found that under the continuous promotion of long-term policies and the ongoing development of the company, tax policies will continue to have a favorable impact on the company's finances, whereas in the short term, this financial indicator, particularly the stock price, does not show a significant increase.

Keywords: Hainan Free Trade Port, Tax Policies, Tax Shock, Income Tax

1. Introduction

Hainan Free Trade Port is a major new measure in China's reform and opening-up process. From April 10, 2018, when the Chinese government proposed to "explore the construction of a free trade port with Chinese characteristics," to December 18, 2025, when Hainan officially closed its customs, the tax policies of the Hainan Free Trade Port have been continuously implemented. The Hainan Free Trade Port implements tax policies in phases. The first phase started in 2020 with pilot programs before the customs closure, while the second phase involves the comprehensive implementation of policies after Hainan's customs closure. Overall, the two-stage tax policy adheres to the core strategy of 'loosen restrictions on the first tier, control the second tier, and allow freedom within the island.'From the perspective of the preferential tax policies of the Hainan Free Trade Port, including corporate income tax, offshore tax exemption policies, individual income tax, and zero tariff on goods, these policies have had a significant impact on Hainan. In recent years, the cumulative growth rate of imported consumer goods in Hainan has reached 647.7%, while the total amount of duty-free shopping has increased by 338.7% year-on-year [1]. This data indirectly proves

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that the Hainan Free Trade Port policy has had a significant impact on the increase in traffic and the activation of the Hainan market. At the same time, under the influence of current policies, for example, corporate income tax is levied at a reduced rate of 15%, and any portion of personal income tax exceeding an effective burden of 15% is exempted.(This data is a summary of some tax preferential information based on the "Overall Plan for the Construction of Hainan Free Trade Port" report)These policies have equally significant impacts on talent acquisition, tax planning, and business revenue for incentive-oriented enterprises such as Strait Corporation. This article, based on relevant data and analysis, aims to study the following three questions. First, the issuance of tax policies related to the Hainan Free Trade Port has an impact on the stock price of Hainan Strait Shipping Co., Ltd.Second, the changes in income tax of Straits Holdings' operating revenue under the tax conditions of the Hainan Free Trade Port.Third, the situation of talent introduction at Hainan Strait Shipping Co., Ltd under the current policy. This article takes Hainan Strait Shipping Co., Ltd as an example and uses the event study method to examine it, aiming to identify the overall impact of Hainan Free Trade Port's tax policies on the financial and other related aspects of incentivized enterprises. This will contribute to how relevant companies respond to and utilize tax policies under the impact of this tax regulation in the future.

2. Literature review

In terms of free trade ports, researchers have made significant achievements regarding how the Hainan Free Trade Port should develop and be constructed. Cao and others pointed out that Hainan's Free Trade Port has considerable gaps in aspects such as foreign trade structure and the utilization rate of foreign capital compared to international free trade ports. They proposed leveraging Hainan's natural island advantages and good ecological environment to build differentiated and coordinated development [2]. Muhammad Bilawal Khaskheil and others believe that for the Hainan Free Trade Port to truly establish a solid foundation and achieve long-term sustainable development by leveraging its offshore island advantages, it is necessary to engage in cooperation with Southeast Asian countries, actively explore regional coordination and cooperation, and jointly build international mechanisms in areas such as regulation [3]. T. Wusatirakul, entirely based on the external environment, indicates that under the current complex international situation, the Hainan Free Trade Port can develop efficiently in this context [4]. Liu and others have proposed from the perspective of system construction that the free trade port needs to strengthen the 'point-axis system' to complement and synergistically develop maritime advantages and to enhance the port's capacity to withstand risk shocks, providing new development ideas for the construction of the free trade port [5].

