SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K/A
Amendment No. 1

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)
|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1997

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from ______________ to ______________

Commission file number 001-12421

Nu Skin Asia Pacific, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	87-0565309
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
75 West Center Street, Provo, Utah	84601
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code (801) 345-6100

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

(Title of Class)

(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of March 5, 1998, the aggregate market value of the voting stock (Class A and Class B Common Stock) held by non-affiliates of the Company was $648,973,642. For purposes of this calculation, voting stock held by officers, directors, and corporate affiliates has been excluded.

As of March 5, 1998, 11,835,737 shares of the Company's Class A Common Stock, $.001 par value per share, 70,280,759 shares of the Company's Class B Common Stock, $.001 par value per share, and no shares of the Company's Preferred Stock, $.001 par value per share, were outstanding.

Portions of the Company's 1997 Annual Report (the "1997 Annual Report") to security holders to be furnished to the Securities and Exchange Commission (the "Commission") pursuant to Rule 14a-3(b) in connection with Registrant's 1998 Annual Meeting of Stockholders scheduled to be held on or about May 5, 1998 (the "1998 Annual Meeting"), are attached hereto as Exhibit 13, and are incorporated herein by reference into Parts II and IV of this Annual Report on Form 10-K (this "Report").

Portions of the Company's Definitive Proxy Statement (the "Proxy Statement") to be filed with the Commission pursuant to Regulation 14A in connection with the 1998 Annual Meeting are incorporated herein by reference into Part III of this Report.

Certain Exhibits filed with the Company's Registration Statement on Form S-1 (Registration No. 333-12073), as amended on Post Effective Amendment No. 1 to the Company's Registration Statement filed on September 3, 1997 (Registration

No. 333-12073), and Company's Annual Report on Form 10-K for the year ended December 31, 1996 are incorporated herein by reference into Part IV of this Report.

NU SKIN ASIA PACIFIC, INC.

1997 FORM 10-K ANNUAL REPORT

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PART I

ITEM 1. BUSINESS

General

Nu Skin Asia Pacific, Inc. ("Nu Skin Asia Pacific" or 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, Thailand and the Philippines, where the Company currently has operations, and in Indonesia, Malaysia, the People's Republic of China ("PRC"), Indonesia, Singapore and Vietnam, where Nu Skin operations have not commenced. The Company's products are specifically designed for the network marketing distribution channel. The Company markets its personal care products under the trademark "Nu Skin" and its nutritional products under the trademark "Interior Design Nutritionals" ("IDN"). The Nu Skin personal care product lines include facial care, body care, hair care and color cosmetics, as well as specialty products such as sun protection, oral hygiene and fragrances. The IDN product lines include nutritional supplements, nutritious and healthy snacks, sports and fitness nutritional products, health solutions and botanical supplements.

The Company was incorporated in Delaware on September 4, 1996. On November 20, 1996, the stockholders (the "Original Stockholders") of Nu Skin Japan Company, Limited ("Nu Skin Japan"), Nu Skin Taiwan, Inc. ("Nu Skin Taiwan"), Nu Skin Hong Kong, Inc. ("Nu Skin Hong Kong"), Nu Skin Korea, Inc. ("Nu Skin Korea") and Nu Skin Personal Care (Thailand), Inc. ("Nu Skin Thailand") (together the "Original Subsidiaries") contributed their shares of capital stock to the capital of the Company in a transaction (the "Reorganization ") intended to qualify under Section 351 of the Internal Revenue Code of 1986, as amended (the "Code"), in exchange for shares of the Company's Class B Common Stock, par value $.001 per share (the "Class B Common Stock"). As a result of the Reorganization, each of the Original Subsidiaries became a wholly-owned subsidiary of the Company. Unless otherwise noted, references to "Nu Skin Asia Pacific" or the "Company" mean Nu Skin Asia Pacific, Inc., including the Subsidiaries. The "Subsidiaries" means Nu Skin Japan, Nu Skin Taiwan, Nu Skin Hong Kong, Nu Skin Korea, Nu Skin Thailand, and Nu Skin Philippines, Inc. ("Nu Skin Philippines") collectively. 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.

In November 1996, the Company and certain Original Stockholders sold a total of 10,465,000 shares of the Company's Class A Common Stock, par value $.001 per share (the "Class A Common Stock" and together with the Class B Common Stock the "Common Stock"), in underwritten public offerings (the "Underwritten Offerings"). In addition, in December 1996, the Company, NSI and certain of NSI's affiliates offered to qualifying NSI independent distributors and employees, in non-underwritten offerings (the "Rule 415 Offerings", and together with the Underwritten Offerings, the "Offerings") certain options and shares of Class A Common Stock pursuant to Rule 415 under the Securities Act of 1933, as amended (the "1933 Act").

NSI, founded in 1984 and based in Provo, Utah, is engaged in selling personal care and nutritional products and, together with its affiliates, comprises one of the largest network marketing organizations in the world. NSI provides a high level of support services to the Company, including product development, marketing and other managerial support services. Since distributor agreements are entered into between NSI and distributors, all of the distributors who generate revenue for the Company are distributors of NSI who are licensed to the Company pursuant to agreements between NSI and the Company's Subsidiaries. On February 27, 1998, the Company entered into a Stock Acquisition Agreement with the Stockholders of NSI and certain affiliates of NSI to acquire all of the capital stock of NSI and certain affiliates of NSI. See "Recent Developments."

Nu Skin(R), Interior Design Nutritionals(TM), IDN(R), a logo consisting of an image of a gold fountain with the words "Nu Skin" below it, and a logo consisting of the stylized letters "IDN" in black and red are trademarks of NSI which are licensed to the Company. The italicized product names used in this Annual Report on Form 10-K are product names and also, in certain cases, trademarks and are the property of NSI. All other tradenames and trademarks appearing in this Annual Report on Form 10-K are the property of their respective holders.

In this Annual Report on Form 10-K, references to "dollars" and "$" are to United States dollars, and the terms "United States" and "U.S." mean the United States of America, its states, territories, possessions and all areas subject to its jurisdiction. References to "yen" and "(Y)" are to Japanese yen, and references to "won" are to South Korean won. References to "baht" are to Thai baht. References, if any, to the "NT$" are to New Taiwanese dollars and references, if any, to the "HK$" are to Hong Kong dollars.

Note Regarding Forward-Looking Statements

Certain statements made herein under the captions "Business-Country Profiles," and "Risk Factors," are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). In addition, when used in this Report the words or phrases "will likely result," "expects," "intends," "will continue," "is anticipated," "estimates," "projects," "Management believes," "the Company believes" and similar expressions are intended to identify "forward-looking statements" within the meaning of the Reform Act.

Forward-looking statements include plans and objectives of management for future operations, including plans and objectives relating to the products and the future economic performance of each country in which the Company operates and financial results of the Company. These forward-looking statements involve risks and uncertainties and are based on certain assumptions that may not be realized. Actual results and outcomes may differ materially from those discussed or anticipated. The forward-looking statements and associated risks set forth herein relate to the: (i) proposed NSI Acquisition, (ii) expansion of the Company's market share in its current markets; (iii) Company's entrance into new markets (iv) development of new products and new product lines tailored to appeal to the particular needs of consumers in specific markets; (v) stimulation of product sales by introducing new products; (vi) opening of new offices, walk-in distribution centers and distributor support centers in certain markets; (vii) promotion of distributor growth, retention and leadership through local initiatives; (viii) upgrading of the Company's technological resources to support distributors; (ix) obtaining of regulatory approvals for certain products, including LifePak; (x) stimulation of product purchases by inactive distributors through direct mail campaigns; (xi) retention of the Company's earnings for use in the operation and expansion of the Company's business; (xii) development of brand awareness and loyalty; (xiii) enhancing of the Company's Global Compensation Plan; (xiv) diversifying of the Company's revenue base and markets, (xv) seeking of cost reductions from vendors; and (vxi) establishment of local manufacturing.

All forward-looking statements are subject to known and unknown risks and uncertainties, including those discussed under the caption "Risk Factors" herein, that could cause actual results to differ materially from historical results and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to further advise readers that the important factors listed under the caption "Risk Factors" could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any views or statements expressed with respect to future periods. Important factors and risks that might cause such differences include, but are not limited to (a) factors related to the Company's reliance upon independent distributors of NSI, (b) fluctuations in foreign currency values relative to the U.S. dollar, (c) adverse economic and business conditions in the Company's markets, especially South Korea and Thailand, (d) the possibility the proposed NSI Acquisition may not be consummated, (e) the potential effects of adverse publicity, including adverse publicity regarding the Company and other direct selling companies in South Korea and the Company's other markets, (f) the potential negative impact of distributor actions, (g) seasonal and cyclical trends, (h) variations in operating results, (i) government regulation of direct selling activities in the PRC, Malaysia and other existing and future markets, (j) government regulation of products and marketing, (k) import restrictions, (l) other regulatory issues, including regulatory action against the Company or its distributors in any of the Company's markets and particularly in South Korea, (m) the Company's reliance on certain distributors, (n) the potential divergence of interests between distributors and the Company, (o) management of the Company's growth, (p) the effects on operations of the NSI distributor equity program, (q) the introduction of the Scion product line in the Philippines and Aloe-MX in Japan, (r) market acceptance in South Korea and other markets of LifePak and LifePak Trim, the Company's core IDN nutritional supplements, (s) the acceptance of new distributor walk-in centers in Japan, Thailand and Taiwan, (t) acceptance of modifications to the Company's sales compensation plan in the Philippines, (u) the Company's ability to renegotiate or adjust vendor relationships, (v) the Company's ability to establish local manufacturing capability, (w) risks inherent in the importation, regulation and sale of personal care and nutritional products in the Company's markets, (x) the Company's ability to successfully enter new markets such as Poland and Brazil and introduce new products in addition to those already referenced above, (y) the Company's ability to manage growth and deal with the possible adverse effect on the Company of the change in the status of Hong Kong, (z) the potential conflicts of interest between the Company and NSI, (aa) control of the Company by the Original Stockholders, (bb) the anti-takeover effects of dual classes of common stock, (cc) the Company's reliance on and the concentration of outside manufacturers, (dd) the Company's reliance on the operations of and dividends and distributions from the Subsidiaries, (ee) taxation and transfer pricing issues, (ff) the potential increase in distributor compensation expense, (gg) product liability issues, and (hh) competition in the Company's existing and future markets.

