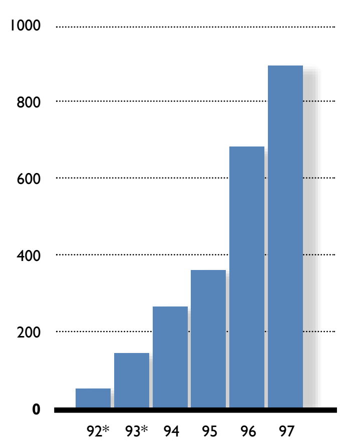
NU SKIN®

1997 Annual Report

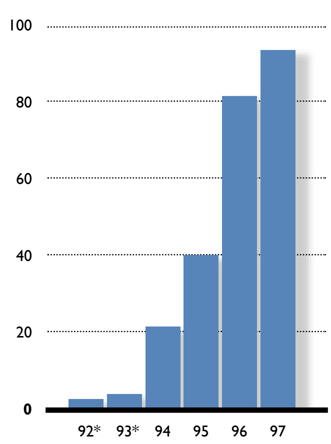
Our mission is to act as a force for good throughout the world. We achieve this goal by selling exceptional products, providing rewarding network marketing business opportunities and supporting distributors, stockholders, consumers and employees in ways that improve their quality of life.

Financial Highlights

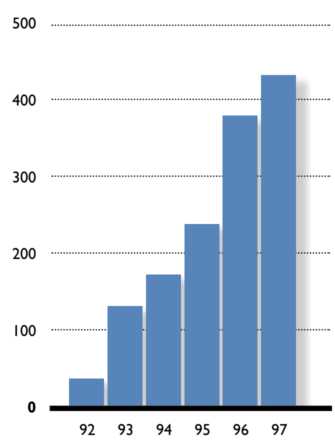
Revenue (U.S. dollars in millions)



Net Income (U.S. dollars in millions)



Active Distributors (in thousands)



Year end: December 31
*Indicates fiscal year end: September 30

Financial Highlights

(U.S. dollars in thousands, except per share amounts)	1995	1996	1997	96-97 % Change
Revenue	$358,609	$ 678,596	$ 890,548	31.2 %
Gross profit	261,994	485,438	642,181	32.3
Operating income	58,797	128,358	138,630	8.0
Net income*	$ 40,211	$ 81,697	$ 93,646	14.6
Net income per share*				
Basic	$ .51	$ 1.03	$ 1.12	8.7 %
Diluted	$ .50	$ 1.01	$ 1.10	8.9 %
Weighted average common shares outstanding (000s)				
Basic	78,645	79,194	83,331	
Diluted	80,518	81,060	85,371	
Cash and cash equivalents	$ 63,213	$ 207,106	$ 166,305	(19.7%)
Working capital	47,863	66,235	101,341	53.0
Total assets	118,228	331,715	352,449	6.3
Stockholders' equity	$ 61,771	$ 107,792	$ 177,528	64.7
Operating income as a percentage of revenue	16.5%	18.9%	15.6%	
Net income as a percentage of revenue	11.3%	12.0%	10.5%	
Active distributors	236,000	377,000	430,000	14.1 %
Executive distributors	7,550	20,483	21,945	7.1

* Excluding non-recurring expenses, 1997 net income was $104.9 million, basic net income per share was $1.26 and diluted net income per share was $1.23.

To Our Stockholders

Dear Stockholders:

We are very pleased to report that Nu Skin Asia Pacific achieved record revenue and earnings in 1997, marking the seventh consecutive year of revenue and earnings growth for Nu Skin in Asia. Our ability to deliver these results rests on a combination of important elements: a unique distributor force, exceptional products, unsurpassed business opportunities and sound leadership. We believe these elements, combined with the expanded opportunities available through the acquisition of our privately held affiliate, Nu Skin International, will continue to drive Nu Skin's growth and increase stockholder value.

Record Financial Results

For the year ended December 31, 1997, the company's revenue advanced 31 percent to $890.5 million from $678.6 million in 1996. Net income grew 27 percent to $104.9 million, or $1.23 per diluted share, from $82.9 million, or $1.02 per diluted share, in 1996, excluding non-recurring expenses associated with the 1997 distributor stock option program.

Diversifying Our Revenue and Earnings Base

We recently acquired Nu Skin International for up to $350 million in notes, securities and performance-based payouts. This acquisition, which closed in March, expands our markets, significantly increases our distributor base and adds depth to our management team. More importantly, it extends and diversifies our revenue and earnings base—strongly positioning Nu Skin for greater growth and profitability.

As a result of this transaction, Nu Skin Asia Pacific, to be renamed Nu Skin Enterprises upon stockholder approval, will become a more vertically integrated global consumer products company. All of our product development, marketing and distribution functions will be united under the company umbrella, giving us more flexibility with pricing, product marketing and operating efficiencies.

This transaction strengthens our competitive position and immediately improves our margins. As a result, we anticipate an immediate stockholder benefit in earnings per share.

Additionally, the acquisition diversifies our geographic reach by giving us operations in 12 existing markets outside of Asia and the rights to all future markets outside of North America. Furthermore, Nu Skin Enterprises will benefit from a simpler corporate structure by eliminating the complex intercompany relationships that existed between Nu Skin Asia Pacific and Nu Skin International. Finally, as an integrated consumer products company, we will now be able to exercise greater control over our future.

Sustaining Our Momentum

In 1997, we captured larger market share in Japan, Hong Kong, Thailand and Taiwan, where Nu Skin became the leading direct selling company. To advance our overall goals, we

recently introduced the Sción™ product line, enhanced our compensation plan and entered the Philippine market. To help sustain our momentum in 1998, we will implement the following initiatives:

1) open new markets including Poland and Brazil,
2) add more premium products to our largest markets and make Sción and other locally manufactured products available in emerging markets,
3) offer enhanced distributor compensation and business opportunities and
4) aggressively promote the company's brands through high profile sponsorships and endorsements.

"Al and I have been taking Nu Skin's IDN® supplements for more than four years. The longer we take them, the more we're convinced they're the best."

Florence Griffith Joyner "Flo-Jo" Four-time Olympic Gold Medalist, Track & Field

A Promise

We greatly value you, our stockholders, and are committed to maximizing the value of your investment in Nu Skin. This is an exciting time for us as a company. We look forward to a year of change and opportunity as we implement aggressive strategies to become the world's leading direct selling enterprise. We are confident that we have the people, products, infrastructure and resources necessary to achieve this goal.

Thank you for your loyalty and support.

Sincerely,

Blake M. Roney
Chairman

Steven J. Lund
President and Chief Executive Officer

Overview

The success of Nu Skin stems from the melding of many critical components: a unique distributor force, exceptional products, unsurpassed business opportunities and sound leadership. Nu Skin combines these elements to generate the synergy necessary to reach our goal: to become the world's leading direct selling company.

“While working as a radiotherapist a few years ago, a friend introduced me to Nu Skin. I didn't know much about network marketing at the time, but I tried the products and felt the company was worth looking into.”

Mamiko Oshima
Emerald
Tokyo, Japan

A Unique Distributor Force

Nu Skin's distributor force consists of a diverse group of highly successful individuals. While most of our distributors were initially drawn to Nu Skin by our products, many bring with them extensive business and professional experience. More than half of our distributors have earned college diplomas, and nearly one-fifth have received advanced degrees. Perpetual enthusiasm, education and experience give Nu Skin distributors a distinct advantage in the direct selling industry. In 1997, the company's largest market, Japan, added more than 5,000 new executive-level distributors and approximately 82,000 active distributors. Distributor numbers have already been boosted in 1998 with the addition of thousands of new distributors in the Philippines.

Exceptional Products

Nu Skin products are the result of a simple, but challenging philosophy: to combine the best of science and nature. The Nu Skin Personal Care and the Interior Design® Nutritionals (IDN) product lines reflect our commitment to supply our distributors with innovative, premium products that address consumer needs. As an example, in 1997 Nu Skin Japan introduced Aloe-MX,™ a unique aloe vera juice beverage produced with a patented processing technology. This advanced product has already captured four percent of the $370 million Japanese aloe beverage market. We continue our commitment to producing innovative products in 1998 and have already launched Sción,™ a new line of value-priced personal care products manufactured and sold in the Philippines.

Unsurpassed Opportunities

Nu Skin offers the best long-term network marketing opportunities available. Not only was Nu Skin the first to offer a seamless, global compensation plan, but we continue to lead the industry by providing the highest level of distributor incentives. Generous compensation, high quality products and worldwide sales opportunities continue to drive our business. But we haven't stopped there. In 1997, we implemented a distributor equity incentive program to reward outstanding distributor performance with options to purchase 1.6 million shares of the company's common stock. Remaining an innovator in distributor compensation in 1998, Nu Skin has begun implementing an enhanced sales compensation plan designed specifically for lower per capita income markets. By putting people first, we provide distributors and customers with unparalleled business service, support and opportunities.

"Cherrie and I still feel as if we're at the beginning; the potential of our organization is incredible."

Sean Brady
Hawaiian Blue Diamond
Billings, Montana

Sound Leadership

Nu Skin's management team combines industry knowledge with market understanding. Knowing what products will connect with consumers in Germany or Hong Kong comes from experience and a fundamental understanding of markets and trends. Senior management works closely with local leaders to identify and capitalize on emerging trends and market opportunities. In 1997, the company's management in Japan identified several product and marketing opportunities which helped to stimulate 58 percent growth in that market. In 1998, we continue to rely on strong management to combine local initiatives with global corporate goals and objectives.

"We've successfully created a Nu Skin culture in Taiwan that's enabled us to become the country's leading direct selling company."

John Chou
President and General Manager
Nu Skin Taiwan

A Unique Distributor Force

TAIPEI, TAIWAN—As a successful practitioner of nuclear medicine, Tsung-Hsin Wu never expected to leave his profession to pursue network marketing. A graduate of Kaohsiung Medical College, Tsung-Hsin came from a family of physicians and worked at Kaohsiung's hospital assessing the effects of chemotherapy on various types of cancers.

He first heard about Nu Skin from a relative in Pennsylvania. "My uncle told me about a dynamic hair care product called Nutriol®," Tsung-Hsin said. "He sent several samples from the United States to my wife and me, and we were immediately impressed. I began researching the company—studying Nu Skin from a medical, scientific and product point of view.

"Several months later, I decided to become a distributor on a part-time basis. The opportunity was appealing, not only because of the products but also because we wanted to have total control of our lives and the resources to help others.

"Nu Skin was my first experience with networking—I learned as I worked. As I became more involved with my Nu Skin business, I began delegating more duties to others in the hospital and eventually found myself working full time with Nu Skin.

"I still own a medical check-up center, but Nu Skin has allowed me to leave the pressures of the hospital and have more time with my wife and children. Now we are able to spend time together doing the things we enjoy most."

From its inception, Nu Skin has attracted capable, successful individuals. Three-quarters of those who become independent Nu Skin distributors are first-time participants in the direct selling industry. The company's generous, leadership-oriented compensation plan enables Tsung-Hsin and others like him to pursue their financial goals and improve their quality of life through Nu Skin. Nu Skin's ability to attract primary wage earners is distinctive and a significant

"Nu Skin has allowed me to leave the pressures of the hospital and have more time with my wife and children. Now we are able to spend time together doing the things we enjoy most."

"Before I became involved with Nu Skin, I worked as a business consultant and an exporter. One of my clients introduced me to the skin care line and after trying it for myself, I decided to become a distributor."

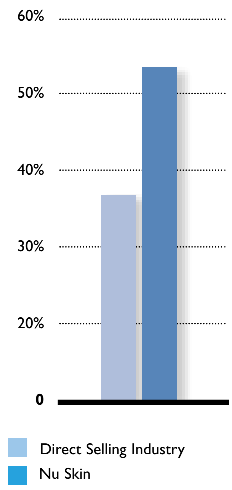
Yugen Suzuki
Emerald
Tokyo, Japan

advantage in today's competitive direct selling environment.

Many distributors come to Nu Skin with highly developed leadership skills and significant management experience. These individuals often find themselves training, motivating and leading their own multinational organizations within the first year of becoming a Nu Skin distributor. The various and diverse experiences and talents they bring are invaluable assets to Nu Skin's growing global business.

A recent Nu Skin study found that 35 percent of the company's distributors came from professional careers and almost 50 percent had annual household incomes of more than $50,000. Another clear distinction is education. Nearly 52 percent of Nu Skin's distributor force have college degrees, and roughly 18 percent have masters or other advanced degrees. In both cases, this is significantly higher than the average educational attainment of those involved with other direct selling companies.

Distributors with College Degrees



* Source: 1997 U.S. Direct Selling Association Study and 1997 Nu Skin Distributor Lifecycle Study

Nu Skin's ability to attract experienced and well-educated distributors contributes to the company's stability and long-term growth potential.