In terms of taxation, on one hand, it is proposed from the perspective of enterprise development that taxation affects the operation and development of enterprises. Bhalla N and others conducted a study based on PLS-SEM (Partial Least Squares Structural Equation Modeling) analyzing small and medium-sized enterprises in India and found that developing a tax management system can effectively improve multiple aspects of enterprise operational efficiency, thereby urging enterprises to actively develop independent tax management systems according to national conditions [6]. On the other hand, scholars, from the perspective of the state, put forward the advantages and disadvantages of taxation for national development, Igbinenikaro E and others, starting from the perspective of shortcomings, explained from the angle of tax evasion and profit shifting that due to imperfect regulatory mechanisms, various countries, especially developing countries, have evidently suffered certain losses in terms of development [7]. Liu stated from the perspective of interests that actively adapting to tax policies is more beneficial than detrimental in terms of optimizing the

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industrial structure [8]. From other perspectives, Igor Sopronenkov and others combined tax policy with economic business, using the tax reforms of the Slovak Republic and the European Union as examples to argue that there is no strong correlation between tax revenue and GDP growth rate, indicating that GDP growth should be viewed from other perspectives [9]. Kristina Kindsfaterienė and others further argued from the perspective of the business environment, taking Lithuania as an example, that reducing the tax burden can enhance national economic growth and attract foreign investment, thereby providing data support for national development [10].

3. Introduction to the background of Hainan Strait Shipping Co., Ltd.

Hainan Strait Shipping Co., Ltd. was established in 2002 by five shareholders, including Hainan Port and Shipping Holdings Co., Ltd. It was officially listed on the Shenzhen Stock Exchange in 2009, with a registered capital of 95 million yuan. The company derives its main business revenue from maritime transportation and ferry port services, and its current total market value is approximately 15.047 billion yuan. The company's information evaluation grade and ESG rating are both at level A. As the leading roll-on/roll-off transport enterprise in Hainan Province and directly under the Hainan State-owned Assets Supervision and Administration Commission, it has significant advantages in industry consolidation within the region. Hainan Strait Shipping Co., Ltd. develops multiple routes, including the coastal route, Yantai-Dalian route, Xisha route, Beihai route, etc. Currently, the main operational structure is primarily composed of the coastal route, with major transportation services by waterway accounting for as much as 92.32%. Compared to other shipping companies, it holds a dominant advantage in revenue in the South China Sea region. The company's price-to-earnings ratio (TTM) has consistently been higher than the industry average, with a maximum TTM value of 206.31 over the past three years, and its operating revenue has shown continuous improvement in the quarterly reports from 2021 to 2026. From the perspectives of the company's financial report standards, operational capabilities, and main business revenue, it is the company most affected by the tax policies of the Hainan Free Trade Port, and therefore it will be

4. Case analysis

4.1. Event study method

The data in this paper are sourced from CNInfo and Yingweicaiqing Strait Co., Ltd.'s annual reports from 2020 to 2026. Based on the Event Study method, the "Overall Plan for the Construction of Hainan Free Trade Port" released on June 1, 2020, is set as the event date (t), with the event window set as five days before and after the occurrence of the event (t-5, t+5). Due to the impact of factors such as the pandemic in 2020, the period from October 1, 2019, to May 20, 2020, totaling 152 trading days, is set as the estimation window to mitigate the effects of the pandemic and other factors.

Calculate the expected rate of return: by subtracting the previous day's closing price of Hainan Strait Shipping Co., Ltd shares from the closing price on the current day and then dividing by the previous day's closing price, one can obtain the individual stock return of Hainan Strait Shipping Co., Ltd and the overall market return, according to the relevant formula as shown in Formula (1):

$$R_{it}=\alpha+\beta R_{mt} \quad (1)$$

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In Formula (1), R_{it} represents the actual return of the company's stock; R_{mt} represents the return of the entire market;Subtract the expected return from the actual daily return to obtain the daily abnormal return (AR), then sum the abnormal returns to obtain the cumulative abnormal return (CAR). Data analysis was conducted using Excel, and the results are shown in Figure 1.The stock return equation model of Straits Holdings under the influence of policy is shown in Figure 1.



Figure 1. The stock return equation model of Straits Holdings under the influence of policy is shown

Its regression equation is: $y = 0.9603x + 0.0053$. Based on the regression equation, the following table of data can be calculated.