In light of the significant uncertainties inherent in forward-looking statements, the inclusion of any such statement should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved. The Company disclaims any obligation or intent to update any such factors or forward-looking statements to reflect future events or developments. See "Risk Factors."

Recent Developments

On February 27, 1998, the Company entered into a Stock Acquisition Agreement (the "Acquisition Agreement") with the stockholders of NSI and certain affiliates of NSI (the "NSI Stockholders") to acquire (the "NSI Acquisition") all of the capital stock of NSI and certain affiliates of NSI (the "Acquired Entities"). The consideration to be paid by the Company to the NSI Stockholders will consist of shares of Series A Preferred Stock, par value $.001 per share, of the Company (the "Series A Preferred Stock") in an amount determined as set forth below, the assumption of the Acquired Entities' S Distribution Notes (as defined below) payable to the NSI Stockholders in the amount of approximately $180 million (taking into account the Acquired Entities' S Distribution Notes in the amount of approximately $136.2 million as of December 31, 1997 and additional Acquired Entities' S Distribution Notes covering undistributed earnings for the period commencing January 1, 1998 and ending on the closing date of the NSI Acquisition) and, contingent upon NSI and the Company meeting certain earnings growth targets, up to $25 million in cash per year over the next four years. In addition, the Acquisition Agreement provides that if the Acquired Entities' S Distribution Notes for the above-referenced periods do not equal or exceed $180 million, the Company will pay each NSI Stockholder in cash or in the form of promissory notes the difference between (i) $180 million and (ii) the aggregate principal amount of the Acquired Entities' S Distribution Notes multiplied by each NSI Stockholder's proportional ownership interest in the outstanding capital stock of NSI. The Acquisition Agreement provides that the number of shares of Series A Preferred Stock to be delivered to the NSI Stockholders shall be determined by dividing $70 million by the average closing price of the Class A Common Stock for the 20 consecutive trading days ending five trading days prior to the closing of the NSI Acquisition.

Collectively, the NSI Stockholders and their affiliates own beneficially all of the outstanding shares of the Class B Common Stock. In addition, several of the NSI Stockholders are directors and/or executive officers of the Company.

Effective as of December 31, 1997, NSI contributed certain assets relating to the right to distribute NSI products in the United States to Nu Skin USA, Inc. ("Nu Skin USA"), a newly created corporation wholly owned by the NSI Stockholders, in exchange for all of the common stock of Nu Skin USA. The Nu Skin USA common stock was then distributed to the NSI Stockholders. In addition, effective as of December 31, 1997, NSI and the other Acquired Entities declared distributions to their then existing stockholders (consisting solely of the NSI Stockholders) that included all of such Acquired Entities' previously earned and undistributed S corporation earnings through such date (the "Acquired Entities' S Corporation Distribution"). As of December 31, 1997, such Acquired Entities' aggregate undistributed S corporation earnings were approximately $136.2 million. The Acquired Entities' S Corporation Distribution was distributed in the form of promissory notes due December 31, 2004 and bearing interest at 8.0 % per annum (the "Acquired Entities' S Distribution Notes"). The Acquired Entities' S Corporation Distribution Notes are held entirely by the NSI Stockholders. In addition, the Acquired Entities will declare distributions to then existing stockholders that include all of such Acquired Entities' previously earned and undistributed S corporation earnings through the date of closing of the NSI Acquisition. As discussed above, the obligation to repay the Acquired Entities' S Distribution Notes to the NSI Stockholders will be assumed by the Company in connection with the NSI Acquisition.

The Acquired Entities consist of NSI, Nu Skin International Management Group, Inc., ("NSIMG") and the NSI affiliates operating in Europe, Australia and New Zealand, including Nu Skin Europe, Inc.; Nu Skin U.K., Ltd.(domesticated in Delaware under the name Nu Skin U.K., Inc.); Nu Skin Germany, GmbH (domesticated in Delaware under the name Nu Skin Germany, Inc.); Nu Skin France, SARL (domesticated in Delaware under the name Nu Skin France, Inc.); Nu Skin Netherlands, B.V. (domesticated in Delaware under the name Nu Skin Netherlands, Inc.); Nu Skin Italy, (SRL) (domesticated in Delaware under the name Nu Skin Italy, Inc.); Nu Skin Spain, S.L. (domesticated in Delaware under the name Nu Skin Spain, Inc.); Nu Skin Belgium, N.V. (domesticated in Delaware under the name Nu Skin Belgium, Inc.); Nu Skin Personal Care Australia, Inc.; Nu Skin New Zealand, Inc.; Nu Skin Brazil, Ltda. (domesticated in Delaware under the name Nu Skin Brazil, Inc.); Nu Skin Argentina, Inc.; Nu Skin Chile, S.A. (domesticated in Delaware under the name Nu Skin Chile, Inc.); Nu Skin Poland Spa. (domesticated in Delaware under the name Nu Skin Poland, Inc.); and Cedar Meadows, L.C. The NSI Stockholders continue to own as private entities the NSI affiliates operating in the United States, Canada, Mexico, Guatemala and Puerto Rico, including Nu Skin USA, Inc.; Nu Skin Canada, Inc.; Nu Skin Mexico S.A. de C.V. (domesticated in Delaware under the name Nu Skin Mexico, Inc.); Nu Skin Guatemala, S.A. (domesticated in Delaware under the name Nu Skin Guatemala, Inc.); and Nu Skin Puerto Rico, Inc. (collectively, the "Retained Entities").

The following chart illustrates the organizational structure of the Company and the Retained Entities immediately after the NSI Acquisition.

[Organizational Chart]

Through its acquisition of NSI, the Company will obtain ownership and control of the Nu Skin trademarks and tradenames, the Nu Skin Global Compensation Plan, distributor lists and related intellectual property and know-how (collectively, the "Intellectual Property"). The Company, through NSI, intends to continue to license the Intellectual Property and, through NSIMG, intends to continue to provide management support services to the Acquired Entities on substantially the same terms as existed prior to the NSI Acquisition. In connection with the NSI Acquisition, the Company anticipates, through NSI and NSIMG, entering into new agreements with Nu Skin USA, Inc. and revised agreements with the other Retained Entities on terms substantially similar to its agreements with the Acquired Entities, pursuant to which NSI will continue to license the Intellectual Property and the exclusive right to sell Nu Skin personal care and nutritional products in the United States, Canada, Mexico, Guatemala and Puerto Rico to the Retained Entities and NSIMG will continue to provide management support services to the Retained Entities.

Upon completion of the NSI Acquisition, the Company and its subsidiaries will own and distribute Nu Skin products in 18 markets worldwide. The Company will also hold the rights to all future Nu Skin markets.

Country Profiles

The following table sets forth the Company's revenue and the total number of active distributors for each of the countries in which the Company operated for the years ended December 31, 1995, 1996 and 1997. This table should be reviewed in connection with the information presented under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," incorporated herein by reference to the Company's 1997 Annual Report, sections of which are filed herewith as Exhibit 13, which discusses the costs associated with generating the aggregate revenue presented. The Company did not commence operations in the Philippines until February 1998.

	Year Ended December 31,		
COUNTRY	1995	1996	1997
	(dollars in thousands)		
Revenue:			
Japan....................	$ 231,540	$ 380,044	$ 599,375
Taiwan...................	105,415	154,564	168,568
South Korea(1)...........	--	--	74,207
Thailand(2)..............	--	--	22,834
Hong Kong................	17,046	17,037	21,267

	Year Ended December 31,		
	1995	1996	1997
Active Distributors(3)(4):			
Japan....................	147,000	215,000	297,000
Taiwan...................	75,000	91,000	86,000
South Korea(1)...........	--	57,000	21,000
Thailand(2)..............	--	--	11,000
Hong Kong................	14,000	14,000	15,000
Total.............	236,000	377,000	430,000

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(1) The Company commenced operations in South Korea in February 1996.

(2) The Company commenced operations in Thailand in March 1997.

(3) The term "Active Distributors" includes only those distributors who purchased products from the Company during the three months ended as of the date indicated.

(4) Numbers are rounded to the nearest thousand.

The following table sets forth certain estimated economic and demographic data in each of the Company's markets for the years presented. Although the Company believes that the following table provides a useful basis for evaluating the relative size and growth of the economies and populations of the countries in which the Company operates, no assurance can be given that economic or population data in a particular country will indicate what the Company's results of operations will be in that country. In addition, the following data does not reflect the economic decline that commenced in certain of the Company's markets in 1997. The listed data was not available from the referenced source as of March 5, 1998.