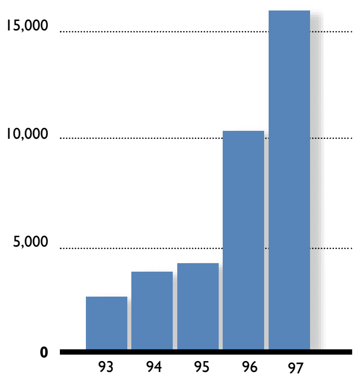
The study also found that approximately three-quarters of our distributors said they were initially drawn to Nu Skin by the quality of our products. But Nu Skin offers more than the opportunity to look and feel better through exceptional products: distributors choose Nu Skin because the company gives them the opportunity to gain financial independence, personal autonomy and time flexibility as well as to develop leadership skills. In 1997, Nu Skin Japan added more than 5,000 executive-level distributors, a 55 percent increase in distributor leaders. Executive distributors effectively sponsor, train and motivate other distributors. Each new executive distributor adds leadership, diversity and vitality.

Perpetual enthusiasm, education and experience are all characteristics of successful Nu Skin distributors. For Tsung-Hsin Wu and many others like him, the pursuit of success through Nu Skin has yielded a fruitful and rewarding way of life.

"I was originally introduced to Nu Skin by a close friend and was impressed by the credibility of the opportunity and the high quality consumable products."

Jennifer Zucker
Lapis Executive
Altrincham, England

Japan Executive Distributors



Exceptional Products

New York, New York—A few years ago while reading *Elle*, Christie Brinkley came across an article about a very different personal care company. "The company had taken the writer all the way to the Samoan rainforest to see some of the ingredients it used in its products and to demonstrate how it was helping the indigenous people preserve their culture and environment," Christie said.

A few months later, Christie received a call from Nu Skin, the company she had read about. "They asked me to represent their personal care division," Christie said. "I remember the day they came to my house and filled my living room with hundreds of different products. I was impressed with the variety of products and the science behind them. Since that time, I have used product after product and think they are wonderful."

With a face recognized around the globe, Christie is an ideal spokesperson for Nu Skin. "Throughout my career I have tried more products than you can believe, and Nu Skin products are absolutely the best personal care products on the market today," Christie said. "Once I tried them, I knew I had to be involved with this company."

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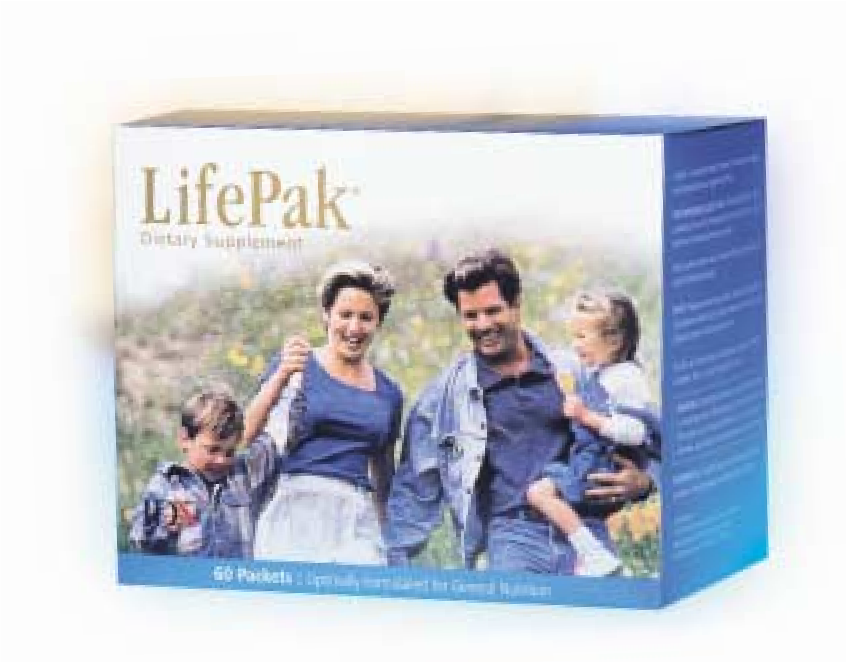
Guided by a challenging, yet simple philosophy to combine the best of science and nature, Nu Skin has created products recognized for innovation and uncompromising quality. Cheap fillers like petroleum-based oils and harsh alcohols, commonly used in the industry, are not added to our products. Early product innovations include pioneering the use of humectants, ingredients that draw moisture to the skin, and liposome technology, an advanced delivery system for skin-beneficial ingredients.



In more recent years, the company has pioneered nutrition products that utilize powerful antioxidants and phytonutrients. The Interior Design® Nutritionals division has also utilized the benefits of minerals in sports products and was among the first to incorporate chitosan, a unique dietary fiber used in lifestyle management products.

Two of our most successful product introductions in 1997 were Aloe-MX,™ an aloe juice beverage, and MHA,™ a four-product multi hydroxy acid skin care system. Aloe-MX was developed to fill the demand for aloe drinks in Asia. Incorporating a patented process called Manapol,™ Aloe-MX contains twice the beneficial solids of competing brands. Nu Skin's MHA products are the result of advanced hydroxy acid research. These products combine alpha and beta hydroxy acids with a unique cycling system to visibly reduce the appearance of wrinkles and improve skin firmness.

Nu Skin's pursuit of innovation continues in 1998. LifePak,® the company's best-selling product line, has been reformulated and expanded to include LifePak Prenatal. We are so confident in the science behind these products, we have issued the "LifePak Challenge." Send us any daily multi-vitamin/mineral product label, and we will tell you in writing how the equivalent LifePak product is superior.

In February 1998, Nu Skin introduced its first line of lower-priced personal care products, designed for and manufactured in the Philippines. The Sción™ line is built around a proprietary complex called Cyprolix,™ a blend of cyclodextrin, hydrolyzed soy protein and willow bark extract (*Salix alba*). These three natural ingredients work together to remove impurities and restore moisture to the skin, hair and scalp.

Another first in 1998 is Nu Skin's launch of Believe™, a prestige fragrance inspired by Christie Brinkley.™ Believe was developed in collaboration with well-known fragrance interpreter Ann Gottleib, creator of several popular fragrances, including Calvin Klein's Obsession®, Eternity® and CK1®.

Breakthrough science has also led to the formulation of several other products scheduled for introduction this year. Nu Skin's IdealEyes™ Eye Cream with vitamins C & A incorporates patent-pending technology that delivers vitamin C in a stabilized, pure form. This advanced formulation has proven effective in minimizing the visible effects of stress, fatigue and aging.

Nu Skin is also adding new products in several other categories, including color conditioners, skin whiteners, ethnobotanicals, weight management, sports nutrition and self-care.

A concentrated focus on product research, innovation and quality enables Nu Skin to develop products that satisfy diverse and changing consumer needs. In every product, we seek to combine the best of science and nature. Our commitment to quality and to people captured the attention of Christie Brinkley, and our exceptional products have helped make her—and thousands of others—Nu Skin spokespersons.

Unsurpassed Opportunities

BILLINGS, MONTANA—From their hillside home situated under picturesque rimrock, Sean and Cherrie Brady run a virtual office that connects them to the world. The advent of fax machines, e-mail and the Internet have allowed them to head a worldwide network of distributors spread from Europe to Asia.

A few years back, the Bradys established a set of goals that included running a successful international business. After researching many franchises, home-based business opportunities and other direct selling organizations, the couple was drawn to Nu Skin. They set out to establish a business built on a foundation of leadership.

A native of Australia, Sean felt the multiethnic makeup of his homeland would be an ideal ground for international expansion. "It was there in Sydney where we began to build an extensive downline of distributors and took the Nu Skin business to more than 20 countries around the globe," Sean said.

After bringing a Japanese distributor to the United States for a formal introduction to the company and training, the distributor returned to Japan with unparalleled zeal and sent the Brady's downline skyrocketing. They attribute their success in Japan to the strong work ethic that permeates the region. "My Asian downline is intensely energetic," said Sean, who is committed to supporting them. His travels around the globe to support his organization have earned him the nickname "Mr. Samsonite."

> "It was there in Sydney where we began to build an extensive downline of distributors and took the Nu Skin business to more than 20 countries around the globe"

Although he has achieved financial success, Sean considers his greatest reward to be watching others succeed and grow. Sean looks to his future with enthusiasm, stating, "Cherrie and I still feel as if we're at the beginning; the potential of our organization is incredible."

Nu Skin decided early on to take a worldwide approach to business and was the first direct selling company to offer a seamless, global compensation plan. We also recognized that attracting

“In most corporate settings, the employees don’t benefit significantly from a company’s progress. With Nu Skin, you are a 50 percent partner; the company profits with the distributor and allows growth on both sides.”

Naoki Hongo
Hawaiian Blue Diamond
Tokyo, Japan

high-caliber distributors was essential to sustain long-term growth, so we created a compensation structure that is among the most generous in the industry. Combining our global approach with generous compensation has produced a powerful business opportunity.

Our seamless, global compensation plan gives independent Nu Skin distributors the opportunity to build worldwide sales networks. A distributor based in Japan can sponsor a business associate in Taiwan, a relative in the United States and a friend in Hong Kong and still receive a single commission check each month based on all the products sold through this international network. Cross-border sponsoring allows independent Nu Skin distributors to build sales organizations in any or all of the 24 international markets where Nu Skin products are sold.

Building a personal business can, however, be intimidating. That’s one of the reasons Nu Skin has gone to great lengths to make it easy to start an independent distributorship. Many of the barriers that often prevent people from starting a personal enterprise have been removed by Nu Skin—like the need for office space, equipment and large inventories. The company also performs a host of administrative tasks for each distributor, including collecting and paying point-of-sale taxes, converting worldwide sales into a single currency and paying distributors once a month in their local currency. Nu Skin distributors can also access the latest communications tools through the company’s award-winning corporate Internet site (http://www.nuskin.com), personalized web sites, international voice mail and worldwide e-mail services.

Nu Skin’s compensation structure is leadership based. Those who succeed in establishing strong distributor networks move more products and, as a result, make more money. Most of the company's high-level distributors work closely with their business organizations—providing direction, training and motivation to help others achieve their goals. Some spend many weeks each year traveling the globe to meet with distributors in their downlines. Through this process, our top distributors gain valuable experience leading multinational business organizations that move millions of dollars in Nu Skin products each year.

Nu Skin has succeeded in part by remaining at the leading edge of distributor compensation. In 1997, Nu Skin management introduced a unique distributor option program that set aside 1.6 million shares of Nu Skin stock specifically for distributors. The shares were awarded to Nu Skin distributors as a performance-based incentive. We continue to modify and update our compensation system to offer the best long-term opportunity available. In early 1998, we introduced an enhanced version of our compensation system, designed for lower per capita income markets like the Philippines. In addition, we have licensed the U.S. distributor force to Big Planet, Inc., a new technology services company offering a wide range of Internet-based and telecommunications services within the United States. This gives distributors the opportunity to diversify their product offering in the United States and attract a new distributor and customer base.

Like many others, Sean and Cherrie Brady were looking for a rewarding new business venture. They wanted something that provided generous compensation, global opportunities and a focus on leadership. With Nu Skin, they found all three.

"I don't have a great sense of numbers, but from the first day I learned about Nu Skin's compensation plan, I understood it and could explain it. Add to that the global possibilities and the company's incredible products, and you have an opportunity that is close to perfect."

Cattleya Tang
Hawaiian Blue Diamond
Taipei, Taiwan

Sound Leadership

TOKYO, JAPAN—True leadership stems from experience, the kind of experience that Takashi Bamba has brought to Nu Skin. With a 17-year background at Avon and five years as president of Avon Japan, Mr. Bamba has extensive experience with the direct selling and personal care industries. His experience and success caught the attention of Nu Skin executives, who asked him to consider a position with the company.

"I knew of Nu Skin's reputation and saw unlimited potential in network marketing within the Japanese direct selling industry. However, before I would commit, I wanted to be sure it was a company grounded in integrity," Mr. Bamba said. "During my first visit to the company's headquarters, I met with Nu Skin founders and senior management. I found a commitment to core values often missing in many corporations.

"I also needed to know the company offered high quality products," Mr. Bamba said. "After trying several samples, I was convinced Nu Skin's products were very competitive with Japan's premiere cosmetic lines."

"From the beginning, we concentrated on creating an exceptional company image, and the fruits of our efforts are evident."

Under his direction, Nu Skin Japan has grown almost exponentially. "From the beginning, we concentrated on creating an exceptional company image, and the fruits of our efforts are evident. Additionally, as Japan's economy has weakened, attitudes toward network marketing have grown more positive, primarily among young people, who recognize direct selling as a viable business opportunity," Mr. Bamba said.

"The nutritional market is accelerating in Japan," he said. "Although it is comparatively new to the country, the growth rate in this category is high. We see this as one of our prime growth areas in 1998."

Strong management has helped guide Nu Skin's success since the company's inception. Strategically minded senior executives and results-oriented local country managers work together on product introductions and other marketing initiatives to bolster sales and add

“Goal-oriented leaders like John Chou have gone to great lengths to help us reach our goals and give us personal attention when possible. The Nu Skin staff is consistently friendly and earnest in attending to our needs.”

Mr. and Mrs. Luan
Hawaiian Blue Diamonds
Taipei, Taiwan

new distributors. These leaders affect a free flow of information between markets that translates into a broad understanding of culture and identification of emerging trends. Their pooling of industry experience and market understanding has created a cohesive global management team unsurpassed in the direct selling industry.

Nu Skin management seeks to think globally and implement locally. This approach enables the company to craft strategies and business initiatives with global vision and specific market focus.