Table 1. Necessary indicators for the study of Xiahai shares incidents under policy influence

Time	Rmt	Rit	ER	AR	CAR
2020/5/25(t-5)	-0.11%	1.32%	0.0042	0.0090	0.0090
2020/5/26(t-4)	2.10%	2.28%	0.0254	-0.0027	0.0063
2020/5/27(t-3)	-1.23%	3.83%	-0.0065	0.0448	0.0511
2020/5/28(t-2)	-0.27%	-0.46%	0.0027	-0.0073	0.0438
2020/5/29(t-1)	0.87%	6.02%	0.0137	0.0465	0.0903
2020/6/1(t)	3.31%	3.78%	0.0371	0.0007	0.0911
2020/6/2(t+1)	0.09%	-4.98%	0.0062	-0.0560	0.0351
2020/6/3(t+2)	-0.04%	-8.34%	0.0049	-0.0883	-0.0532
2020/6/4(t+3)	0.28%	-1.05%	0.0080	-0.0184	-0.0717
2020/6/5(t+4)	0.37%	1.38%	0.0089	0.0049	-0.0668
2020/6/8(t+5)	0.31%	-0.16%	0.0083	-0.0099	-0.0766

According to Table 1: Necessary Indicators for the Study of Haixia Shares Incidents under Policy Influence's data analysis, the market's response to the company's stock price after the event was negative, meaning that the stock price actually declined following the release of the 'Policy'.

4.2. Cause analysis

Before the release of this policy, on April 13, 2018, China had already announced its support for gradually exploring a free trade port across the entire Hainan Island, resulting in the capital market

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exhibiting an "all favorable news priced in" effect, the market had already undergone prolonged anticipation and speculation before the policy was released, with relevant thematic funds having already positioned themselves in advance and driven up the stock price of Haixia Co., Ltd. Investors have already formed expectations regarding companies that have vested interests in the Hainan Free Trade Port. After the official announcement of the implementation of the policy, speculative funds that profited in the early stages will inevitably choose to 'realize gains' within the event window, that is, selling shares to lock in profits, which will cause the stock price to undergo a technical correction following the policy release, reflected in this data as significant negative abnormal returns.

Regarding the tax policies of the Hainan Free Trade Port, their implementation and the gradual release of benefits are long-term in nature. This study employs a short-term valuation method; therefore, a time lag exists. Even though the plan indeed has many significant advantages, its construction planning on Hainan Island is carried out in phases. As the leading traditional passenger transport company of the Qiongzhou Strait, Hainan Strait Shipping Co., Ltd's substantial performance growth heavily depends on passenger and logistics growth since the long-term development of the Hainan Free Trade Port. However, this fundamental improvement cannot translate into rapid growth in the short term or surge explosively, which is also the reason for the swift return to rationality after the policy implementation. This period was during the pandemic, and overall, stock prices were in a state of volatility. Although I extended the estimation window in this research method, this approach can only mitigate its impact and cannot avoid the general sluggishness of stock prices.

5. Analysis of the impact of policy implementation on the financial performance of straits holdings

Table 2. Financial indicators of strait Co., Ltd. from 2019 to 2023

Year	2019	2020	2021	2022	2023
Main Business Revenue(100 million yuan)	11.102	10.727	13.991	29.635	39.316
Income Tax Expense(100 million yuan)	0.726	0.4566	0.5180	1.653	3.054
Net Profit from Continuing Operations(100 million yuan)	2.192	2.494	2.856	6.626	12.251
Employee Compensation Payable(100 million yuan)	0.5871	0.8262	0.3135	0.8067	2.029
Taxes Payable(100 million yuan)	0.1957	0.3041	2.5	0.6206	0.8702
Hai'an Route Revenue(100 million yuan)	-	-	10.06	26.63	33.95

According to Table 2, financial Indicators of Strait Co., Ltd. from 2019 to 2023, it can be seen that under the implementation of the policy, the company's revenue has continued to improve, with its main business income in a steady development phase, and the highest growth from 2021 to 2022 exceeding 200%. The company is particularly outstanding in terms of policy advantages, especially in its ability to continue operations, with net profit from continuing operations growing at a high speed.