Country	1996 Population (in millions)	1996 GDP (in billions of $)	1996 GDP per capita (in $)	Real GDP Growth 1996/1995 (%)
Japan...............	125.5	$4,575.2	$36,456	3.6%
Taiwan..............	21.5	270.5	12,583	5.6
South Korea.........	45.3	497.6	10,984	6.9
Hong Kong...........	6.3	158.7	25,108	4.6
Thailand............	61.8	185.0	2,993	6.7
Philippines.........	72.0	83.2	1,156	5.5

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Source: World Information Services; Country Data Forecasts, March 1997.

Japan. The Company, through its subsidiary Nu Skin Japan, commenced operations in Japan in April 1993. According to the World Federation of Direct Selling Associations ("WFDSA"), the direct selling channel in Japan generated sales of approximately $30 billion of goods and services in 1996, making Japan the largest direct selling market in the world. Management believes that as many as six million people are involved in direct selling businesses in Japan. Direct selling is well-understood in Japan and is governed by detailed government regulation. See "Risk Factors--Government Regulation of Direct Selling Activities" and "--Government Regulation of Products and Marketing; Import Restrictions."

A great deal of the Company's success to date can be directly attributed to the growth of its Japanese business in recent years. Significant revenue was recognized from the outset of the Company's operations in Japan due to the immediate attention given to the market by leading NSI distributors from around the world. Japan has continued to post strong financial results for the Company, with revenue increasing by approximately 58% in U.S. dollars and 75% in local currency for 1997 compared to 1996 and by approximately 64% in U.S. dollars and 90% in local currency for 1996 compared to 1995. Management believes that the increase from 1996 to 1997 was primarily the result of the growth in executive distributors in Japan during this period and the increasing demand for IDN products, which accounted for 38% of revenue for the period. Furthermore, given the size of the direct selling market, management believes that there is still significant opportunity for revenue growth in this market. However, a variety of factors including, without limitation, economic conditions in Asia generally and Japan specifically may hinder revenue growth. As of December 31, 1997, Nu Skin Japan offered 68 of the 90 Nu Skin personal care products and 15 of the 40 IDN products, including LifePak and LifePak Trim, the core IDN nutritional supplements. Nu Skin Japan also offered 4 popular skin lightening products, 7 additional face care products, and Aloe-MX, an Aloe vera-based nutritional drink designed specifically for Japanese consumers.

In support of the Company's growth strategy, Nu Skin Japan intends to (i) focus on internal country development by supporting the recently opened Fukuoka walk-in center and considering opening offices in additional Japanese cities, thereby increasing consumer awareness and enhancing the Company's image, (ii) expand development capacity to develop more products that are particularly suited to the Japanese market, (iii) continue to expand the current product offerings in Japan to include additional Nu Skin personal care and IDN products, (iv) enhance corporate support of distributors by upgrading information technology resources, (v) expand warehousing and distribution support facilities, and (vi) continue to build brand name recognition through sponsorship from time to time of major events such as the NBA Supergames in 1997 and the Nippon Yacht Squadron in the America's Cup 2000 Regatta.

Taiwan. The Company, through its subsidiary Nu Skin Taiwan, commenced operations in Taiwan in January 1992. According to the WFDSA, the direct selling channel in Taiwan generated approximately $1.7 billion in sales of goods and services in 1996, of which approximately 43% were nutritional products. Approximately two million people (approximately 10% of the population) are estimated to be involved in direct selling. Because a large percentage of its population is involved in direct selling activities, the Taiwan government regulates direct selling activities to a significant extent. For example, the Taiwan government has enacted tax legislation aimed at ensuring proper tax payments by distributors on their transactions with end consumers. See "Risk Factors--Government Regulations of Direct Selling Activities" and "--Government Regulation of Products and Marketing; Import Restrictions."

Revenue growth in Taiwan has averaged 41% per year since the commencement of operations in 1992. The Company believes that the 1997 increase in sales was primarily due to (i) the opening of walk-in centers in various Taiwanese cities, (ii) increased distributor training and recognition, and (iii) increased product offerings. The Company believes that Nu Skin Taiwan was the largest direct selling company in Taiwan in 1997. As of December 31, 1997, Nu Skin Taiwan offered 72 of the 90 Nu Skin personal care products and 11 of the 40 IDN products.

In support of the Company's growth strategy, Nu Skin Taiwan intends to (i) capitalize on the size of the nutritional supplements market by locally sourcing LifePak to more competitively price this core IDN product and expanding the current product offerings in Taiwan to include additional Nu Skin personal care and IDN products, (ii) focus more resources on product development specifically for the Taiwan market, and (iii) enhance corporate support of distributors by upgrading information technology resources.

Hong Kong. The Company, through its subsidiary Nu Skin Hong Kong, commenced operations in Hong Kong in September 1991. According to the WFDSA, the direct selling channel in Hong King generated approximately $78 million in sales of goods and services in 1995. Hong Kong represents an important market in the structure of the Asian region because it serves as the location of the Company's regional office and is an important base of operations for many of the Company's most successful distributors, whose downline distributor networks extend into other Asian markets. As of December 31, 1997, Nu Skin Hong Kong offered 86 of the 90 Nu Skin personal care products and 18 of the 40 IDN products.

Hong Kong became a Special Administrative Region (SAR) of the PRC effective July 1, 1997. Although the Company has not perceived any material impact resulting from the integration, further integration of the Hong Kong economy and political system with the economy and political system of the PRC could have an impact on the Company's business in Hong Kong. See "Risk Factors--Possible Adverse Effect on the Company of the Change in the Status of Hong Kong."

In February 1995, Macau, a Portuguese colony scheduled to become an SAR of the PRC in 1999, was opened as a new market. Revenue figures for Macau are combined with those of Hong Kong. Macau represents the smallest of the Company's markets in population with just under 500,000 residents. The Company's Macau office operates under the direction of Nu Skin Hong Kong.

In support of the Company's growth strategy, Nu Skin Hong Kong intends to (i) promote distributor growth, retention and leadership development through local initiatives, (ii) capitalize on the size of the nutritional supplements market by promoting the premium LifePak nutritional supplement, (iii) expanding the current product offerings in Hong Kong to include additional Nu Skin personal care and IDN products, and (iv) stimulate purchases from inactive distributors through direct mail campaigns.

South Korea. The Company, through its subsidiary Nu Skin Korea, commenced operations in South Korea in February 1996. According to the WFDSA, the direct selling channel in South Korea generated approximately $1.8 billion in sales of goods and services in 1996. South Korea's direct sales legislation, which went into effect in July 1995, requires companies to comply with numerous provisions, such as local registration, reporting of certain operating results and dissemination to distributors of certain information regarding the laws. Nu Skin Korea was among the first foreign-owned firms to register and begin operations under the new direct selling legislation. See "Risk Factors--Government Regulations of Direct Selling Activities" and "--Government Regulation of Products and Marketing; Import Restrictions."

Management believes that Nu Skin Korea was one of the largest direct sellers in the country during this time period. As of December 31, 1997, Nu Skin Korea offered 52 of the 90 Nu Skin personal care products and 1 of the 40 IDN products. Additionally, Nu Skin Korea offered various shades of Nu Colour MoistureShade Liquid Finish designed specifically for Korean consumers.

The Company had sales in South Korea of approximately $122 million and $74 million for 1996 and 1997, respectively. The Company believes that the revenue decline in South Korea during the second half of 1997, although partially reflective of the business cycle experienced by the Company in other new markets, was primarily the result of other factors specific to South Korea. These other factors include a general collapse of the South Korean economy, volatility in the South Korean won and activities by the South Korean government and campaigns by a coalition of consumer protection and trade organizations against producers of luxury and foreign goods, in general, and certain network marketing companies, in particular, that resulted in negative media attention. Management believes that the media attention has negatively impacted the business environment generally. See "--Potential Effects of Adverse Publicity." Additionally, the recent economic decline in South Korea has resulted in reduced consumer spending on foreign goods. Further, the devaluation of the Korean won has suppressed reported U.S. dollar revenues.

In support of the Company's growth strategy, Nu Skin Korea intends to (i) engage in the local manufacturing of certain products to alleviate concerns about the high level of goods being imported into South Korea by the Company, (ii) engage in targeted promotional and public relations activities designed to address concerns regarding the current business environment for direct selling companies, (iii) promote the development of local distributor leadership, including focused training efforts, compensation plan modifications and the introduction of distributor productivity programs, and (iv) build the local distributor support infrastructure.

Thailand. The Company, through its subsidiary, Nu Skin Thailand, commenced operations in Thailand on March 13, 1997. According to the WFDSA, direct sales in 1996 totaled $800 million in Thailand, making it the fourteenth largest direct selling market worldwide. The Company's opening in Thailand was supported by more than 200 of NSI's highest ranking distributors, many of whom are from Taiwan and other Asian markets. As of December 31, 1997, Nu Skin Thailand offered 31 of the 90 Nu Skin personal care products and none of the IDN products. Initial revenue growth in the first half of 1997 slowed dramatically in the second half of 1997 due primarily to economic turmoil in Thailand which led to a significant devaluation of the Thai baht and a general slowdown in consumer spending for foreign goods.