In markets located thousands of miles from the corporate office, local leadership is one of Nu Skin’s keys to business development. Effective leaders know their markets well, engender the confidence of local distributors, possess excellent communication skills, take initiative and accept responsibility. They meet the challenges of each market through their cultural familiarity and sensitivity to the needs of each country.

Local management is responsible for selecting the most effective ways to increase brand recognition and loyalty. For example, Nu Skin’s sponsorship of the 1997 Supergames in the Tokyo Dome, featuring

14 notable NBA athletes, successfully generated new awareness of Nu Skin and helped stimulate seasonal sales during a typically slow period.

Local managers are also charged with creating the proper spirit of the company in each market. With a shift toward ecological awareness in Taiwan, local managers saw an opportunity to showcase Nu Skin's commitment to the environment. Nu Skin distributors and employees joined forces to plant 200,000 trees in Taiwan's Nan-tou County. Funded by Nu Skin's Force For Good Campaign, this project received widespread publicity across the island nation. The project proved so successful that it inspired a new government project to plant an additional 300,000 trees on the island.

The strategic vision of senior management and the experience of local leaders create a potent, winning combination. Together, their combined experience and insight solidify the future for Nu Skin distributors throughout the world.

Exceptional leaders like Japan's Takashi Bamba join Nu Skin because they see not only a company with exceptional products and unlimited growth potential, but also a company founded on integrity and a desire to improve people's lives.

In August 1997, nearly 500 Nu Skin distributors and employees spent a day beautifying South Korea's Kwan Ak Mountains, a national park region just outside of Seoul.

A Bright Future

Goal

Our goal is to become the global direct selling leader. To accomplish this, we will continue to leverage the experience of our distributors, develop innovative products, open new markets, promote our brands and offer exceptional business opportunities.

Acquisition of Nu Skin International

The recent acquisition of Nu Skin International immediately enhances stockholder value; more importantly, it positions us for dynamic growth and increased profitability. Nu Skin Asia Pacific, soon to become Nu Skin Enterprises, now owns and manages Nu Skin's ongoing operations in Europe, Australia and New Zealand, as well as the rights to all future Nu Skin markets outside of North America, including India, Russia and Brazil. Furthermore, the public company owns the rights to Nu Skin's worldwide distributor network, product formulas and trademarks, resulting in a more vertically integrated and profitable organization. The company is also evaluating new alliances that will help augment current product offerings, further integrate operations and increase our ability to provide distributors and consumers with exceptional business opportunities and products.

Product Line Expansion

The initial success of Sción™, a new personal care line manufactured and sold in the Philippines, is evidence we can successfully broaden our target market, particularly in lower per capita income markets. Products with lower price points, like Sción, are planned for 1998 introductions in Thailand and Poland.

Some of the other products scheduled for launch in 1998 include the six-product Nu Skin White line, Christie Brinkley's fragrance Believe™ and reformulated versions of the company's best-selling brand of advanced nutrition supplements—LifePak®.

Nu Skin has begun to harness the potential of its distributor force, but has yet to tap many of the opportunities that exist within its dynamic direct selling channel. Although personal care and nutrition products account for a large portion of the goods sold through direct selling, they account for less than half of all direct sales. To become the global direct selling leader, we will expand the potential of our distributor force by adding new products and new opportunities.

New Markets

The opening of the Philippines in February 1998 was an important step for Nu Skin in the continuing development of new markets around the world. As we look to other developing economies, we anticipate making modifications to the company's business plan similar to those made in the Philippines.

As the world's fourth largest direct selling market, Brazil will play a key role in Nu Skin's 1998 expansion and serve as the company's springboard into other South American countries.

During 1998, we will also take our first step into Eastern Europe by commencing operations in Poland. A growing direct selling market and a country with exceptional entrepreneurial spirit, Poland could be a strong addition to the company's operations in Europe.

An Enhanced Compensation Program

Nu Skin is a recognized leader in distributor compensation. In 1998, the company is offering a new Product Consultant position in several emerging markets, such as the Philippines. This new position expands distributor earning opportunities in developing markets by paying higher commissions on lower sales levels—increasing the potential for long-term success.

Promotional Activities

Exciting marketing initiatives are also underway. Nu Skin Japan was recently selected as the principal sponsor of the Japanese yacht in the America's Cup 2000 Regatta. As a result, Nu Skin will be featured on the spinnaker of Japan's entry. As the world's premier sailing event and one of the most-watched sporting events worldwide, the America's Cup is expected to bring high profile exposure to Nu Skin over the next several years.

Additionally, Nu Skin Korea recently signed a licensing agreement with the Korean Olympic Committee and Korean Sports Committee designating LifePak® as their "official nutritional food supplement." And, Yeon Joo Kim, a popular TV personality in Korea, was named Nu Skin Korea's official product spokesperson.

With the right people, products, opportunity and leadership, Nu Skin is prepared to meet diverse challenges as we move toward our goal of becoming the world's leading direct selling company.

"From the United States to Europe, my downline is currently in 10 countries. I look forward to the day when it is in 20."

Vivien Lu
Hawaiian Blue Diamond
Taipei, Taiwan

Financial Data

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and the related notes thereto which are included in this report.

General

Nu Skin Asia Pacific is a network marketing company involved in the distribution and sale of premium quality, innovative personal care and nutritional products. The Company is the exclusive distribution vehicle for Nu Skin International, Inc. ("Nu Skin International" or "NSI") in the countries of Japan, Taiwan, Hong Kong (including Macau), South Korea, Thailand and the Philippines, where the Company currently has operations, and in Indonesia, Malaysia, the PRC, Singapore and Vietnam, where Nu Skin operations have not yet commenced. Until September 30, 1994, the Company's fiscal year ended on September 30 of each year. As of October 1, 1994, the Company changed its fiscal year end to December 31 of each year, beginning with the fiscal year ended December 31, 1995.

The Company's revenue is primarily dependent upon the efforts of a network of independent distributors who purchase products and sales materials from the Company in their local currency and who constitute the Company's customers. The Company recognizes revenue when products are shipped and title passes to these independent distributors. Revenue is net of returns, which have historically been less than 3.5% of gross sales. Distributor incentives are paid to several levels of distributors on each product sale. The amount and recipient of the incentive varies depending on the purchaser's position within the Global Compensation Plan. These incentives are classified as operating expenses. The following table sets forth revenue information for the time periods indicated. This table should be reviewed in connection with the tables presented under "Results of Operations" which disclose distributor incentives and other costs associated with generating the aggregate revenue presented.

For the year ended December 31,

(U.S. dollars in millions)

Country[1]	Date Operations Commenced	1995	1996	1997
Japan	April 1993	$ 231.5	$ 380.0	$ 599.4
Taiwan	January 1992	105.4	154.6	168.6
South Korea	February 1996	—	122.4	74.1
Thailand	March 1997	—	—	22.8
Hong Kong	September 1991	17.1	17.0	21.3
Sales to NSI affiliates [2]	January 1993	4.6	4.6	4.3
Totals		$ 358.6	$ 678.6	$ 890.5

[1] Operations in the Philippines commenced in February 1998.

[2] Includes revenue from the sale of certain products to NSI affiliates in Australia and New Zealand.

Selected Financial Data

Income Statement Data

(U.S. dollars in thousands, except per share data)	Year Ended September 30,		Three Months Ended December 31,	Year Ended December 31,			
	1993	1994	1994	1994	1995	1996	1997
Revenue	$110,624	$254,637	$ 73,562	$264,440	$ 358,609	$678,596	$ 890,548
Cost of sales	38,842	86,872	19,607	82,241	96,615	193,158	248,367
Gross profit	71,782	167,765	53,955	182,199	261,994	485,438	642,181
Operating expenses:							
Distributor incentives	40,267	95,737	27,950	101,372	135,722	249,613	346,117
Selling, general and administrative	27,150	44,566	13,545	48,753	67,475	105,477	139,525
Distributor stock expense	—	—	—	—	—	1,990	17,909
Operating income	4,365	27,462	12,460	32,074	58,797	128,358	138,630
Other income (expense), net	133	443	(813)	(394)	511	2,833	10,726
Income before provision for income taxes	4,498	27,905	11,647	31,680	59,308	131,191	149,356
Provision for income taxes	417	10,226	2,730	10,071	19,097	49,494	55,710
Net income	$ 4,081	$ 17,679	$ 8,917	$ 21,609	$ 40,211	$ 81,697	$ 93,646
Net income per share:							
Basic					$ .51	$ 1.03	$ 1.12
Diluted					$ .50	$ 1.01	$ 1.10
Weighted average common shares outstanding (000s):							
Basic					78,645	79,194	83,331
Diluted					80,518	81,060	85,371

Balance Sheet Data

(U.S. dollars in thousands)	As of September 30,		As of December 31,			
	1993	1994	1994	1995	1996	1997
Cash and cash equivalents	$ 14,591	$ 18,077	$ 16,288	$ 63,213	$207,106	$ 166,305
Working capital	(504)	15,941	26,680	47,863	66,235	101,341
Total assets	41,394	71,565	61,424	118,228	331,715	352,449
Short term notes payable to stockholders	—	—	—	—	71,487	—
Short term note payable to NSI	—	—	—	—	10,000	10,000
Long term note payable to NSI	—	—	—	—	10,000	—
Stockholders' equity	6,926	24,934	33,861	61,771	107,792	177,528

Other Information[1]

	As of September 30,		As of December 31,			
	1993	1994	1994	1995	1996	1997
Number of active distributors	106,000	152,000	170,000	236,000	377,000	430,000
Number of executive distributors	2,788	5,835	6,083	7,550	20,483	21,945

[1] Active Distributors are those distributors who are resident in the countries in which the Company operates and who have purchased products during the three months ended as of the date indicated, rounded to the nearest thousand. An Executive Distributor is an Active Distributor who has submitted a qualifying letter of intent to become an Executive Distributor, achieved specified personal and group sales volumes for a four-month period and maintained such specified personal and group sales volumes thereafter.

Revenue generated in Japan and Taiwan represented 67.3% and 18.9%, respectively, of total revenue generated during 1997. The Company's South Korean operations, which commenced in February 1996, generated 8.3% of total revenue for 1997. The Company's Thailand operations, which commenced in March 1997 generated 2.6% of total revenue for 1997. Revenue generated in Hong Kong during 1997 represented 2.4% of total Company revenue. Operating expenses have increased in each country with the growth of the Company's revenue.

Cost of sales primarily consists of the cost of products purchased from NSI (in U.S. dollars) as well as duties related to the importation of such products. Additionally, cost of sales includes the cost of sales materials sold to distributors at or near cost. Sales materials are generally purchased in local currencies. As the sales mix changes between product categories and sales materials, cost of sales and gross profit may fluctuate to some degree due primarily to varying import duty rates levied on imported product lines. In each of the Company's current markets, duties are generally higher on nutritional products than on personal care products. Also, as currency exchange rates fluctuate, the Company's gross margin will fluctuate. In general, however, costs of sales move proportionate to revenue.

Distributor incentives are the Company's most significant expense. Pursuant to the Operating Agreements with NSI, the Company and the Subsidiaries are contractually obligated to pay a distributor commission expense of 42.0% of commissionable product sales (with the exception of South Korea, where, due to government regulations, the Company uses a formula based upon a maximum payout of 35.0% of commissionable product sales). The Licensing and Sales Agreements provide that the Company is to satisfy this obligation by paying commissions owed to local distributors. In the event that these commissions exceed 42.0% of commissionable product sales, the Company is entitled to receive the difference from NSI. In the event that the commissions paid are lower than 42.0%, the Company must pay the difference to NSI. Under this formulation, the Company's total commission expense is fixed at 42.0% of commissionable product sales in each country (except for South Korea). The 42.0% figure has been set on the basis of NSI's experience over the past eight years which indicates that actual commissions paid and the cost of administering the Global Compensation Plan (which have historically not exceeded 2% of revenue) together have averaged approximately 42.0% of commissionable product sales per year during such period. Because the Company's revenue includes sales of both commissionable and non-commissionable items, distributor incentives as a percentage of total revenue have ranged from approximately 36.8% to 38.9% since December 31, 1994. Non-commissionable items consist of sales materials and starter kits as well as sales to NSI affiliates in Australia and New Zealand.

In the fourth quarter of 1996, NSI and the Company implemented a one-time distributor equity incentive program. This global program provided for the granting of options to distributors to purchase 1.6 million shares of the Company's Class A Common Stock. The number of options each distributor received was based on his or her performance and productivity through August 31, 1997. The options are exercisable at a price of $5.75 per share and vested on December 31, 1997. As anticipated, the Company recorded a $2.0 million charge in 1996 and recorded additional charges in 1997 of $17.9 million for the non-cash and non-recurring expenses associated with this program.

Selling, general and administrative expenses include wages and benefits, rents and utilities, travel and entertainment, promotion and advertising and professional fees, as well as license and management fees paid to NSI and NSIMG. Pursuant to the Operating Agreements, the Company contracts for management support services from NSIMG, for which the Company pays a fee equal to an allocation of expenses plus 3.0% of such expenses. In addition, the Company pays to NSI a license fee of 4.0% of the Company's revenue from sales to distributors (excluding sales of starter kits) for the use of NSI's distributor lists, distribution system and certain related intangibles.