From the perspective of income tax expense, its tax burden has significantly decreased, particularly prominent between 2019 and 2020 when the main business revenue was comparable. During the period when the tax incentives were officially implemented in 2020, the income tax in 2020 significantly decreased compared to 2019. The reduction in the income tax burden enabled the company to increase its investment and alleviate corporate burdens. Due to favorable policies benefiting both businesses and individuals (such as the reduction of personal income tax burdens)

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and the attraction of tax-exempt goods, the company's Haian route revenue has grown rapidly. Additionally, observing the changes in employee compensation from 2019 to 2023 indirectly indicates significant advantages for the company in attracting talent.

According to ROA (Return on Assets) = Net Profit Attributable to Shareholders / Average Total Assets, using relevant data from the company's annual report, Hainan Strait Shipping Co., Ltd ROA Indicator Data Table can be calculated (since the data for 2020 could not be found, the year-end total assets of 2021 are used as a substitute for the average total assets), as shown in Table 3.

Table 3. Hainan strait shipping Co., Ltd ROA indicator data table

Years	Net Profit Attributableto Shareholders(million)	Year-end Total Assets(million)	Average Total Assets(million)	ROA
2021	285.6	6,994.92	6,994.92	4.08%
2022	662.61	7,613.18	7,304.05	9.07%
2023	1,225.12	7,765.53	7,689.36	15.93%
2024	1,096.23	11,607.34	9,686.44	11.32%
2025	915.78	9,386.43	10,496.89	8.72%

According to Table 3, ROA surged by 12 percentage points from 2021 to 2023, indicating that the company had strong profitability during this period under policy guidance. However, during 2024–2025, due to asset expansion not bringing about a corresponding increase in profit growth rate, ROA declined. Finally, based on the data cited from Investing.com, the following table has been created (using data from 2024 to 2025 as the reference).

Table 4. Comparison of Hainan strait shipping Co., Ltd with related industry data Indicators

Indicator	Company Data	Industry Average
Earnings Per Share Growth Rate (MRQ, compared to the same quarter last year)	6.85%	-40.69%
Earnings per Share Growth Rate (TTM, compared to the previous year)	-28.64%	-178.45%
5-Year Earnings Per Share Growth Rate (5YA)	-7.08%	-24.22%
Sales Growth Rate (MRQ, compared to the same quarter last year)	4.71%	8.53%
Sales Growth Rate (TTM, compared with the previous year)	-0.62%	5.98%
5-Year Sales Growth Rate (5YA)	36.70%	17.55%
5-Year Capital Expenditure Growth Rate (5YA)	105.33%	13.76%

As shown in Table 4, comparison of Hainan Strait Shipping Co., Ltd with Related Industry Data Indicators, it can be observed that under the premise of substantial policy incentives, the company generally performs above the industry average, especially considering that the industry-wide earnings per share growth rate (compared to the same quarter last year) has generally declined, the company is still able to maintain stable growth. This also indicates that under the influence of policies, the company's development is significantly more favorable compared to the industry average. However, it is necessary to be wary of the efficiency dilution risk brought by asset expansion. It is recommended to optimize resource allocation to ensure sustainable and steady development. Overall, the impact of the Hainan Free Trade Port on the company is very significant.

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6. Conclusion

Under the impact of tax shocks from the Hainan Free Trade Port, Hainan Strait Shipping Co., Ltd shows a significant positive trend in the company's long-term development, while in the short-term development, there is no significant distinction in advantages or disadvantages.Since the tax policies of the Hainan Free Trade Port are generally long-term and gradual, Hainan Strait Shipping Co., Ltd must adhere to sustainable and long-term development, rather than pursuing a fishbowl-style or speculative approach. In this study, the research can, to a certain extent, help incentive-based enterprises such as In this study, the research can, to a certain extent, help incentive-based enterprises such as Haixia Co., Ltd. to establish their own development paths and models as the Hainan Free Trade Port gradually opens up. To establish their own development paths and models as the Hainan Free Trade Port gradually opens up. Due to the limitations of the event study method, it cannot truly reflect the advantages of the Hainan Free Trade Port on a large scale. In subsequent research, adjustments can be appropriately made to make the data more authoritative.

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