In Thailand, the Company intends to (i) systematically introduce additional Nu Skin personal care products including locally sourced products at a value price, (ii) promote the Company's brand image through public relations efforts, including the endorsement of Nu Skin personal care products by the 1995-1996 Miss Thailand, and (iii) train new distributors in the most effective methods of marketing the Company's products and in becoming effective leaders within NSI's global distributor compensation plan (the "Global Compensation Plan") framework.

Philippines. The Company, through its subsidiary Nu Skin Philippines, commenced operations in the Philippines on February 4, 1998. The opening was supported by over 150 of NSI's highest ranking distributors. Nu Skin Philippines currently offers 26 of the 90 personal care products, none of the IDN products and 11 personal care products that are manufactured in the Philippines under the brand name Scion. The locally produced Scion personal care product line is priced to appeal to a broader demographic segment of the population than Nu Skin premium products. The Company intends to focus on establishing a stable distributor base prior to implementing product line enhancements. In addition, the Company also has implemented an enhancement to the Global Compensation Plan to provide greater incentives for distributors at low executive levels in this country with relatively low per capita income.

New Market Opportunities

The Company has developed a low cost, disciplined approach to opening new markets. Each market opening is preceded by a thorough analysis of economic and political conditions, regulatory standards and other business, tax and legal issues. Prior to a market opening, the Company's management team, in conjunction with NSI support personnel, local legal counsel and tax advisors, works to obtain all necessary regulatory approvals and establish facilities capable of meeting distributor needs. This approach, combined with the Global Compensation Plan which motivates distributors to sponsor and train other distributors to sell products in new markets, has enabled the Company to quickly and successfully open new markets.

The Company has the right to be the exclusive distributor of NSI products in Indonesia, Malaysia, the PRC, Singapore and Vietnam. The Company believes that these countries collectively represent significant markets for future expansion; however, no assurance can be given that Nu Skin operations will ever be commenced in these counties. Generally, the Company, as a matter of policy, does not announce the timing of its opening of new markets.

There are, however, significant risks and uncertainties associated with the Company's expansion into these countries. The regulatory and political climate in these potential markets is such that a replication of the Company's current operating structure cannot be guaranteed. For example, Malaysia has governmental guidelines that have the effect of limiting foreign ownership of direct selling companies operating in Malaysia to no more than 30%. In addition, because the Company's personal care and nutritional product lines are generally positioned as premium product lines, the market potential for the Company's product lines in relatively less developed countries, such as the PRC and Vietnam, remains to be determined. Modifications to each product line may be needed to accommodate the market conditions in each country, while maintaining the integrity of the Company's products. No assurance can be given that the Company will be able to obtain necessary regulatory approvals to commence operations in these new markets, or that, once such approvals are obtained, the Company and NSI, upon which the Company is largely dependent for product development assistance, will be able to successfully reformulate Nu Skin personal care and IDN product lines in any of the Company's new markets to attract local consumers. Given existing regulatory environments and economic conditions, the Company's entrance into Singapore and Vietnam is not anticipated in the short to mid-term. See "Risk Factors--Entering New Markets" and "--Government Regulation of Products and Marketing; Import Restrictions."

The following table sets forth certain estimated economic and demographic data in each of the countries for which the Company has an exclusive license but in which the Company has not commenced Nu Skin operations. Although the Company believes that the following table provides a useful basis for evaluating the relative size and growth of the economies and populations of the countries in which the Company intends to operate, no assurance can be given that economic or population data in a particular country will indicate what the Company's results of operations, if any, will be in that country.

Country	1996 Population (in millions)	1996 GDP (in billions of $)	1996 GDP per capita (in $)	Real GDP Growth 1996/1995 (%)
Indonesia..............	197.4	$224.5	$1,137	7.8%
Malaysia...............	20.5	97.2	4,751	8.2
PRC....................	1,236.0	808.2	654	9.7
Singapore..............	3.0	93.2	30,771	7.0
Vietnam................	76.3	26.1	342	9.3

Source: World Information Services; Country Data Forecasts, March 1997.

Indonesia. Although historically not open to foreign investment opportunities, in the mid 1990's, Indonesia experienced an emphasis on deregulation and private enterprise and an average annual growth in GDP of 6% from 1985 to 1994. The Indonesian Direct Selling Association reports that there are 750,000 participants in direct selling in the country. During the latter part of 1997, Indonesia experienced a significant devaluation in its local currency and significant economic turmoil. Due to these recent factors, management believes that immediate expansion into this market is not in the Company's best interest.

Malaysia. According to the WFDSA, more than $760 million in goods and services were sold through the direct selling channel in Malaysia in 1996. There are currently numerous direct selling companies operating in Malaysia. In October 1995, the Company's business permit applications were denied by the Malaysian government as the result of activities by certain NSI distributors before required government approvals could be secured. See "Risk Factors--Potential Negative Impact of Distributor Actions" and "--Potential Effects of Adverse Publicity." Management is continuing to evaluate the time frame in which it will reapproach the Malaysian market.

PRC. With the PRC's large population and the Company's success in the neighboring and Chinese-speaking countries of Hong Kong and Taiwan, management believes that the PRC may be an attractive market for the Company. However, the PRC has proven to be a particularly difficult market for foreign corporations due to its extensive government regulation and historical political tenets, and no assurance can be given that the Company will be able to establish Nu Skin operations in the PRC using the Company's business model or otherwise. The Company believes that entering the PRC may require the successful establishment of a joint venture enterprise with a Chinese partner and the establishment of a local manufacturing presence. These initiatives would likely require a significant investment over time by the Company. The Company believes that the PRC national regulatory agency responsible for direct selling periodically reviews the regulation of multi-level marketing. Management is aware of recent media and other reports in the PRC reporting an increasing desire on the part of senior government officers to curtail or even abolish direct selling and multi-level marketing activities. These views may lead to changes in applicable regulations. The Company believes that PRC regulators are currently not issuing direct selling or multi-level marketing licenses and may take action restricting or rescinding currently licensed direct selling businesses. The Company is actively working on these and other issues including joint ventures and potential marketing alternatives related to possible Nu Skin operations in the PRC. It is not known when or whether the Company will be able to implement in the PRC business models consistent with those used by the Company in other markets. The Company will likely have to apply for licenses on a province by province basis, and the repatriation of the Company's profits will be subject to restrictions on currency conversion and the fluctuations of the government controlled exchange rate. In addition, because distribution systems in the PRC are greatly fragmented, the Company may be forced to use business models significantly different from those used by the Company in more developed countries. The lack of a comprehensive legal system, the uncertainties of enforcement of existing legislation and laws, and potential revisions of existing laws could have an adverse effect on the Company's proposed business in the PRC. See "Risk Factors--Entering New Markets."

Singapore. In Singapore, relatively high levels of GDP per capita indicate that the country enjoys strong consumer buying power and a dynamic market structure similar to, yet smaller than, Hong Kong. Although direct selling activities are permitted, currently network marketing is not allowed in Singapore. Accordingly, the Company's entrance into Singapore is not anticipated in the short to mid-term. See "--Government Regulation--Regulation of Products and Marketing; Import Restrictions."

Vietnam. The Company believes that there is little or no direct selling activity in Vietnam. However, the country is moving towards a market-based economy and has recently adopted a freely convertible currency. The Company anticipates that the increase in free enterprise will help to develop the direct selling channel. However, given existing regulatory, environmental and economic conditions, the Company's entrance into Vietnam is not anticipated in the short to mid-term.

Southeast Asian and South Korean Economic Crisis

During 1997, economic and in some cases political conditions in Southeast Asia and South Korea continued to decline. The region currently labors under declining stock and currency markets, mounting bad bank debt, bankruptcies involving some of its largest business enterprises, excess capacity, decreasing demand for foreign goods and political unrest. These conditions are most significantly reflected in the Company's operating results in South Korea and Thailand. The Company has announced initiatives in each of its existing markets to promote and sustain growth. These initiatives include increasing the local production of products, supplementary product offerings with more moderately priced goods, and enhancing the sales compensation plan to provide for greater commission payouts at lower qualifying levels. No assurances can be given that these initiatives will be successful. See " --Country Profiles" herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations-- Outlook" incorporated herein by reference to the Company's 1997 Annual Report, sections of which are filed herewith as Exhibit 13.

Distribution System

Overview of Distribution System. The foundation of the Company's sales philosophy and distribution system is network marketing. Under most network marketing systems, distributors purchase products for retail sale and personal consumption. Pursuant to the Global Compensation Plan, products are sold exclusively to or through independent distributors who are not employees of the Company or NSI. Distributors contract directly with NSI, and NSI makes such distributors available to the Company through Licensing and Sales Agreements. See "--Relationship with NSI."

Network marketing is an effective vehicle to distribute the Company's products because (i) a consumer can be educated about a product in person by a distributor, which is more direct than the use of television and print advertisements; (ii) direct sales allow for actual product testing by a potential consumer; (iii) the impact of distributor and consumer testimonials is enhanced; and (iv) as compared to other distribution methods, distributors can give customers higher levels of service and attention, by, among other things, delivering products directly to a consumer and following up on sales to ensure proper product usage and customer satisfaction, and to encourage repeat purchases. Under most network marketing systems, independent distributors purchase products for resale and for personal consumption.