Provision for income taxes is dependent on the statutory tax rates in each of the countries in which the Company operates. Statutory tax rates in the countries in which the Company has operations are 16.5% in Hong Kong, 25.0% in Taiwan, 30.0% in Thailand, 30.1% in South Korea, 35.0% in the Philippines and 57.9% in Japan. However, the statutory tax rate in Japan is scheduled to be reduced to 54.3% for fiscal years beginning in 1999 and in the Philippines the rate is scheduled to be reduced to 34%, 33% and 32% in 1998, 1999 and 2000, respectively. The Company operates a regional business center in Hong Kong, which bears inventory obsolescence and currency exchange risks. Any income or loss incurred by the regional business center is not subject to taxation in Hong Kong. In addition, since the Reorganization, the Company is subject to taxation in the United States, where it is incorporated, at a statutory corporate federal tax rate of 35.0%. However, the Company receives foreign tax credits in the U.S. for the amount of foreign taxes actually paid in a given period, which are utilized to reduce taxes payable in the United States.

On February 27, 1998, the Company entered into a Stock Acquisition Agreement to acquire NSI and Nu Skin affiliated entities throughout Europe, Australia and New Zealand (the "NSI Acquisition") for approximately $180 million in assumed liabilities and $70 million in preferred stock that is anticipated to convert to common stock upon stockholder approval. In addition, contingent on meeting specific earnings growth benchmarks, the Company will pay up to $25 million in cash per year over four years to the selling stockholders. The Stock Acquisition Agreement also provides that if the assumed liabilities do not equal or exceed $180 million, the Company will pay to the selling stockholders in cash or in the form of promissory notes the difference between $180 million and the assumed liabilities.

The NSI Acquisition is expected to be accounted for by the purchase method of accounting, except for the portion of the Acquired Entities under the common control of a group of stockholders, which portion will be accounted for in a manner similar to a pooling of interests. The common control group is comprised of the stockholders of NSI that are immediate family members.

Management believes that the NSI Acquisition will allow the Company to diversify its markets and earnings base. Following the NSI Acquisition, the Company will own and control the product development, marketing, and distribution functions of its business creating a vertically integrated, consumer products company. The NSI Acquisition will allow the Company to increase its current markets from six Asian markets to a total of 18 markets worldwide. The transaction makes available to the Company a number of additional significant markets for future expansion.

Results of Operations

The following tables set forth operating results and operating results as a percentage of revenue, respectively, for the periods indicated.

For the year ended December 31,

(U.S. dollars in millions)	1995	1996	1997
Revenue	$ 358.6	$ 678.6	$ 890.5
Cost of sales	96.6	193.2	248.4
Gross profit	262.0	485.4	642.1
Operating expenses:			
Distributor incentives	135.7	249.6	346.1
Selling, general and administrative	67.5	105.4	139.5
Distributor stock expense	—	2.0	17.9
Operating income	58.8	128.4	138.6
Other income (expense), net	.5	2.8	10.7
Income before provision for income taxes	59.3	131.2	149.3
Provision for income taxes	19.1	49.5	55.7
Net income	$ 40.2	$ 81.7	$ 93.6
Unaudited supplemental data:[1]			
Income before pro forma provision for income taxes	$ 59.3	$ 131.2	
Pro forma provision for income taxes	22.8	46.0	
Net income after pro forma provision for income taxes	$ 36.5	$ 85.2	

For the year ended December 31,

	1995	1996	1997
Revenue	100.0 %	100.0 %	100.0 %
Cost of sales	26.9	28.5	27.9
Gross profit	73.1	71.5	72.1
Operating expenses:			
Distributor incentives	37.8	36.8	38.9
Selling, general and administrative	18.8	15.5	15.6
Distributor stock expense	—	.3	2.0
Operating income	16.5	18.9	15.6
Other income (expense), net	.1	.4	1.2
Income before provision for income taxes	16.6	19.3	16.8
Provision for income taxes	5.3	7.3	6.3
Net income	11.3 %	12.0 %	10.5 %
Unaudited supplemental data:[1]			
Income before pro forma provision for income taxes	16.6 %	19.3 %	
Pro forma provision for income taxes	6.4	6.8	
Net income after pro forma provision for income taxes	10.2 %	12.5 %	

[1] Reflects adjustment for Federal and state income taxes as if the Company had been taxed as a C corporation rather than as an S corporation since inception. No adjustment is necessary for 1997 because the Company has been taxed as a C corporation for this period.

1997 Compared to 1996

Revenue was \$890.5 million during 1997, an increase of 31.2% from revenue of \$678.6 million recorded during 1996. This increase is primarily attributable to several factors. First, revenue in Japan increased by \$219.4 million, or 57.7%. This increase in revenue was primarily a result of continued growth of the personal care and IDN product lines, which grew 43.8% and 94.9%, respectively, in 1997. Additionally, revenue in Japan increased following a distributor convention held in the first quarter of 1997 and the sponsorship of the Japan Supergames featuring National Basketball Association stars in the third quarter of 1997. Second, revenue in Taiwan in 1997 increased by \$14.0 million, or 9.1%, from 1996 primarily as a result of growth in IDN sales following the late 1996 introduction of LifePak,® the Company's leading nutritional supplement. Third, Nu Skin Thailand commenced operations in March 1997 and has generated revenue of \$22.8 million for 1997. Fourth, revenue in Hong Kong increased by \$4.3 million during 1997 as compared to 1996, primarily as a result of growth in IDN sales following the first quarter introduction of LifePak. Offsetting revenue growth was the decrease in revenue in South Korea of \$48.3 million, which was primarily due to the country's economic challenges, currency devaluation and unfavorable media and consumer group attention toward foreign companies in South Korea.

Gross profit as a percentage of revenue was 72.1% and 71.5% during 1997 and 1996, respectively. This increase is the result of the price increases which became effective in June of 1997, the reduction in revenue from South Korea, where import prices are higher than the Company's other markets, and a modest price reduction in the cost of certain nutritional products. These factors more than offset the negative impact of foreign currency fluctuations during 1997.

Distributor incentives as a percentage of revenue increased from 36.8% for 1996 to 38.9% for 1997. The primary reasons for this increase were the reduced revenue in South Korea where commissions are capped at 35% of product revenue versus the standard 42% of product revenue in the Company's other markets as well as the overall decrease in the sales of non-commissionable products.

Selling, general and administrative expenses as a percentage of revenue slightly increased from 15.5% during 1996 to 15.6% during 1997. This increase was primarily due to increased promotion expenses of approximately \$2 million resulting from the net expense to Nu Skin Japan of sponsoring the Japan Supergames and approximately \$2 million resulting from the first quarter distributor conventions. In addition, other general and administrative expenses were higher in 1997 as a result of expenses of operating as a public company and as a result of increased spending in each of the Company's markets to support current operations. These increased costs were essentially offset as a percentage of revenue by increased operating efficiencies as the Company's revenue has grown.

Distributor stock expense of \$17.9 million for the year ended December 31, 1997 reflects the one-time grant of the distributor stock options at an exercise price of 25% of the initial public offering price in connection with the Underwritten Offerings completed on November 27, 1996.

Operating income during 1997 increased to \$138.6 million, an increase of 8.0% from the \$128.4 million of operating income recorded during 1996. Operating income as a percentage of revenue decreased from 18.9% to 15.6%. This decrease was caused primarily by higher distributor incentive expenses as a percentage of revenue.

Other income increased by \$7.9 million during 1997 as compared to 1996. The increase was primarily caused by \$5.6 million of exchange gains resulting from forward exchange contracts for the year ended December 31, 1997 and \$7.8 million of unrealized exchange gains resulting from an intercompany loan from Nu Skin Japan to Nu Skin Hong Kong for the year ended December 31, 1997. The increase was offset by exchange losses relating to intercompany balances denominated in foreign currencies.

Provision for income taxes increased to \$55.7 million during 1997 compared to \$49.5 million during 1996.

The effective tax rate for 1997 and 1996 was 37.3% and 37.7%, respectively. The decrease in the effective tax rate was due to the Company's termination of its S corporation status during 1996.

Net income after provision for income taxes increased by $11.9 million to $93.6 million during 1997 compared to $81.7 million during 1996. Net income as a percentage of revenue decreased to 10.5% for 1997 as compared to 12.0% for 1996.

1996 Compared to 1995

Revenue was $678.6 million during 1996, an increase of 89.2% from revenue of $358.6 million recorded during 1995. This increase is primarily attributable to several factors. First, revenue in Japan increased by $148.5 million, or 64.1%. This increase in revenue was primarily a result of the continued success of nutritional, color cosmetics and HairFitness™ products, which were introduced in October 1995. Revenue growth in Japan was partially offset by the strengthening of the U.S. dollar relative to the Japanese yen during 1996. Second, revenue in Taiwan increased by $49.2 million, or 46.7%, primarily as a result of the introduction of color cosmetics and other products, including LifePak® in October 1996, along with the opening of a new distribution and walk-in center in Nankan, Taiwan. Third, in February 1996, Nu Skin Korea commenced operations and has generated revenue of $122.4 million for 1996. Additionally, revenue in Hong Kong decreased by $0.1 million during 1996 as compared to 1995, due to several leading Hong Kong distributors continuing to focus on other Asian markets.

Gross profit as a percentage of revenue was 71.5% and 73.1% during 1996 and 1995, respectively. This decline reflected the strengthening of the U.S. dollar, the introduction of nutritional products in Japan and the commencement of operations in South Korea in 1996. Nutritional products are generally subject to higher duties than other products marketed by the Company, which yields lower gross profit as a percentage of revenue. The commencement of operations in South Korea also impacted gross profit as a percentage of revenue due to South Korean regulations which result in higher prices on imported products than in other markets.

Distributor incentives as a percentage of revenue declined from 37.8% for 1995 to 36.8% for 1996. The primary reason for this decline was increased revenue from South Korea where local regulations limit the incentives which can be paid to South Korean distributors.

Selling, general and administrative expenses as a percentage of revenue declined from 18.8% during 1995 to 15.5% during 1996. This decrease was primarily due to economies of scale gained as the Company's revenue increased.

Operating income during 1996 increased to $128.4 million, an increase of 118.4% from the $58.8 million of operating income recorded during 1995. Operating income as a percentage of revenue increased from 16.5% to 18.9%. This increase was caused primarily by lower selling, general and administrative expenses as a percentage of revenue.

Other income increased by $2.3 million during 1996 as compared to 1995. The increase was primarily caused by an increase in interest income generated through the short-term investment of cash.

Pro forma provision for income taxes increased to $46.0 million during 1996 compared to $22.8 million during 1995. The effective tax rate decreased to 35.0% in 1996 as compared to 38.4% for 1995. The Company generated excess foreign tax credits in 1995 which did not continue in 1996.

Net income after pro forma provision for income taxes increased by $48.7 million to $85.2 million during 1996 compared to $36.5 million during 1995. Pro forma net income as a percentage of revenue increased to 12.5% for 1996 as compared to 10.2% for 1995.

Liquidity and Capital Resources

The Company effected the Reorganization and the Underwritten Offerings in November 1996. During the Underwritten Offerings, the Company raised $98.8 million in net proceeds. As of the date of the Reorganization, the aggregate undistributed taxable S corporation earnings of the Subsidiaries were $86.5 million. The Subsidiaries' earned and undistributed S corporation earnings through the date of termination of the Subsidiaries' S corporation status were distributed in the form of the S Distribution Notes, notes bearing interest at 6.0% per annum. From the proceeds of the Underwritten Offerings, $15.0 million was used to pay a portion of the S Distribution Notes and the remaining balance of $71.5 million was paid in April 1997. The remaining proceeds of the Underwritten offerings are being used for general corporate purposes.

In November 1996, the Company purchased from NSI the distribution rights to seven new markets in the region. These markets include Thailand and the Philippines, where operations commenced in March 1997 and February 1998, respectively, and Indonesia, Malaysia, the PRC, Singapore and Vietnam, where Nu Skin operations have not yet commenced. These rights were purchased for $25.0 million, of which $5.0 million was paid from the proceeds of the Underwritten Offerings and an additional $10.0 million was paid in January 1997. At December, 31, 1997, the Company had a $10.0 million short-term obligation, which was paid on January 15, 1998, related to the purchase of these rights.

The Company generates significant cash flow from operations due to its significant growth, high margins and minimal capital requirements. Additionally, the Company does not extend credit to distributors, but requires payment prior to shipping products. This process eliminates the need for accounts receivable from distributors. During the year ended December 31, 1997, the Company generated $92.7 million from operations compared to $121.2 million and $65.0 million during 1996 and 1995, respectively. This decrease in cash flows from operations in 1997 is primarily due to the payment of increased foreign taxes in excess of the U.S. corporate tax rate of 35% in 1997.

As of December 31, 1997, working capital was $101.3 million compared to $66.2 million and $47.9 million as of December 31, 1996 and 1995, respectively. This increase is largely due to the increased inventory balances to support the increased sales activity and the payment of foreign taxes in excess of the U.S. corporate tax rate of 35% in 1997. Cash and cash equivalents at December 31, 1997 were $166.3 million compared to $207.1 million and $63.2 million at December 31, 1996 and 1995, respectively.

In December 1997, the Company loaned $5 million to a non-management stockholder. The loan is secured by 349,406 shares of Class B Common Stock of the Company. Interest accrues at a rate of 6.0% per annum on the loan. The loan may be repaid by transferring to the Company the shares pledged to secure the loan.

Historically, the Company's principal needs for funds have been for distributor incentives, working capital (principally inventory purchases), capital expenditures and the development of new markets. The Company has generally relied entirely on cash flow from operations to meet its business objectives without incurring long-term debt to unrelated third parties.

Capital expenditures, primarily for equipment, computer systems and software, office furniture and leasehold improvements, were $7.4 million, $5.7 million and $5.4 million for 1997, 1996 and 1995, respectively. In addition, the Company anticipates capital expenditures through 1998 of an additional $20.0 million to further enhance its infrastructure, including computer systems and software, warehousing facilities and walk-in distributor centers in order to accommodate future growth. The Company is currently reviewing its and principal vendors' computer systems and software with respect to the "Year 2000" issue. The Company believes that the capital required to modify these systems will not be material to the Company.

As a part of the Company's and NSI's strategy to motivate distributors with equity incentives, the Company sold to NSI an option to purchase 1.6 million shares of the Company's previously issued Class A Common Stock. NSI initially purchased the option with a $13.1 million 10-year note payable to the Company bearing interest at 6.0% per annum. As the number of distributor stock options to be issued to each distributor was revised through August 31, 1997, the note receivable from NSI was adjusted to $9.8 million. It is anticipated that the note will be repaid as distributors begin to exercise their options beginning in 1998.

In December 1997, the Company repurchased in private transactions a total of 1,067,529 shares of its Class B Common Stock which were immediately converted to Class A Common Stock and a total of 348,387 shares of Class A Common Stock for approximately $20.3 million.

Under its Operating Agreements with NSI, the Company incurs related party payables. The Company had related party payables of $59.1 million, $46.3 million and $28.7 million at December 31, 1997, 1996 and 1995, respectively. In addition, the Company had related party receivables of $10.7 million, $8.0 million and $1.8 million, respectively, at those dates. Related party balances outstanding in excess of 60 days bear interest at a rate of 2% above the U.S. prime rate. As of December 31, 1997, no material related party payables or receivables had been outstanding for more than 60 days.

In connection with the NSI Acquisition, the Company will assume up to $180 million in debt. Management considers the Company to be liquid and able to meet these and other Company obligations on both a short- and long-term basis. Management believes existing cash balances together with future cash flows from operations will be adequate to fund cash needs relating to the implementation of the Company's strategic plans.

Seasonality and Cyclicality

While neither seasonal nor cyclical variations have materially affected the Company's results of operations to date, the Company believes that its rapid growth may have overshadowed these factors. Accordingly, there can be no assurance that seasonal or cyclical variations will not materially adversely affect the Company's results of operations in the future.

The direct selling industry is impacted by certain seasonal trends such as major cultural events and vacation patterns. For example, Japan, Taiwan, Hong Kong, South Korea and Thailand celebrate their respective local New Year in the Company's first quarter. Management believes that direct selling in Japan is also generally negatively impacted during August, when many individuals traditionally take vacations.

Generally, the Company has experienced rapid revenue growth in each new market from the commencement of operations. In Japan, Taiwan and Hong Kong, the initial rapid growth was followed by a short period of stable or declining revenue followed by renewed growth fueled by new product introductions, an increase in the number of active distributors and increased distributor productivity. In South Korea, the Company experienced a significant decline in its 1997 revenue from revenue in 1996 and anticipates additional declines in 1998. Revenue in Thailand also decreased significantly after the commencement of operations in March 1997. Management believes that the revenue declines in South Korea and Thailand are partly due to normal business cycles in new markets but were primarily due to volatile economic conditions in those markets. (See Outlook.) In addition, the Company may experience variations on a quarterly basis in its results of operations, as new products are introduced and new markets are opened. No assurance can be given that the Company's revenue growth rate in the Philippines, which commenced operations in February 1998, or in new markets where Nu Skin operations have not commenced, will follow this pattern.

Quarterly Results

(U.S. dollars in millions, except per share amounts)

1996	First [1]	Second	Third	Fourth
Revenue	$ 124.2	$ 163.5	$ 183.6	$ 207.3
Gross profit	89.4	117.4	130.9	147.7
Operating income	23.2	31.9	37.5	35.8
Net income	14.8	20.3	25.2	21.4
Net income per share:				
Basic	0.19	0.26	0.32	0.26
Diluted	0.18	0.25	0.31	0.26

1997	First [2]	Second	Third	Fourth
Revenue	$ 211.0	$ 230.0	$ 226.4	$ 223.1
Gross profit	150.3	164.5	164.9	162.4
Operating income	30.8	38.2	35.8	33.9
Net income	20.5	23.3	24.5	25.3
Net income per share:				
Basic	0.25	0.28	0.29	0.30
Diluted	0.24	0.27	0.29	0.30

[1] The Company commenced operations in South Korea in February 1996.

[2] The Company commenced operations in Thailand in March 1997.

Currency Fluctuation and Exchange Rate Information

The Company's revenues and most of its expenses are recognized primarily outside of the United States. Each entity's local currency is considered the functional currency. All revenue and expenses are translated at weighted average exchange rates for the periods reported. Therefore, the Company's reported sales and earnings will be positively impacted by a weakening of the U.S. dollar and will be negatively impacted by a strengthening of the U.S. dollar.

The Company purchases inventory from NSI in U.S. dollars and assumes currency exchange rate risk with respect to such purchases. Local currency in Japan, Taiwan, Hong Kong, South Korea, Thailand and the Philippines is generally used to settle non-inventory transactions with NSI. Given the uncertainty of exchange rate fluctuations, the Company cannot estimate the effect of these fluctuations on its future business, product pricing, results of operations or financial condition. However, because nearly all of the Company's revenue is realized in local currencies and the majority of its cost of sales is denominated in U.S. dollars, the Company's gross profits will be positively affected by a weakening in the U.S. dollar and will be negatively affected by a strengthening in the U.S. dollar. The Company seeks to reduce its exposure to fluctuations in foreign exchange rates by creating offsetting positions through the use of foreign currency exchange contracts and through intercompany loans of foreign currency. The Company does not use such financial instruments for trading or speculative purposes. The Company regularly monitors its foreign currency risks and periodically takes measures to reduce the impact of foreign exchange fluctuations on the Company's operating results. The Company entered into significant hedging positions in 1997, which approximated $51.0 million of forward exchange contracts at December 31, 1997. These forward exchange contracts, along with the inter-company loan from Nu Skin Japan to Nu Skin Hong Kong of approximately $92.0 million, were valued at the year end exchange rate of 130.6 yen to the dollar.

Following are the weighted average currency exchange rates of $1 into local currency for each of the Company's markets for the quarters listed:

Quarterly Exchange Rates

1995	First	Second	Third	Fourth
Japan[1]	96.2	84.4	94.2	101.5
Taiwan	26.2	25.6	27.0	27.2
Hong Kong	7.7	7.7	7.7	7.7
South Korea	786.9	763.1	765.6	769.1
Thailand	24.9	24.6	24.9	25.1
1996	**First**	**Second**	**Third**	**Fourth**
Japan[1]	105.8	107.5	109.0	112.9
Taiwan	27.4	27.4	27.5	27.5
Hong Kong	7.7	7.7	7.7	7.7
South Korea	782.6	786.5	815.5	829.4
Thailand	25.2	25.3	25.3	25.5
1997	**First**	**Second**	**Third**	**Fourth**
Japan[1]	121.4	119.1	118.1	125.6
Taiwan	27.5	27.7	28.4	31.0
Hong Kong	7.7	7.7	7.7	7.7
South Korea	863.9	889.6	894.8	1,097.0
Thailand	26.0	25.4	31.5	40.3

[1] Between December 31, 1997 and March 5, 1998, the exchange rates of $1 into Japanese yen achieved a high of 134.10 yen. Since January 1, 1992, the highest and lowest exchange rates for the Japanese yen have been 134.82 and 80.63, respectively.

Outlook

Management currently anticipates continued growth in revenue and earnings in 1998. This growth is expected to result in part from the NSI Acquisition and growth in Japan, the Company's major market. Further, expansion into the Philippines and other new markets is expected to contribute to growth in revenue and earnings. These factors are expected to offset the reduced revenue from South Korea and the expected lack of significant revenue growth in Thailand, Taiwan and Hong Kong. Additionally, the Company intends to continue pursuing strategic initiatives to minimize the impact of fluctuating currencies and economies in Asia by diversifying its markets through the NSI Acquisition, moving more of its manufacturing to local markets, implementing enhancements to its sales compensation plan and seeking cost reductions from vendors.

Revenue growth is anticipated to be modest during the first half of 1998 and accelerate in the second half of the year, corresponding with the implementation of new product launches, marketing initiatives including the local sourcing of certain products, other promotional events and the opening of new markets. In addition to the February 1998 opening of the Philippines, the Company has announced plans to enter Poland and Brazil later in 1998. The significant devaluation of certain of the Company's functional currencies is anticipated to negatively impact the Company's reported revenue.

The NSI Acquisition is anticipated to increase the Company's operating profits and operating margins. It is anticipated that the Company's gross margins will improve, while operating expenses will also increase. This will be due to the Company gaining ownership of product formulas and trademarks in connection with the NSI Acquisition, which will improve gross margins, but increase overhead.

Other income is expected to be negatively impacted due to interest expenses associated with the assumed liabilities in the NSI Acquisition. Also, the Company does have significant forward contracts and other hedging vehicles on foreign currencies, principally the Japanese yen. It is impossible to predict the impact on other income due to a strengthening or weakening of the Japanese yen. If the yen strengthens, the Company's reported revenues and operating profits will be positively impacted, but the impact on earnings will be offset to a degree by other income losses. If the yen weakens, the Company's reported revenues and operating profits will be negatively impacted, but the impact on earnings will be offset to a degree by other income gains.

The Company's overall effective tax rate is expected to modestly improve following the consummation of the NSI Acquisition. This is due to the Company being able to more fully utilize its foreign tax credits. Also, the number of weighted average common shares outstanding is expected to increase following the consummation of the NSI Acquisition.

Note Regarding Forward–looking Statements

This section contains certain forward-looking statements under the caption Outlook. These forward-looking statements relate to and involve risks and uncertainties associated with, but not limited to, the following: consummation of the NSI Acquisition, the successful integration of employees and operations within the public company, the addition of 12 new markets, the prospects for business growth in the opened and unopened markets being acquired, the prospects for growth in revenue and gross margins, synergies and advantages arising out of the NSI Acquisition and the achievement of a vertically integrated consumer products company, currency fluctuations relative to the U.S. dollar, adverse economic and business conditions in the Company's markets, management of the Company's growth, circumstances that may prevent the Company from expanding its operations into new markets, factors that may alter the anticipated impact of the NSI Acquisition, economic and political conditions that affect the business climate in Asia and the price of the Company's stock thus impacting stockholder values, the computer systems and software modifications with respect to the "Year 2000" issue and dependence on the Company's independent distributors. Actual results and outcomes may differ materially from those discussed or anticipated. A detailed discussion of important factors that may affect the anticipated outcome of the forward-looking statements is set forth in documents filed by the Company with the Securities and Exchange Commission, including the Company's most recent Form 10-K.