Direct selling as a distribution channel has been enhanced in the past decade due to advancements in communications, including telecommunications, and the proliferation of the use of videos and fax machines. Direct selling companies can now produce high quality videos for use in product education, demonstrations and sponsoring sessions that project a desired image for the Company and the product line. Management believes that high quality sales aids play an important role in the success of distributor efforts. For this reason, NSI maintains an in-house staff of video production personnel and video and audio cassette duplication equipment for timely and cost-effective production of sales materials. These facilities and expertise are available for the Company's use. Management is committed to fully utilizing current and future technological advances to continue enhancing the effectiveness of direct selling.

NSI's network marketing program differs from many other network marketing programs in several respects. First, the Global Compensation Plan allows NSI distributors to develop a seamless global network of downline distributors. Second, NSI's order and fulfillment systems eliminate the need for distributors to carry significant levels of inventory. Third, the Global Compensation Plan is among the most financially rewarding plans offered to distributors by network marketing companies, and can result in commissions to distributors aggregating up to 58% of a product's wholesale price. On a global basis, commissions have averaged approximately 42% of revenue from commissionable sales over the last eight years. Because the Company licenses the right to use the Global Compensation Plan from NSI, the structure of the plan, including commission rates, is largely under the control of NSI. See "Risk Factors--Increase in Distributor Compensation Expense."

The Company's revenue is directly dependent upon the efforts of distributors. Growth in sales volume requires an increase in the productivity of distributors and/or growth in the total number of distributors. Because the distributors have contracted directly with NSI, the Company primarily relies on NSI to enforce distributor policies and procedures. There can be no assurance that the productivity or number of distributors will be sustained at current levels or increased in the future. See "Risk Factors--Reliance Upon Independent Distributors of NSI." Furthermore, the Company estimates that, as of December 31, 1997, approximately 300 distributorships worldwide comprised NSI's Hawaiian Blue Diamond and Blue Diamond executive distributor levels, which are NSI's two highest executive distributor levels and, together with their extensive downline networks, account for substantially all of the Company's revenue. Consequently, the loss of such a high-level distributor or another key distributor, together with a group of leading distributors in such distributor's downline network, or the loss of a significant number of distributors for any reason, could adversely affect the Company's results of operations. See "Risk Factors--Reliance on Certain Distributors; Potential Divergence of Interests between Distributors and the Company."

Sponsoring. The Company relies solely on NSI distributors to sponsor new distributors. While the Company provides, at cost, product samples, brochures, magazines and other sales materials, distributors are primarily responsible for educating new distributors with respect to products, the Global Compensation Plan, and how to build a successful distributorship.

The sponsoring of new distributors creates multiple levels in the network marketing structure. Persons whom a distributor sponsors are referred to as "downline" or "sponsored" distributors. If downline distributors also sponsor, they create additional levels in the structure, but their downline distributors remain part of the same downline network as their original sponsoring distributor. See "Risk Factors--Reliance on Certain Distributors; Potential Divergence of Interests between Distributors and the Company."

Sponsoring activities are not required of distributors. However, because of the financial incentives provided to those who succeed in building a distributor network that consumes and resells products, the Company believes that most of its distributors attempt, with varying degrees of effort and success, to sponsor additional distributors. Generally, distributors invite friends, family members and acquaintances to sales meetings where Company products are presented and where the Global Compensation Plan is explained. People are often attracted to become distributors after using Company products and becoming regular retail customers. Once a person becomes a distributor, he or she is able to purchase products directly from the Company at wholesale prices for resale to consumers or for personal consumption. The distributor is also entitled to sponsor other distributors in order to build a network of distributors and product users.

A potential distributor must enter into a standard distributor agreement with NSI which obligates the distributor to abide by NSI's policies and procedures. Additionally, in all countries except Japan, a new distributor is required to enter into a product purchase agreement with the Company's local subsidiary, which governs product purchases. In Japan, Taiwan, Hong Kong and the Philippines, distributors are also required to purchase a starter kit, which includes NSI's policies and procedures, for between $55 and $85, which essentially represents the cost of producing the starter kit. In South Korea and Thailand, distributors are not required to purchase a starter kit.

Global Compensation Plan. Management believes that one of the Company's key competitive advantages is the Global Compensation Plan, which it licenses from NSI. Distributors receive higher levels of commissions as they advance under the Global Compensation Plan. The Global Compensation Plan is seamlessly integrated across all markets in which Nu Skin personal care and IDN products are sold, which allows distributors to receive commissions for global product sales, rather than merely local product sales. This seamless integration means that the Company's distributor base has global reach and that the knowledge and experience resident in current distributors can be used to build distributor leadership in new markets. Outside of the Company's markets, NSI currently has affiliated operations in the U.S., the United Kingdom, Puerto Rico, Canada, Australia, New Zealand, Ireland, Germany, France, the Netherlands, Belgium, Italy, Spain, Austria, Portugal, Mexico and Guatemala. Allowing distributors to receive commissions at the same rate for sales in foreign countries as for sales in their home country is a significant benefit to distributors because they are not required to establish new distributorships or requalify for higher levels of commissions within each new country in which they begin to operate, which is frequently the case under the compensation plans of the Company's major competitors. Under the Global Compensation Plan, a distributor is paid consolidated monthly commissions in the distributor's home country, in local currency, for product sales in that distributor's global downline distributor network. Current and future distributor lists have been licensed by NSI to the Company pursuant to Licensing and Sales Agreements. See "--Relationship with NSI."

The Global Compensation Plan allows an individual the opportunity to develop a business, the success of which is based upon that individual's level of commitment, time, enthusiasm, personal skills, contacts, and motivation. For many, a distributorship is a very small business, in which products may be purchased primarily for personal consumption and for resale to relatively few customers. For others, a distributorship becomes a full-time occupation.

High Level of Distributor Incentives. Based upon its knowledge of network marketing distributor compensation plans, the Company believes that the Global Compensation Plan is among the most financially rewarding plans offered to distributors by network marketing companies. There are two fundamental ways in which distributors can earn money: (i) through retail markups, for which the Company recommends a range from 43% to 60%; and (ii) through a series of commissions on product sales, which can result in commissions to distributors aggregating up to 58% of such product's wholesale price. On a global basis, however, commissions have averaged approximately 42% of revenue from commissionable sales over the last eight years. See "Risk Factors--Increase in Distributor Compensation Expense."

Each product carries a specified number of sales volume points. Commissions are based on total personal and group sales volume points per month. Sales volume points are essentially based upon a product's wholesale cost, net of any point of sale taxes. As a distributor's retail business expands and as he or she successfully sponsors other distributors into the business who in turn expand their own businesses, he or she receives a higher percentage of commissions.

Once a distributor becomes an executive, the distributor can begin to take full advantage of the benefits of commission payments on personal and group sales volume. To achieve executive status, a distributor must submit a qualifying letter of intent and achieve specified personal and group sales volumes for a four-month period of time. To maintain executive status, a distributor must generally also maintain specified personal and group sales volumes each month. An executive's commissions increase substantially as multiple downline distributors achieve executive status. In determining commissions, the number of levels of downline distributors that can be included in an executive's group increases as the number of executive distributorship directly below the executive increases.

As of the dates indicated below, the Company had the following number of executive distributors.

Total Number of Executive Distributors

	As of December 31,				
Executive Distributors	1993	1994	1995	1996	1997
Japan	2,459	3,613	4,017	10,169	15,756
Taiwan	1,170	2,093	3,014	5,098	4,342
South Korea	--	--	--	4,675	898
Thailand	--	--	--	--	308
Hong Kong	275	377	519	541	641
Total	3,907	6,083	7,550	20,483	21,945

On a monthly basis, the Company and NSI evaluate requests for exceptions to the Global Compensation Plan. While the general policy is to discourage exceptions, management believes that the flexibility to grant such exceptions is critical in retaining distributor loyalty and dedication. In each market, distributor services personnel evaluate each such instance and make appropriate recommendations to NSI.

Distributor Support. The Company is committed to providing high level support services tailored to the needs of its distributors in each market. The Company meets the needs and builds the loyalty of its distributors with personalized distributor service, a support staff that assists distributors as they build networks of downline distributors, and a liberal product return policy. Because many distributors have only a limited number of hours each week to concentrate on their Nu Skin business, management believes that maximizing a distributor's efforts through effective support of each distributor has been and will continue to be important to the success of the Company.

Through training meetings, annual conventions, distributor focus groups, regular telephone conference calls and personal contacts with distributors, the Company seeks to understand and satisfy the needs of each distributor. The Company provides walk-in, telephonic and computerized product fulfillment and tracking services that result in user-friendly, timely product distribution. In addition, the Company is committed to evaluating new ideas in technology and services, such as automatic product reordering, that the Company can provide to distributors. The Company currently utilizes voicemail, teleconferencing and fax services. Global Internet access (including Company and product information, ordering abilities and group and personal sales volume inquiries) is anticipated to be provided to distributors in the future. Each walk-in center maintains meeting rooms which distributors may utilize in training and sponsoring activities.

Rules Affecting Distributors. NSI's standard distributor agreement, policies and procedures, and compensation plan contained in every starter and/or introductory kit outline the scope of permissible distributor marketing activities. The Company's distributor rules and guidelines are designed to provide distributors with maximum flexibility and opportunity within the bounds of governmental regulations regarding network marketing. Distributors are independent contractors and are thus prohibited from representing themselves as agents or employees of NSI or the Company. Distributors are obligated to present the Company's products and business opportunity ethically and professionally. Distributors agree that the presentation of the Company's business opportunity must be consistent with, and limited to, the product claims and representations made in literature distributed by the Company. No medical claims may be made regarding the products, nor may distributors prescribe any particular product as suitable for any specific ailment. Even though sponsoring activities can be conducted in many countries, distributors are prohibited from conducting marketing activities outside of countries in which NSI and the Company conduct business and are not allowed to export products from one country to another. See "Risk Factors--Potential Negative Impact of Distributor Actions."

Distributors must represent that the receipt of commissions is based on substantial efforts. Exhibiting commission statements or checks is prohibited. Sales aids such as videotapes, promotional clothing, pens, stationary and other miscellaneous items must be produced or pre-approved by the Company or NSI.

Distributors may not use any form of media advertising to promote products. Products may be promoted only by personal contact or by literature produced or approved by the Company. Generic business opportunity advertisements (without using either the Company or the NSI names) may be placed in accordance with certain guidelines in some countries. NSI logos and names may not be permanently displayed on physical premises. Distributors may not use NSI trademarks or other intellectual property of NSI without NSI's consent.

Products may not be sold, and the business opportunity may not be promoted, in traditional retail environments such as food markets, pharmacies and drugstores. Nor may business be conducted at conventions, trade shows, flea markets, swap meets, and similar events. Distributors who own or are employed by a service-related business such as a doctor's office, hair salon, or health club, may make products available to regular customers as long as products are not displayed visibly to the general public in such a way as to attract the general public into the establishment to purchase products.

Generally, distributors can receive commission bonuses only if, on a monthly basis (i) the distributor achieves at least 100 points (approximately U.S. $100) in personal sales volume, (ii) the distributor documents retail sales to at least five retail customers, (iii) the distributor sells and/or consumes at least 80% of personal sales volume, and (iv) the distributor is not in default of any material policies or procedures.

NSI systematically reviews alleged reports of distributor misbehavior. If NSI determines that a distributor has violated any of the distributor policies or procedures, it may either terminate the distributor's rights completely or impose sanctions such as warnings, probation, withdrawal or denial of an award, suspension of privileges of a distributorship, fines or penalties, withholding commissions until specified conditions are satisfied, or other appropriate injunctive relief. Distributor terminations based on violations of NSI's policies and procedures have aggregated less than 1% of the Company's distributor force since inception. Distributors may voluntarily terminate their distributorship at any time.

Payment. Distributors generally pay for products prior to shipment. Accordingly, the Company carries no accounts receivable from distributors. Distributors typically pay for products in cash, by wire transfer, and by credit cards. Cash, which represents a large portion of all payments, is received by order takers in the distribution center when orders are personally picked up by a distributor.

Product Summary

The Company offers products in two distinct categories: personal care products, marketed under the trademark "Nu Skin," and nutritional products, marketed under the trademark "Interior Design Nutritionals" (IDN). The Company is entitled to distribute NSI products in specified Asian countries pursuant to a Regional Distribution Agreement. See "--Relationship with NSI" and "Risk Factors--Relationship with and Reliance on NSI; Potential Conflicts of Interest." NSI markets 90 different personal care and 40 different nutritional products, of which 85 and 24, respectively, were available in at least one of the Company's current markets as of December 31, 1997. Nearly all products sold by the Company are purchased from NSI, with the exception of a line of 11 personal care products which are produced locally in Japan as well as a line of 11 personal care products which are produced locally in the Philippines. In addition to products, the Company offers a variety of sales aids, including items such as starter kits, introductory kits, brochures, product catalogs, videotape and personal care accessories. See "Risk Factors--Product Liability."

The following chart indicates how many of the Nu Skin personal care and IDN products were available as of December 31, 1997, in each of the Company's current markets.

Nu Skin Personal Care and IDN Product Offerings

Product Categories/Product Lines	Total Products Offered by NSI	Products Offered: Japan	Taiwan	Hong Kong	South Korea	Thailand
Nu Skin Personal Care:						
Facial Care	20	14(1)	13	18	13	10
Body Care	12	10	9	12	9	9
Hair Care	14	13	13	14	12	10
Color Cosmetics	13	13	13	13	8(2)	-
Specialty	31	18	24	29	10	2
Total	90	68	72	86	52	31
Nutritional Supplements	17	7	4	4	1	-
Nutritious and Healthy Snacks	7	3	4	6	-	-
Sports and Fitness Nutritional Products	1	-	-	-	-	-
Health Solutions	3	-	-	-	-	-
Botanical Supplements	8	4	3	8	-	-
Total	40	15	11	18	1	-

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(1) In Japan, the Company also sells 11 locally sourced personal care products.
(2) In South Korea, the Company also sells one locally sourced color cosmetic product.

Presented below are the dollar amount and percentage of revenue of each of the two product categories and other sales aid revenue for the years ended December 31, 1995, 1996 and 1997.

Revenue by Product Category

Product Category	Year Ended December 31, 1995 $	%	Year Ended December 31, 1996 $	%	Year Ended December 31, 1997 $	%
Nu Skin Personal care	$ 303,387	84.6%	$ 493,609	72.8%	$ 569,156	63.9%
IDN	23,959	6.7	138,593	20.4	272,402	30.6
Sales aids	31,263	8.7	46,394	6.8	48,990	5.5
Total	$ 358,609	100.0%	$ 678,596	100.0%	$ 890,548	100.0%

Nu Skin Personal Care Products

The Company's current Nu Skin personal care products category is divided into the following lines: facial care, body care, hair care and color cosmetics, as well as specialty products, such as sun protection, oral hygiene and fragrances. Each of the Subsidiaries markets a variety of the 90 personal care products currently offered by NSI. The Company also offers product sets that include a variety of products in each product line as well as small, sample-size packages to facilitate product sampling by potential consumers. The product sets are especially popular during the opening phase of a new country, where distributors and consumers are anxious to purchase a variety of products, and during holiday and gift giving seasons in each market. The Company anticipates the introduction of additional personal care products into each market, based on the likelihood of the particular product's success in the market as well as applicable regulatory approvals. See "Risk Factors--Government Regulation of Products and Marketing; Import Restrictions."

The Nu Skin personal care products offered in Taiwan and Hong Kong are substantially the same formulations of the products offered by NSI in the U.S. In Japan and South Korea, however, most of the products have been reformulated to satisfy certain regulatory requirements with respect to product ingredients and preservatives and to meet the preferences of Japanese and South Korean consumers.

The following is a brief description of each line within the personal care product category offered by the Company as of December 31, 1997:

Facial Care. The goal of the facial care line is to allow users to cleanse thoroughly without causing dryness and to moisturize with effective humectants that allow the skin to attract and retain vital water. The Company's facial care line currently consists of 20 different products: Cleansing Lotion, Facial Scrub, Exfoliant Scrub, Facial Cleansing Bar, Clay Pack, pH Balance Facial Toner, NaPCA Moisturizer, Rejuvenating Cream, Celltrex (called Hylatrex in Japan and South Korea), Intensive Eye Complex, HPX Hydrating Gel, Face Lift and Activator (two formulas for sensitive and normal skin), Jungamals Lip Balm, Clarifex Cleansing Scrub, Clarifex Mud, Alpha Extra Face, Nu Colour Eye Makeup Remover, MHA Revitalizing Lotion, MHA Revitalizing Lotion with SPF 15 and Interim MHA Diminishing Gel. In addition, Nu Skin Japan also offers a line of four popular skin lightening products and seven additional facial care products designed particularly for Japanese consumers.

Body Care. The Company's line of body care products relies on premium quality ingredients to cleanse and condition skin. The cleansers are uniquely formulated without soap, and the moisturizers contain light but effective humectants and emollients. The Company's body care line currently consists of 12 products: Antibacterial Body Cleansing Gel, Liquid Body Lufra, Body Smoother, Hand Lotion, NaPCA Moisture Mist, Body Bar, Body Cleansing Gel, Enhancer, Jungamals Crazy Crocodile Cleaner, Alpha Extra Body, MHA Revitalzing Body Lotion and Dermatic Effects Body Contouring Lotion.

Hair Care. The Company's hair care line, HairFitness, is designed to meet the needs of people with all types of hair and hair problems. Focusing on the condition of the scalp and its impact on hair quality, the Company's hair care products use water-soluble conditioners like panthenol to reduce build-up on the scalp and to promote healthy hair. HairFitness includes 12 products featuring ceregen, a revolutionary wheat hydrocolloid complex of conditioning molecules that have been shown to have dramatic hair repair and moisture control aspects: 3 in 1 Shampoo, Moisturizing Shampoo, Balancing Shampoo, Vital Shampoo, Deep Clarifying Shampoo, Glacial Therapy, Weightless Conditioner, Luxurious Conditioner, Conditioning Detangler Spray, Styling Gel, Holding Spray and Mousse (Styling Foam). The Company also carries Dermanator Shampoo and Jungamals Tiger Tangle Tamer Shampoo.

Color Cosmetics. In the latter part of 1995, the Company introduced Nu Colour, a new line of color cosmetics, in Hong Kong, Taiwan and Japan. Nu Colour was introduced in South Korea during 1997. The Nu Colour line consists of 13 products with 105 SKU's including MoistureShade Liquid Finish (10), MoistureShade Pressed Powder (8), Blush (9), Eye Shadow (10), Mascara (2), Eyeliner (7), Lip Liner (10), Lipstick (32), DraMATTEics Lip Pencils (6), Lip Gloss, Creme Concealer (5), Finishing Powder and Brow Pencil (4).