Consolidated Balance Sheets

(U.S. dollars in thousands, except share amounts)	December 31, 1996	December 31, 1997
Assets		
Current assets		
Cash and cash equivalents	$207,106	$ 166,305
Accounts receivable	8,937	9,585
Related parties receivable	7,974	10,686
Inventories, net	44,860	52,448
Prepaid expenses and other	11,281	37,238
	280,158	276,262
Property and equipment, net	8,884	10,884
Other assets, net	42,673	65,303
Total assets	$331,715	$ 352,449
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 6,592	$ 9,412
Accrued expenses	79,518	96,438
Related parties payable	46,326	59,071
Notes payable to stockholders	71,487	—
Note payable to NSI, current portion	10,000	10,000
	213,923	174,921
Note payable to NSI, less current portion	10,000	—
Commitments and contingencies *(Notes 7 and 11)*		
Stockholders' equity		
Preferred stock–25,000,000 shares authorized, $.001 par value, no shares issued and outstanding	—	—
Class A common stock–500,000,000 shares authorized, $.001 par value, 11,715,000 and 11,758,011 shares issued and outstanding	12	12
Class B common stock–100,000,000 shares authorized, $.001 par value, 71,696,675 and 70,280,759 shares issued and outstanding	72	70
Additional paid-in capital	137,876	115,053
Cumulative foreign currency translation adjustment	(5,963)	(28,920)
Retained earnings	11,493	105,139
Deferred compensation	(22,559)	(3,998)
Note receivable from NSI	(13,139)	(9,828)
	107,792	177,528
Total liabilities and stockholders' equity	$331,715	$ 352,449

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income

(U.S. dollars in thousands, except per share amounts)	Year Ended December 31, 1995	Year Ended December 31, 1996	Year Ended December 31, 1997
Revenue	$ 358,609	$678,596	$ 890,548
Cost of sales	96,615	193,158	248,367
Gross profit	261,994	485,438	642,181
Operating expenses			
Distributor incentives	135,722	249,613	346,117
Selling, general and administrative	67,475	105,477	139,525
Distributor stock expense	—	1,990	17,909
Total operating expenses	203,197	357,080	503,551
Operating income	58,797	128,358	138,630
Other income (expense), net	511	2,833	10,726
Income before provision for income taxes	59,308	131,191	149,356
Provision for income taxes *(Note 9)*	19,097	49,494	55,710
Net income	$ 40,211	$ 81,697	$ 93,646
Net income per share *(Note 2)*:			
Basic	$ .51	$ 1.03	$ 1.12
Diluted	$ .50	$ 1.01	$ 1.10
Weighted average common shares outstanding *(Note 8)*:			
Basic	78,645	79,194	83,331
Diluted	80,518	81,060	85,371
Unaudited pro forma data:			
Income before pro forma provision for income taxes	$ 59,308	$131,191	
Pro forma provision for income taxes *(Note 9)*	22,751	45,945	
Net income after pro forma provision for income taxes	$ 36,557	$ 85,246	
Pro forma net income per share *(Note 2)*:			
Basic	$ .46	$ 1.08	
Diluted	$ .45	$ 1.05	

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(U.S. dollars in thousands)

	Capital Stock	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Cumulative Foreign Currency Translation Adjustment	Retained Earnings	Deferred Compensation	Note Receivable From NSI	Total Stockholders' Equity
Balance at January 1, 1995	$ 1,300				$ 441	$ 32,120			$ 33,861
Contributed capital	3,250				—	—			3,250
Dividends	—				—	(12,170)			(12,170)
Net change in cumulative foreign currency translation adjustment	—				(3,381)	—			(3,381)
Net income	—				—	40,211			40,211
Balance at December 31, 1995	4,550				(2,940)	60,161			61,771
Reorganization and termination of S corporation status *(Note 1)*	(4,550)		$ 80	$ 1,209	—	3,261			—
Net proceeds from the Offerings and conversion of shares by stockholders *(Notes 1 and 8)*	—	$ 12	(8)	98,829	—	—			98,833
Dividends	—	—	—	—	—	(47,139)			(47,139)
Issuance of notes payable to stockholders *(Note 3)*	—	—	—	—	—	(86,487)			(86,487)
Net change in cumulative foreign currency translation adjustment	—	—	—	—	(3,023)	—			(3,023)
Issuance of distributor stock options *(Note 8)*	—	—	—	33,039	—	—	$ (17,910)	$ (13,139)	1,990
Issuance of employee stock awards *(Note 8)*	—	—	—	4,799	—	—	(4,649)	—	150
Net income	—	—	—	—	—	81,697	—	—	81,697
Balance at December 31, 1996	—	12	72	137,876	(5,963)	11,493	(22,559)	(13,139)	107,792
Conversion of shares from Class B to Class A	—	2	(2)	—	—	—	—	—	—
Repurchase of 1,416 shares of Class A common stock *(Note 8)*	—	(2)	—	(20,260)	—	—	—	—	(20,262)
Adjustment to distributor stock options *(Note 8)*	—	—	—	(3,311)	—	—	—	3,311	—
Amortization of deferred compensation	—	—	—	—	—	—	19,309	—	19,309
Net change in cumulative foreign currency translation adjustment	—	—	—	—	(22,957)	—	—	—	(22,957)
Issuance of employee stock awards and options *(Note 8)*	—	—	—	748	—	—	(748)	—	—
Net income	—	—	—	—	—	93,646	—	—	93,646
Balance at December 31, 1997	$ —	$ 12	$ 70	$ 115,053	$ (28,920)	$ 105,139	$ (3,998)	$ (9,828)	$ 177,528

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

(U.S. dollars in thousands)	Year Ended December 31, 1995	Year Ended December 31, 1996	Year Ended December 31, 1997
Cash flows from operating activities:			
Net income	$ 40,211	$ 81,697	$ 93,646
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,012	3,274	4,732
Loss on disposal of property and equipment	12	381	—
Amortization of deferred compensation	—	2,140	19,309
Changes in operating assets and liabilities:			
Accounts receivable	(2,174)	(5,695)	(648)
Related parties receivable	16,077	(6,181)	(2,712)
Inventories, net	(17,106)	(12,198)	(7,588)
Prepaid expenses and other	51	(7,871)	(25,957)
Other assets	(2,994)	(10,361)	(20,543)
Accounts payable	765	2,197	2,820
Accrued expenses	9,936	56,205	16,920
Related parties payable	18,193	17,577	12,745
Net cash provided by operating activities	64,983	121,165	92,724
Cash flows from investing activities:			
Purchase of property and equipment	(5,422)	(5,672)	(7,351)
Proceeds from disposal of property and equipment	48	41	—
Payment to NSI for distribution rights	—	(5,000)	(10,000)
Payments for lease deposits	(701)	(562)	(3,457)
Receipt of refundable lease deposits	22	98	120
Net cash used in investing activities	(6,053)	(11,095)	(20,688)
Cash flows from financing activities:			
Proceeds from capital contributions	3,250	—	—
Net proceeds from the Offerings *(Note 1)*	—	98,833	—
Dividends paid	(12,170)	(47,139)	—
Repurchase of shares of common stock	—	—	(20,262)
Payment to stockholders for notes payable *(Note 3)*	—	(15,000)	(71,487)
Net cash provided by (used in) financing activities	(8,920)	36,694	(91,749)
Effect of exchange rate changes on cash	(3,085)	(2,871)	(21,088)
Net increase (decrease) in cash and cash equivalents	46,925	143,893	(40,801)
Cash and cash equivalents, beginning of period	16,288	63,213	207,106
Cash and cash equivalents, end of period	$ 63,213	$207,106	$ 166,305
Supplemental cash flow information:			
Interest paid	$ 119	$ 84	$ 251

The accompanying notes are an integral part of these consolidated financial statements.

Supplemental schedule of non-cash investing and financing activities in 1996:

- $20.0 million note payable to NSI issued as partial consideration for the $25.0 million purchase of distribution rights from NSI.
- $86.5 million of interest-bearing S distribution notes issued in 1996, of which $71.5 million remained unpaid at December 31, 1996 (Note 3).
- $1.2 million of additional paid-in capital contributed by the existing stockholders of their interest in the Subsidiaries in exchange for all shares of the Class B Common Stock in connection with the Company's termination of its S corporation status (Note 1).

Notes to Consolidated Financial Statements

1. The Company

Nu Skin Asia Pacific, Inc. (the "Company") is a network marketing company involved in the distribution and sale of premium quality, innovative personal care and nutritional products. The Company is the exclusive distribution vehicle for Nu Skin International, Inc. ("NSI") in the countries of Japan, Taiwan, Hong Kong (including Macau), South Korea and Thailand, where the Company currently has operations (the Company's subsidiaries operating in these countries are collectively referred to as the "Subsidiaries"), and in Indonesia, Malaysia, the PRC, the Philippines, Singapore and Vietnam, where Nu Skin operations had not yet commenced as of December 31, 1997. Additionally, the Company sells products to NSI affiliates in Australia and New Zealand. NSI was founded in 1984 and is one of the largest network marketing companies in the world. NSI owns the Nu Skin trademark and provides the products and marketing materials to each of its affiliates. Nu Skin International Management Group, Inc. ("NSIMG"), an NSI affiliate, has provided, and will continue to provide, a high level of support services to the Company, including product development, marketing, legal, accounting and other managerial services.

The Company was incorporated on September 4, 1996. It was formed as a holding company and acquired the Subsidiaries through a reorganization which occurred on November 20, 1996. Prior to the reorganization, each of the Subsidiaries elected to be treated as an S corporation. In connection with the reorganization, the Subsidiaries' S corporation status was terminated on November 19, 1996, and the Company declared a distribution to the stockholders that included all of the Subsidiaries' previously earned and undistributed taxable S corporation earnings totaling $86.5 million.

Prior to the reorganization, the Company, NSI, NSIMG and other NSI affiliates operated under the control of a group of common stockholders. Inasmuch as the Subsidiaries that were acquired were under common control, the Company's consolidated financial statements include the Subsidiaries' historical balance sheets and related statements of income, of stockholders' equity and of cash flows for all periods presented.

On November 27, 1996 the Company completed its initial public offerings of 4,750,000 shares of Class A Common Stock and received net proceeds of $98.8 million (the "Offerings").

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the Company and the Subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include reserves for product returns, obsolete inventory and taxes. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid instruments with original maturities of 90 days or less.

Inventories

Inventories consist of merchandise purchased for resale and are stated at the lower of cost, using the first-in, first-out method, or market.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the following estimated useful lives:

Furniture and fixtures	5–7 years
Computers and equipment	3–5 years
Leasehold improvements	Shorter of estimated useful life or lease term
Vehicles	3–5 years

Expenditures for maintenance and repairs are charged to expense as incurred.

Other Assets

Other assets consist primarily of deferred tax assets, deposits for noncancelable operating leases and distribution rights purchased from NSI. Distribution rights are amortized on the straight-line basis over the estimated useful life of the asset. The Company assesses the recoverability of long-lived assets by determining whether the amortization of the balance over its remaining life can be recovered through undiscounted future operating cash flows attributable to the assets.

Revenue Recognition

Revenue is recognized when products are shipped and title passes to independent distributors who are the Company's customers. A reserve for product returns is accrued based on historical experience. The Company generally requires cash payment at the point of sale. The Company has determined that no allowance for doubtful accounts is necessary. Amounts received prior to shipment and title passage to distributors are recorded as deferred revenue.

Income Taxes

The Company has adopted Statement of Financial Accounting Standards No. 109 ("SFAS 109"), *Accounting for Income Taxes*. Under SFAS 109, the liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Prior to the Company's reorganization described in Note 1, the Subsidiaries elected to be taxed as S corporations whereby the income tax effects of the Subsidiaries' activities accrued directly to their stockholders; therefore, adoption of SFAS 109 required no establishment of deferred income taxes since no material differences between financial reporting and tax bases of assets and liabilities existed. Concurrent with the Company's reorganization, the Company terminated the S corporation elections of its Subsidiaries. As a result, deferred income taxes under the provisions of SFAS 109 were established.

Net Income Per Share

In 1997, the Company adopted Statement of Financial Accounting Standards No. 128 ("SFAS 128"), *Earnings per Share*. SFAS 128 specifies the computation, presentation and disclosure requirements for earnings per share data and requires the restatement of earnings per share data in prior periods. SFAS 128 also requires the presentation of both basic and diluted earnings per share data for entities with complex capital structures. Diluted earnings per share data gives effect to all dilutive potential common shares that were outstanding during the periods presented. Net income per share for the years ended December 31, 1995 and 1996 is computed assuming that the Company's reorganization and the resultant issuance of Class B Common Stock occurred as of January 1, 1995.

Foreign Currency Translation

All business operations of the Company occur outside of the United States. Each entity's local currency is considered the functional currency. Since a substantial portion of the Company's inventories are purchased with U.S.

dollars from the United States and since the Company is incorporated in the United States, all assets and liabilities are translated into U.S. dollars at exchange rates existing at the balance sheet dates, revenues and expenses are translated at weighted average exchange rates, and stockholders' equity is recorded at historical exchange rates. The resulting foreign currency translation adjustments are recorded as a separate component of stockholders' equity in the consolidated balance sheets, and transaction gains and losses are included in other income and expense in the consolidated financial statements.

Industry Segment and Geographic Area

The Company operates in a single industry, which is the direct selling of skin care, hair care and nutritional products, and in a single geographic area, which is the Asia Pacific Region.

Fair Value of Financial Instruments

The fair value of financial instruments including cash and cash equivalents, accounts receivable, related parties receivable, accounts payable, accrued expenses, related parties payable and notes payable approximate book values.

Stock-based Compensation

The Company has adopted Statement of Financial Accounting Standards No. 123 ("SFAS 123"), *Accounting for Stock-Based Compensation*. The Company measures compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), *Accounting for Stock Issued to Employees*, and provides pro forma disclosures of net income and net income per share as if the fair value based method prescribed by SFAS 123 had been applied in measuring compensation expense (Note 8).

3. Related Party Transactions

Scope of Related Party Activity

The Company has extensive and pervasive transactions with affiliated entities that are under common control. These transactions are as follows: (1) Through its Hong Kong entity, the Company purchases a substantial portion of its inventories from affiliated entities (primarily NSI). (2) In addition to selling products to consumers in its geographic territories, the Company, through its Hong Kong entity, sells products and marketing materials to affiliated entities in geographic areas outside those held by the Company (primarily Australia and New Zealand). (3) The Company pays trademark royalty fees to NSI on products bearing NSI trademarks and marketed in the Company's geographic areas that are not purchased from NSI. (4) NSI enters into a distribution agreement with each independent distributor. The Company pays license fees to NSI for the right to use the distributors within its geographical regions and for the right to use the NSI distribution system and other related intangibles. (5) The Company participates in a global commission plan established by the NSI distribution agreement whereby distributors' commissions are determined by aggregate worldwide purchases made by down-line distributors. Thus, commissions on purchases from the Company earned by distributors located in geographic areas outside those held by the Company are remitted to NSI, which then forwards these commissions to the distributors. (6) The Company pays fees for management and support services provided by NSIMG.