Specialty Products. Epoch is a unique line of ethnobotanical personal care products created in cooperation with well known ethnobotanists. These products, which unite natural compounds used by indigenous cultures with advanced scientific ingredients, include Glacial Marine Mud, Deodorant with Citrisomes, Polishing Bar, LeafClean Hand Wash, Everglide Foaming Shave Gel, Desert Breeze Aftershave, Post Shave Lotion for Women, Infusions Herbal Bath, Emulsions and Firewalker Foot Cream. Epoch was launched in August 1996 in Hong Kong, in October 1996 in Taiwan, in February 1997 in Japan and in December 1997 in South Korea and Thailand. Nu Skin Korea and Nu Skin Thailand currently offer only one Epoch product, Glacial Marine Mud. Glacial Marine Mud is exclusively licensed to NSI for sale in the direct selling channel.

Nutriol, a line of products exclusively licensed to NSI for sale in the direct selling channel and manufactured in Europe, consists of five products: Nutriol Hair Fitness Preparation, Nutriol Shampoo, Nutriol Mascara, Nutriol Nail and Nutriol Eyelash. Nutriol represents a product designed to replenish the hair's vital minerals and elements. Each Nutriol product uses mucopolysaccharide, a patented ingredient.

The Company's line of Sunright products is designed to provide a variety of sun screen protection with non-irritating and non-greasy products. The sun protection line includes a sun preparation product that prepares the skin for the drying impact of the sun, five sun screen alternatives with various levels of SPF, and a sun screen lip balm. In the Asian market, the Company's sun care line is currently available in Hong Kong, Japan, Taiwan, South Korea and Thailand. At present, Sunright Lip Balm is not available in Japan. Currently, Sunright Prime Pre & Part Sun Moisturizer and Sunright Lip Balm are not available in Taiwan and South Korea. Nu Skin Thailand currently offers only one Sunright product.

AP-24, a line of oral health care products which incorporates anti-plaque technology designed to help prevent plaque build-up 24 hours a day, is exclusively licensed to the Company, together with the associated trademark, for sale in the direct selling channel under the trademark AP-24. This product line includes AP-24 Anti-Plaque Toothpaste, AP-24 Anti-Plaque Mouthwash, AP-24 Triple Action Dental Floss, AP-24 Anti-Plaque Breath Spray and the recently introduced AP-24 Whitening Flouride Toothpaste. These products are currently available in Hong Kong and Taiwan. The AP-24 oral health care products for kids are designed to make oral care fun for children and includes Jungamal's Tough Tusk Toothpaste and Jungamal's Fluffy Flamingo Floss.

The Company offers a men's and a women's fragrance under the Nu Skin trademark Safiro. The Company also offers a Nail Care Kit.

Product Sets. The Company currently offers product sets that include a sampling of products from a given product line. These package configurations are intended to encourage increased product trials.

Interior Design Nutritionals

The IDN product category is comprised of 40 products in the following lines: nutritional supplements, nutritious and healthy snacks, sports and fitness nutritional products, health solutions and botanical supplements. IDN is designed to promote healthy, active lifestyles and general well-being through proper diet, exercise and nutrition. Although less developed in the Asian market than the Nu Skin personal care category, each of the Subsidiaries, except Nu Skin Thailand, markets a variety of the IDN products offered by NSI. Nu Skin Korea currently offers only one IDN product, LifePak. In the United States, the IDN division is an official licensee of the U.S. Olympic Committee. In South Korea, LifePak is the official nutritional supplement of the Korean Olympic Committee

The Company believes that the nutritional supplement market is expanding in Asia because of changing dietary patterns, a health-conscious population and reports supporting the benefits of using vitamin and mineral nutritional supplements. This product line is particularly well suited to network marketing because the average consumer is often uneducated regarding nutritional products. The Company believes that network marketing is a more efficient method than traditional retailing channels in educating consumers regarding the benefits of nutritional products. Because of the numerous over-the-counter vitamin and mineral supplements in Asia, the Company believes that individual attention and testimonials by distributors will provide information and comfort to a potential consumer.

IDN products generally require reformulation to satisfy the strict regulatory requirements of each Asian market. While each product's concept and positioning are generally the same, regulatory differences between U.S. and Asian markets result in some product ingredient differences. See "Risk Factors--Government Regulation of Products and Marketing." In addition, Asian preferences and regulations favor tablets instead of gel caps, which are typically used in the U.S.

The following is a brief description of each of the IDN product lines:

Nutritional Supplements. LifePak and LifePak Trim, the core IDN nutritional supplements, are designed to provide an optimum mix of nutrients including vitamins, minerals, antioxidants and phytonutrients (natural chemical extracts from plants). The introduction of LifePak in Japan in October 1995 resulted in a significant increase in revenue and currently represents approximately 24% of the Company's revenue in Japan. LifePak was launched in Taiwan, Hong Kong and South Korea in October 1996, January 1997 and August 1997, respectively.

Additional nutritional supplements include: Vitox, which incorporates beta carotene and other important vitamins for overall health; Metabotrim, which provides B vitamins and chromium chelate; Optimum Omega, a pure source of omega 3 fatty acids; Image HNS, an all-around vitamin and antioxidant supplement; and Optigar Q, a blend of co-enzyme Q10 and deodorized garlic. The Company also offers FibreNet, FibreNet Plus and Diene-O-Lean as a part of its nutritional supplement offerings. The IDN Masters Wellness Supplement provides nutrition specifically for an aging generation. Jungamals Children's Chewables combine natural flavors and colors and contain a unique blend of antioxidants, chelated minerals, and vitamins specifically tailored for children. NutriFi contains four grams of soluble and insoluble fibers per serving in a powder that can be added to liquids and foods to supplement the recommended daily amounts of fiber.

As an enhancement to the core IDN nutritional supplements, LifePak and LifePak Trim, NSI introduced LifePak Women and LifePak Prime. These products address the more specific nutritional needs of women and the aging generation. Also launched by NSI were Life Essentials, a lower cost, more general nutritional supplement, and Nightime Complex with Melatonin, a sleep aid. The Company is currently evaluating the feasibility of introducing these nutritional supplements into its markets.

Nutritious and Healthy Snacks. As part of the Company's mission to promote a healthy lifestyle and long-term wellness, IDN includes Fiberry Fat-Free Snack Bars and Appeal Lite, a nutritional drink containing chelated minerals and vitamins. The Company also offers Breakbars and Pocket Fuel, nutritious snacks which provide carbohydrates, protein and fiber. In addition, the Company offers a number of other nutritional drinks. Splash C with juice crystals is a healthy beverage providing significant doses of vitamins C and E as well as calcium in each serving. Real fruit juice crystals are added to create orange or lemon flavor. Aloe-MX, a nutritional aloe vera beverage drink, was specifically produced for the Japanese market and introduced in October of 1997.

Sports and Fitness Nutritional Products. To cater to health conscious individuals with active lifestyles, the IDN Sports Nutrition System offers a comprehensive, flexible program for individuals who desire to optimize performance on an individual basis. The system includes LifePak, OverDrive, a sports supplement licensed by the U.S. Olympic Committee that features antioxidants, B vitamins and chromium chelate, GlycoBar energy bars, and SportaLyte performance drink to help supply the necessary carbohydrates, electrolytes and chelated minerals to optimize performance. Amino Build is a low fat high protein drink mix that is designed to replace nutrients before and after workouts. ProGRAM-16 protein bars are designed to provide nutritional support for individuals seeking optimal performance during high-intensity effort.

Health Solutions. IDN products include customized supplementation addressing the specialized interests of health conscious individuals. These supplements include Cartilage Formula which contains an advanced blend of glucosamine to help maintain normal structure and function of healthy joints, Eye Formula which contains significant levels of beta-carotene, vitamins C and E to help maintain the normal structure and function of healthy eyes, and St. John's Wart Complex which provides a balanced formula to support general health and emotional well-being.

Botanical Supplements. Botanical supplements are designed for those who seek the benefits of natural herb and plant extracts. These supplements include Botanagar, Botanavox, Botanaflor, Botanazyme, BotanaEase, BotanaGuard, Botanavive and Botaname. Each supplement addresses a range of issues, including: alertness, digestive maintenance, dietary health support, regular sleep habits, weight management and antioxidant support.

Sales Aids

The Company provides an assortment of sales aids to facilitate the sales of its products. Sales aids include videotapes, promotional clothing, pens, stationery, business cards, brushes, combs, cotton pads, tissues, and other miscellaneous items to help create consumer awareness of the Company and its products. Sales aids are priced at the Company's approximate cost and are not commissionable items (i.e., distributors do not receive commissions on purchases of sales aids).

Product Guarantees

The Company believes that it is among the most consumer protective companies in the direct selling industry. For 30 days from the date of purchase, the Company's product return policy allows a retail purchaser to return any product to the distributor through whom the product was purchased for a full refund. After 30 days from the date of purchase, the return privilege is in the discretion of the distributor. Because distributors may return unused and resalable products to the Company for a refund of 90% of the purchase price for one year, they are encouraged to provide consumer refunds beyond 30 days. In addition, the product return policy is a material aspect of the success of distributors in developing a retail customer base. The Company's experience with actual product returns has averaged less than 3.5% of annual revenue through 1997.