The purchase prices paid to the Subsidiaries for the purchase of product and marketing materials are determined pursuant to the Regional Distribution Agreement between the Company, through a Subsidiary, and NSI. The selling prices to the Subsidiaries of products and marketing materials are determined pursuant to the

Wholesale Distribution Agreements between a Subsidiary and certain of the other Subsidiaries. Trademark royalty fees and license fees are payable pursuant to the Trademark/Tradename License Agreement between the Subsidiaries and NSI and the Licensing and Sales Agreement between the Subsidiaries and NSI, respectively. The independent distributor commission program is managed by NSI. Charges to the Company are based on a worldwide commission fee of 42% which covers commissions paid to distributors on a worldwide basis and the direct costs of administering the global compensation plan. Management and support services fees are billed to the Company by NSIMG pursuant to the Management Services Agreement between the Company, the Subsidiaries and NSIMG and consist of all direct expenses incurred by NSIMG on behalf of the Company and indirect expenses of NSIMG allocated to the Company based on its net sales.

Total commission fees (including those paid directly to distributors within the Company's geographic territories) are recorded as distributor incentives in the consolidated statements of income. Trademark royalty fees are included in cost of sales, and license fees and management fees are included in selling, general and administrative expenses in the consolidated statements of income.

In November 1996, the Company purchased from NSI the distribution rights to seven new markets in the region. These markets include Thailand, where operations have commenced, and Indonesia, Malaysia, the PRC, the Philippines, Singapore and Vietnam, where Nu Skin operations had not commenced as of December 31, 1997. These rights were purchased for $25.0 million of which $5.0 million was paid from proceeds from the Offerings and an additional $10.0 million was paid in January 1997. At December 31, 1997, the Company had a $10.0 million short-term obligation, due January 15, 1998 related to the purchase of these rights. Interest accrues at a rate of 6.0% per annum on amounts due under these obligations.

Notes Payable to Stockholders

In connection with the reorganization described in Note 1, the aggregate undistributed taxable S corporation earnings of the Subsidiaries were $86.5 million. These earnings were distributed in the form of promissory notes bearing interest at 6.0% per annum. From proceeds from the Offerings, $15.0 million was used to pay a portion of the notes, and the remaining balance of $71.5 million with the related accrued interest expense of $1.6 million was paid on April 4, 1997.

Related Party Transactions

The following summarizes the Company's transactions with related parties:

Product Purchases

(U.S. dollars in thousands)	Year Ended December 31, 1995	Year Ended December 31, 1996	Year Ended December 31, 1997
Beginning inventories	$ 15,556	$ 32,662	$ 44,860
Inventory purchases from affiliates	69,821	157,413	202,233
Other inventory purchases and value added locally	43,900	47,943	53,722
Total products available for sale	129,277	238,018	300,815
Less: Cost of sales	(96,615)	(193,158)	(248,367)
Ending inventories	$ 32,662	$ 44,860	$ 52,448

Related Parties Payable Transactions

(U.S. dollars in thousands)	Year Ended December 31, 1995	Year Ended December 31, 1996	Year Ended December 31, 1997
Beginning related parties payable	$ 10,556	$ 28,749	$ 46,326
Inventory purchases from affiliates	69,821	157,413	202,233
Distributor incentives	135,722	249,613	346,117
Less: Distributor incentives paid directly to distributors	(105,642)	(197,614)	(280,355)
License fees	13,158	25,221	35,034
Trademark royalty fees	2,694	2,882	3,696
Management fees	2,066	4,189	7,337
Less: Payments to related parties	(99,626)	(224,127)	(301,317)
Ending related parties payable	$ 28,749	$ 46,326	$ 59,071

Related Parties Receivable and Payable Balances

The Company has receivable and payable balances with related parties in Australia and New Zealand, and with NSI and NSIMG. Related party balances outstanding greater than 60 days bear interest at prime plus 2%. Since no significant balances have been outstanding greater than 60 days, no related party interest income or interest expense has been recorded in the consolidated financial statements. Sales to related parties were $4,608,000, $4,614,000 and $4,297,000 for the years ended December 31, 1995, 1996 and 1997, respectively.

Certain Relationships with Stockholder Distributors

Two major stockholders of the Company have been NSI distributors since 1984. These stockholders are partners in an entity which receives substantial commissions from NSI, including commissions relating to sales within the countries in which the Company operates. By agreement, NSI pays commissions to this partnership at the highest level of distributor compensation to allow the stockholders to use their expertise and reputations in network marketing to further develop NSI's distributor force, rather than focusing solely on their own distributor organizations. The commissions paid to this partnership relating to sales within the countries in which the Company operates were $1,100,000, $1,200,000 and $1,100,000 for the years ended December 31, 1995, 1996 and 1997, respectively.

Loan to Stockholder

In December 1997, the Company loaned $5.0 million to a non-management stockholder. The loan is secured by 349,406 shares of Class B Common Stock. Interest accrues at a rate of 6.0% per annum on this loan. The loan may be repaid by transferring to the Company the shares pledged to secure the loan.

4. Property and Equipment

Property and equipment are comprised of the following:

Year ended December 31,

(U.S. dollars in thousands)	1996	1997
Furniture and fixtures	$ 3,175	$ 3,205
Computers and equipment	7,480	9,098
Leasehold improvements	4,737	6,930
Vehicles	200	119
	15,592	19,352
Less: accumulated depreciation	(6,708)	(8,468)
	$ 8,884	$10,884

Depreciation of property and equipment totaled $2,012,000, $3,118,000 and $3,482,000 for the years ended December 31, 1995, 1996 and 1997, respectively.

5. Other Assets

Other assets consist of the following:

Year ended December 31,

(U.S. dollars in thousands)	1996	1997
Deposits for noncancelable operating leases	$ 9,962	$ 9,127
Distribution rights, net of accumulated amortization	24,844	23,594
Deferred taxes	6,999	30,399
Other	868	2,183
	$ 42,673	$ 65,303

The $25.0 million distribution rights asset is being amortized on a straight-line basis over its estimated useful life of twenty years. Amortization expense totaled $156,000 and $1,250,000 for the years ended December 31, 1996 and 1997, respectively.

6. Accrued Expenses

Accrued expenses consist of the following:

Year ended December 31,

(U.S. dollars in thousands)	1996	1997
Income taxes payable	$ 54,233	$ 53,079
Other taxes payable	9,194	13,043
Other accruals	16,091	30,316
	$ 79,518	$ 96,438

7. Lease Obligations

The Company leases office space and computer hardware under noncancelable long-term operating leases. Most leases include renewal options of up to three years. Minimum future operating lease obligations at December 31, 1997 are as follows:

Year ending December 31, (U.S. dollars in thousands)	
1998	$6,763
1999	4,242
2000	2,923
2001	251
2002	163
Total minimum lease payments	$14,342

Rental expense for operating leases totaled $9,470,000, $8,260,000 and $9,311,000 for the years ended December 31, 1995, 1996 and 1997, respectively.

8. Stockholders' Equity

The Company's capital stock consists of Preferred Stock, Class A Common Stock and Class B Common Stock. The shares of Class A Common Stock and Class B Common Stock are identical in all respects, except for voting rights and certain conversion rights and transfer restrictions, as follows: (1) each share of Class A Common Stock entitles the holder to one vote on matters submitted to a vote of the Company's stockholders and each share of Class B Common Stock entitles the holder to ten votes on each such matter; (2) stock dividends of Class A Common Stock may be paid only to holders of Class A Common Stock and stock dividends of Class B Common Stock may be paid only to holders of Class B Common Stock; (3) if a holder of Class B Common Stock transfers such shares to a person other than a permitted transferee, as defined in the Company's Certificate of Incorporation, such shares will be converted automatically into shares of Class A Common Stock; and (4) Class A Common Stock has no conversion rights; however, each share of Class B Common Stock is convertible into one share of Class A Common Stock, in whole or in part, at any time at the option of the holder.

Stockholder Control

As of December 31, 1997, a group of common stockholders owned all of the outstanding shares of Class B Common Stock, which represented approximately 98% of the combined voting rights of all outstanding common stock. Accordingly, these stockholders, acting as a group, control the election of the entire Board of Directors and decisions with respect to the Company's dividend policy, the Company's access to capital, mergers or other business combinations involving the Company, the acquisition or disposition of assets by the Company and any change in control of the Company.

Equity Incentive Plans

Effective November 21, 1996, NSI and the Company implemented a one-time distributor equity incentive program. This program provided for grants of options to selected distributors for the purchase of 1,605,000 shares of the Company's previously issued Class A Common Stock. The number of options each distributor ultimately received was based on their performance and productivity through August 31, 1997. The options are exercisable at a price of $5.75 per share and vested on December 31, 1997. The related compensation expense was deferred in the Company's financial statements and was expensed to the statement of income as distributor stock expense ratably through December 31, 1997.

The Company recorded compensation expense using the fair value method prescribed by SFAS 123 based upon the best available estimate of the number of shares that were expected to be issued to each distributor at the measurement date, revised as necessary if subsequent information indicated that actual forfeitures were likely to differ from initial estimates. Any options forfeited were reallocated and resulted in an additional compensation charge.

As a part of this program, the Company initially sold an option to NSI to purchase shares underlying distributor options for consideration of a $13.1 million 10-year note, bearing interest at 6.0% per annum. As the number of distributor stock options to be issued to each distributor was revised through August 31, 1997, the note receivable from NSI was adjusted to $9.8 million. It is anticipated that NSI will repay this note as distributors begin to exercise their options in 1998.

Prior to the Offerings, the Company's stockholders contributed to NSI and other Nu Skin entities (excluding the Company) 1,250,000 shares of the Company's Class A Common Stock held by them for issuance to employees of NSI and other Nu Skin entities as a part of an employee equity incentive plan. Equity incentives granted or awarded under this plan will vest over four years. Compensation expense related to equity incentives granted to employees of NSI and other Nu Skin entities who perform services on behalf of the Company will be recognized by the Company ratably over the vesting period.

In January 1994, NSI agreed to grant one of the Company's executives an option to purchase 267,500 shares of the Company's Class A Common Stock which became exercisable at the date of the reorganization. The exercise price of this option was set at the estimated fair market value of this equity interest on the date the option was granted. This executive exercised a portion of this option and purchased 16,675 shares during November 1996.

1996 Stock Incentive Plan

During the year ended December 31, 1996, the Company's Board of Directors adopted the Nu Skin Asia Pacific, Inc. 1996 Stock Incentive Plan (the "1996 Stock Incentive Plan"). The 1996 Stock Incentive Plan provides for granting of stock awards and options to purchase common stock to executives, other employees, independent consultants and directors of the Company and its Subsidiaries. A total of 4,000,000 shares of Class A Common Stock have been reserved for issuance under the 1996 Stock Incentive Plan.

In November and December 1996, the Company granted stock awards to certain employees for an aggregate of 109,000 shares of Class A Common Stock and in January 1997 the Company granted additional stock awards to certain employees in the amount of 41,959 shares of Class A Common Stock. Subsequent to the granting of these stock awards aggregating 150,959 shares of Class A Common Stock, awards for 12,413 shares lapsed. The Company has recorded deferred compensation expense related to these stock awards and is recognizing such expense ratably over the vesting period.

In October 1997, the Company granted 13,500 stock awards, with a fair value of $22.81 per share, to certain employees and directors under the 1996 Stock Incentive Plan. Of the 13,500 stock awards granted, 7,500 vested immediately on the date of grant and 6,000 will vest ratably over a period of three years. The Company recorded compensation expense of $170,000 related to the stock awards for the year ended December 31, 1997.

In October 1997, the Company also granted options to purchase 298,500 shares of Class A Common Stock to certain employees and directors pursuant to the 1996 Stock Incentive Plan. Of the 298,500 options granted, 30,000 options vest one day before the 1998 annual meeting of stockholders and 265,500 options vest ratably over a period of four years. All options granted in 1997 will expire on the tenth anniversary of the date of grant. The exercise price of the options was set at $20.88 per share. The Company has recorded deferred compensation expense of $578,000 related to the options and is recognizing such expense ratably over the vesting periods.

The Company's pro forma net income for the year ended December 31, 1997 would have been $93,566,000 if compensation expense had been measured under the fair value method prescribed by SFAS 123. The Company's pro forma basic and diluted net income per share for the year ended December 31, 1997 would have been $1.12 and $1.10, respectively, if compensation expense had been measured under the fair value method.

The fair value of the options granted during 1997 was estimated at $10.55 per share as of the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 6%; expected life of 4 years; expected volatility of 46%; and expected dividend yield of 0%.

Weighted Average Common Shares Outstanding

The following is a reconciliation of the weighted average common shares outstanding for purposes of computing basic and diluted net income per share:

Year ended December 31,

(in thousands)	1995	1996	1997
Basic weighted average common shares outstanding	78,645	79,194	83,331
Effect of dilutive securities:			
Stock awards and options	1,873	1,866	2,040
Diluted weighted average common shares outstanding	80,518	81,060	85,371

Repurchase of Common Stock

In December 1997, the Company repurchased 1,415,916 shares of Class A Common Stock from certain original stockholders for an aggregate price of approximately $20.3 million. Such shares were converted from Class B Common Stock to Class A Common Stock prior to or upon purchase, and were repurchased in connection with the entering into of an amended and restated stockholders agreement by the original stockholders providing for, among other things, a one-year extension of the original lock-up provisions applicable to such original stockholders.

9. Income Tax

Consolidated income before provision for income taxes consists of income earned solely from international operations. The provision for current and deferred taxes for the years ended December 31, 1996 and 1997 consists of the following:

Year ended December 31,

(U.S. dollars in thousands)	1996	1997
Current		
Federal	$ 331	$ 3,332
State	—	127
Foreign	56,929	76,553
	57,260	80,012
Deferred		
Federal	(1,929)	(24,317)
State	—	(30)
Foreign	(2,398)	45
Change in tax status	(3,439)	—
Provision for income taxes	$ 49,494	$ 55,710

As a result of the Company's reorganization described in Note 1, the Company is no longer treated as an S corporation for U.S. Federal income tax purposes. Accordingly, the provision for income taxes for the year ended December 31, 1996 consists of the following: (1) the cumulative income tax effect from recognition of the deferred tax assets at the date of S corporation termination; (2) the provision for income taxes for the period November 20, 1996 through December 31, 1996 as a U.S. C corporation; and (3) income taxes in foreign countries for the Subsidiaries during the year.

The provision for income taxes for the year ended December 31, 1995 primarily represents income taxes in foreign countries as U.S. Federal income taxes were levied at the stockholder level.

The principal components of deferred tax assets are as follows:

Year ended December 31,

(U.S. dollars in thousands)	1996	1997
Deferred tax assets:		
Inventory reserve	$ 1,971	$ 1,773
Product return reserve	1,562	1,559
Depreciation	1,592	1,622
Foreign tax credit	1,234	19,268
Uniform capitalization	763	1,706
Distributor stock options and employee stock awards	749	6,992
Accrued expenses not deductible until paid	19	2,115
Withholding tax	4,148	5,692
Minimum tax credit	330	3,555
Total deferred tax assets	12,368	44,282
Deferred tax liabilities:		
Withholding tax	4,148	5,692
Exchange gains and losses	399	1,679
Other	55	143
Total deferred tax liabilities	4,602	7,514
Valuation allowance	—	(4,700)
Deferred taxes, net	$ 7,766	$ 32,068

Income taxes paid totaled $4,068,000, $17,991,000 and $73,654,000 for the years ended December 31, 1995, 1996 and 1997, respectively.

The consolidated statements of income for the years ended December 31, 1995 and 1996 include a pro forma presentation for income taxes which would have been recorded if the Company had been taxed as a C corporation for all periods presented.

A reconciliation of the Company's pro forma effective tax rate for the years ended December 31, 1995 and 1996, and the Company's effective tax rate for the year ended December 31, 1997, compared to the statutory U.S. Federal tax rate is as follows:

Year ended December 31,

	1995	1996	1997
Income taxes at statutory rate	35.00 %	35.00 %	35.00 %
Foreign tax credit limitation (benefit)	2.69	—	3.14
Non-deductible expenses	.67	.06	.10
Other	—	(.04)	(.94)
	38.36 %	35.02 %	37.30 %

10. Financial Instruments

The Company's Subsidiaries enter into significant transactions with each other, NSI and third parties which may not be denominated in the respective Subsidiaries' functional currencies. The Company seeks to reduce its exposure to fluctuations in foreign exchange rates by creating offsetting positions through the use of foreign currency exchange contracts and through intercompany loans of foreign currency. The Company does not use such financial instruments for trading or speculative purposes. The Company regularly monitors its foreign currency risks and periodically takes measures to reduce the impact of foreign exchange fluctuations on the Company's operating results. Gains and losses on foreign currency forward contracts and intercompany loans of foreign currency are recorded as other income and expense in the consolidated statements of income.

At December 31, 1995, the Company held foreign currency forward contracts with notional amounts totaling $1.0 million to hedge foreign currency items. There were no significant estimated unrealized losses on these contracts. These contracts all had maturities prior to December 31, 1996. The Company did not hold any foreign currency forward contracts at December 31, 1996. At December 31, 1997, the Company held foreign currency forward contracts with notional amounts totaling approximately $51.0 million to hedge foreign currency items. These contracts all have maturities through August 1998. During the year ended December 31, 1997, the Company entered into and held to maturity foreign currency forward contracts with notional amounts totaling approximately $34.0 million. The Company recorded realized and unrealized net gains on its forward contracts totaling $5.6 million for the year ended December 31, 1997.

At December 31, 1997, the intercompany loan from Nu Skin Japan to Nu Skin Hong Kong totaled approximately $92.0 million. The Company recorded unrealized exchange gains totaling $7.8 million resulting from the intercompany loan for the year ended December 31, 1997.

11. Commitments and Contingencies

The Company is subject to governmental regulations pertaining to product formulation, labeling and packaging, product claims and advertising and to the Company's direct selling system. The Company is also subject to the jurisdiction of numerous foreign tax authorities. These tax authorities regulate and restrict various corporate transactions, including intercompany transfers. The Company believes that the tax authorities in Japan and South Korea are particularly active in challenging the tax structures and intercompany transfers of foreign corporations. Any assertions or determination that either the Company, NSI or any of NSI's distributors is not in compliance with existing statutes, laws, rules or regulations could potentially have a material adverse effect on the Company's operations. In addition, in any country or jurisdiction, the adoption of new statutes, laws, rules or regulations or changes in the interpretation of existing statutes, laws, rules or regulations could have a material adverse effect on the Company and its operations. Although management believes that the Company is in compliance, in all material respects, with the statutes, laws, rules and regulations of every jurisdiction in which it operates, no assurance can be given that the Company's compliance with applicable statutes, laws, rules and regulations will not be challenged by foreign authorities or that such challenges will not have a material adverse effect on the Company's financial position or results of operations or cash flows.

12. Subsequent Events

In February 1998, the Company reached an agreement in principle to acquire NSI and Nu Skin affiliated entities throughout Europe, Australia and New Zealand (the "NSI Acquisition") for approximately $180 million in assumed liabilities and $70 million in preferred stock that is anticipated to convert to common stock upon stockholder approval. In addition, contingent on meeting specific earnings growth benchmarks, the Company will pay up to $25 million in cash per year over four years to the selling stockholders. The agreement also provides that if the assumed liabilities do not equal or exceed $180 million, the Company will pay to the selling stockholders in cash or in the form of promissory notes the difference between $180 million and the assumed liabilities.

The NSI Acquisition is expected to be accounted for by the purchase method of accounting, except for the portion of the acquired entities under the common control of a group of stockholders, which portion will be accounted for in a manner similar to a pooling of interests. The common control group is comprised of the stockholders of NSI that are immediate family members.

Report of Independent Accountants

To the Board of Directors and Stockholders of
Nu Skin Asia Pacific, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Nu Skin Asia Pacific, Inc. and its subsidiaries at December 31, 1996 and 1997, and the results of their operations and their cash flows for the years ended December 31, 1995, 1996 and 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

Price Waterhouse LLP
Salt Lake City, Utah
February 18,1998

Market for Registrant's Common Equity and Related Stockholder Matters

Common Stock

The Company's Class A Common Stock is listed on the New York Stock Exchange ("NYSE"). The Company's Class A Common Stock trades under the symbol "NUS" and was listed on the NYSE on November 21, 1996. Prior to that date, there was no public market for the Company's Class A Common Stock. The following table is based upon information available to the Company and sets forth the range of the high and low sales prices for the Company's Class A Common Stock for the quarterly period from November 21, 1996, the day the Class A Common Stock was priced in the Company's initial public offering based upon quotations on the NYSE:

Sales Price

Security	Quarter Ended	High	Low
Class A Common Stock, par value $.001 per share	December 31, 1996 (since November 21, 1996)	$ 30.78	$ 23.00[1]
	March 31, 1997	$ 30.87	$ 23.00
	June 30, 1997	$ 28.25	$ 23.62
	September 30, 1997	$ 27.18	$ 19.31
	December 31, 1997	$ 24.43	$ 16.00

[1] Denotes the price per share in the Underwritten Offerings.

The market price of the Company's Class A Common Stock is subject to significant fluctuations in response to variations in the Company's quarterly operating results, general trends in the market for the Company's products and product candidates, and other factors, many of which are not within the control of the Company. In addition, broad market fluctuations, as well as general economic, business and political conditions, may adversely affect the market for the Company's Class A Common Stock, regardless of the Company's actual or projected performance.

The closing price of the Company's Class A Common Stock on March 5, 1998, was $22.38. The approximate number of holders of record of the Company's Class A Common Stock and Class B Common Stock as of March 5, 1998 was 958. This number does not represent the actual number of beneficial owners of shares of the Company's Class A Common Stock because shares are frequently held in "street name" by securities dealers and others for the benefit of individual owners who have the right to vote their shares.

The Company has not paid or declared any cash dividends on its Class A Common Stock and does not anticipate doing so in the foreseeable future. The Company currently anticipates that all of its earnings, if any, will be retained for use in the operation and expansion of its business. Any future determination as to cash dividends will depend upon the earnings and financial position of the Company and such other factors as the Company's Board of Directors may deem appropriate.

Board of Directors

Blake M. Roney
Chairman
Executive Committee Chair

Steven J. Lund
President and Chief Executive Officer
Executive Committee

Sandie N. Tillotson
Senior Vice President

Keith R. Halls, C.P.A.
Secretary
Senior Vice President
Executive Committee
Compensation Committee Chair

Daniel W. Campbell, C.P.A.
Managing General Partner
EsNet, Ltd.
Audit Committee Chair
Compensation Committee

E. J. "Jake" Garn
Vice Chairman
Huntsman Corporation
United States Senate, Retired
Audit Committee

Paula Hawkins
President
Paula Hawkins & Associates
United States Senate, Retired
Compensation Committee

Max L. Pinegar
Senior Vice President
Compensation Committee

Brooke B. Roney
Senior Vice President

Executive Management

Steven J. Lund
President and
Chief Executive Officer

Renn M. Patch
Chief Operating Officer

Corey B. Lindley
Chief Financial Officer

Michael D. Smith
Vice President
North Asia

Grant F. Pace
Vice President
Southeast Asia and Greater China

Scott E. Schwerdt
Vice President
Europe

M. Truman Hunt
Vice President
Legal Affairs and
Investor Relations

Takashi Bamba
President
Nu Skin Japan Co., Ltd.

John Chou
President
Nu Skin Taiwan, Inc.

Corporate Information

Corporate Headquarters

Nu Skin Asia Pacific, Inc.
75 West Center
Provo, UT 84601
Telephone: 801-345-6100

Annual Meeting

Nu Skin Asia Pacific's annual stockholder meeting will be held at 3 p.m. on May 5, 1998 at:
The Provo Park Hotel
101 West 100 North, Provo, UT
Telephone: 801-377-4700

Independent Accountants

The company is audited by
Price Waterhouse LLP
175 East 400 South, Suite 700
Salt Lake City, UT 84111
Telephone: 801-328-2300

Stock Listing

Nu Skin Asia Pacific's stock is listed on the New York Stock Exchange under the symbol: NUS

Transfer Agent

Inquiries regarding lost stock certificates, consolidation of accounts and changes in address, name or ownership should be addressed to:
American Stock Transfer & Trust Co.
40 Wall Street, New York, NY 10005
Telephone: 800-937-5449

Trademarks

The trademarks and logos of Nu Skin International and Nu Skin Asia Pacific are owned by Nu Skin International, Inc., a wholly owned subsidiary of Nu Skin Enterprises, Inc. "Manapole" is a registered trademark of Carrington Laboratories, Inc. "Samsonite" is a registered trademark of the Samsonite Corporation. "Avon" is a registered trademark of Avon Products, Inc. "Obsession," "Eternity" and "CK1" are trademarks owned by Calvin Klein Cosmetics Corporation. All other trademarks mentioned in this report, including product names, the fountain logo, "IDN," "Big Planet" and "Nu Skin" are trademarks of Nu Skin International, Inc.

Additional Stockholder Information

Additional information and news about Nu Skin Asia Pacific are available from the following sources:

- Nu Skin Information Line 1-888-880-6727
- News releases and media information can be found at Automated Fax: 1-800-758-5804, ext. 119638 and the Internet: http://www.prnewswire.com (company information is generally posted within one hour of its release and stored for 12 months)
- For reports and filings (Annual, SEC, 10-K and 10-Q), call the Investor Information Line at 801-345-6120 or write Investor Relations at the corporate headquarters
- For investor information and inquiries, telephone the Director of Investor Relations at 801-345-6110, Fax: 801-345-3099 or write Investor Relations at the corporate headquarters
- For company history and news see the Nu Skin Corporate Home Page at http://www.nuskin.com

Certain portions of the text of this annual report are "forward-looking statements" as defined in the Private Seuwkes Litigation Reform Act of 1995. These forward looking statements are based on management's current expectations and assessments of risks and uncertainties. The risks and uncertainties may include those factors discussed on the company's Form 10-K filed with the Securities and Exchange Comission.

Capitalized terms used in this annual report but not defined herein shall have the meanings set forth in the company's Form 10-K for the year ended December 31, 1997 filed with the Securities and Exchange Commission.