Product Development and Production

Product Development Philosophy. The Company is committed to building its brand name and distributor and customer loyalty by selling premium quality, innovative personal care and nutritional products that appeal to broad markets. This commitment is illustrated by the Company's personal care products slogan "All of the Good and None of the Bad" and its nutritional products slogan "Adding Life to Years." The Company's product philosophy is to combine the best of science and nature and to include in each of its products the highest quality ingredients. For example, Nu Skin personal care products do not contain soaps and other harsh cleansers that can dry and irritate skin, undesirable oils such as lanolin, elements known to be irritating and pore clogging, volatile alcohols such as ethyl alcohol, and conditioning agents that leave heavy residues. This philosophy has led to the Company being one of the only personal care companies in Japan to disclose every ingredient to consumers. This philosophy has also led to the Company's commitment to avoid any ingredients in nutritional supplements that are reported to have any long-term addictive or harmful effects, even if short-term effects may be desirable. Independent distributors need to have confidence that they are distributing the best products available in order to have a sense of pride in their association with the Company and to have products that are distinguishable from "off the shelf" products. NSI and the Company are committed to developing and providing quality products that can be sold at an attractive retail price and allow the Company to maintain reasonable profit margins.

NSI is also committed to constantly improving its evolving product formulations to incorporate innovative and proven ingredients into its product line. Whereas many consumer product companies develop a formula and stay with that formula for years, and sometimes decades, NSI believes that it must stay current with product and ingredient evolution to maintain its reputation for innovation to retain distributor and consumer attention and enthusiasm. For this reason, NSI continuously evaluates its entire line of products for possible enhancements and improvements.

In addition, the Company believes that timely and strategic product introductions are critical to maintaining the growth of independent distribution channels. Distributors become enthusiastic about new products and are generally excited to share new products with their customer base. An expanding product line helps to attract new distributors and generate additional revenues.

NSI maintains a laboratory and a staff of approximately 90 individuals involved in product development. NSI also relies on an advisory board comprised of recognized authorities in various disciplines. In addition, NSI and the Company evaluate a significant number of product ideas that are presented by distributors and other outside sources. NSI believes that strategic relationships with certain vendors also provide important access to innovative product concepts. The Company will continue to develop products tailored to appeal to the particular needs of the Company's markets.

Historically, one of the reasons for the success of the Nu Skin personal care product lines has been their gender neutral positioning. This product positioning substantially expands the size of the traditional skin and hair care market. NSI's IDN product lines have historically been positioned to be age neutral. However, with a substantial distributor and user base established, the Company believes that it can further increase its market share in both the personal care and the nutritional products categories by introducing age and gender specific products, additional vitamin products targeted to seniors, and personal care products targeted to either men or women.

Production. Although the Company is investigating the possibility of manufacturing certain products within specific markets, virtually all of the Company's products are currently sourced through NSI and are produced by manufacturers unaffiliated with NSI. The Company currently has little or no direct contact with these manufacturers. The Company's profit margins and its ability to deliver its existing products on a timely basis are dependent upon the ability of NSI's outside manufacturers to continue to supply products in a timely and cost-efficient manner. Furthermore, the Company's ability to enter new markets and sustain satisfactory levels of sales in each market is dependent in part upon the ability of suitable outside manufacturers to reformulate existing products, if necessary to comply with local regulations or market environments, for introduction into such markets. Finally, the development of additional new products in the future will likewise be dependent in part on the services of suitable outside manufacturers.

The Company currently acquires products or ingredients from sole suppliers or suppliers that are considered by the Company to be the superior suppliers of such ingredients. The Company believes that, in the event it is unable to source any products or ingredients from its current suppliers, the Company could produce such products or replace such products or substitute ingredients without great difficulty or prohibitive increases in the cost of goods sold. However, there can be no assurance that the loss of such a supplier would not have a material adverse effect on the Company's business and results of operations.

With respect to products purchased by the Company from NSI, NSI currently relies on two unaffiliated manufacturers to produce approximately 70% and 80% of its personal care and nutritional products, respectively. NSI has a written contract with the primary supplier of the Company's personal care products that expires at the end of 2000. An extension to such contract is currently being negotiated. NSI does not currently have a written contract with the primary supplier of the Company's nutritional products. The Company believes that in the event NSI's relationship with any of its key manufacturers is terminated, NSI will be able to find suitable replacement manufacturers. However, there can be no assurance that the loss of either manufacturer would not have a material adverse effect on the Company's business and results of operations. See "Risk Factors--Reliance on and Concentration of Outside Manufacturers."

Relationship With NSI

As of March 5, 1998, approximately 98% of the combined voting power of the outstanding shares of Common Stock was held by the shareholders of NSI and their affiliates. As a result, when acting as stockholders of the Company, these shareholders of NSI and their affiliates will consider the short-term and long-term impact of all stockholder decisions on the consolidated financial results of NSI and the Company. See "Risk Factors--Relationships with and Reliance on NSI; Potential Conflicts of Interest." In addition, the Company has entered into distribution, trademark/tradename license, licensing and sales, and management services agreements (the "Operating Agreements") with NSI and NSIMG, summary descriptions of which are set forth below. Such summaries are qualified in their entirety by reference to the Operating Agreements in effect and as they may be amended from time to time. In the future the Company may enter into amendments to the Operating Agreements or additional agreements with NSI or NSIMG. The Company is almost completely dependent on the Operating Agreements to conduct its business, and in the event NSI is unable or unwilling to perform its obligations under the Operating Agreements, or terminates the Operating Agreements as provided therein, the Company's business and results of operations will be adversely affected. See "Risk Factors--Relationship with and Reliance on NSI; Potential Conflicts of Interest."

The South Korean Operating Agreements differ in various minor ways from the Company's other Operating Agreements. With the exception of the minor modification of certain terms, the Operating Agreements described below will remain in effect following consummation of the NSI Acquisition.

Distribution Agreements. The Company has entered into a regional distribution agreement (the "Regional Distribution Agreement") with NSI, through Nu Skin Hong Kong, pursuant to which NSI has granted to the Company the exclusive right to sell and distribute Nu Skin personal care and IDN products and sales aids in the Company's markets. Nu Skin Japan, Nu Skin Taiwan, Nu Skin Korea, Nu Skin Thailand and Nu Skin Philippines have each entered into wholesale distribution agreements (the "Wholesale Distribution Agreements") with Nu Skin Hong Kong, pursuant to which each such Subsidiary has been granted the right to sell and distribute Nu Skin personal care and IDN products in its respective country.

The following discussion summarizes the terms of the Regional Distribution Agreement and the Wholesale Distribution Agreements for each of the Subsidiaries, other than the Wholesale Distribution Agreement for Nu Skin Korea, which is discussed below.

The Company has the right to purchase any Nu Skin personal care or IDN products, subject to unavailability due to local regulatory requirements. See "--Government Regulation." Purchases are made by submission of a purchase order to NSI, which NSI must accept unless it has insufficient inventory to fill the order. In determining whether it has sufficient inventory to fill a given order, NSI is required to treat the Company on a parity basis with its other affiliates.

The prices for products are governed by a price schedule which is subject to change by NSI from time to time upon at least 30 days advance notice. NSI pays ordinary freight and the Company pays handling, excise taxes and customs duties on the products the Company orders. In order to assist NSI in planning its inventory and pricing, the Company is required to provide NSI with certain business plans and reports of its sales and prices to independent distributors.

The Company, through its subsidiary Nu Skin Hong Kong, purchases virtually all of its products from NSI. Nu Skin Hong Kong pays for its purchases from NSI under the Regional Distribution Agreement in U.S. dollars, while the other Subsidiaries pay for their purchases from Nu Skin Hong Kong under the Wholesale Distribution Agreements in their local currency. Nu Skin Hong Kong therefore bears significant currency exchange risk as a result of purchases from NSI on behalf of the other Subsidiaries. See "Risk Factors--Currency Risks."

The Company is responsible for paying for and obtaining government approvals and registrations necessary for importation of Nu Skin personal care and IDN products into its markets. In addition, the Company is responsible for obtaining any government approvals, including any filings and notifications, necessary for the effectiveness of the Regional Distribution Agreement and the Wholesale Distribution Agreements or for the parties performance thereunder. See "Risk Factors--Government Regulation of Products and Marketing; Import Restrictions."

NSI is generally responsible for paying for the research, development and testing of the products sold to the Company, including any product reformulations needed to comply with local regulatory requirements. NSI warrants as to the merchantability of, and its title to, such products. NSI has further indemnified the Company from losses and liability relating to claims arising out of alleged or actual defects in the design, manufacture or content of its products. NSI is required to maintain insurance covering claims arising from the use of its products and to cause each Subsidiary to be a named insured on such insurance policy. See "Risk Factors--Product Liability."

The Company is prohibited from selling Nu Skin personal care and IDN products outside of the countries for which it has an exclusive distribution license, except that the Company may sell certain Nu Skin personal care and IDN products to NSI affiliates in Australia and New Zealand. In addition, the Company is prohibited from selling products which directly or indirectly compete with Nu Skin personal care and IDN products in any country without NSI's prior consent, which consent will not be unreasonably withheld or delayed. The Company may sell non-competing products without restriction.

The Company may manufacture products which do not compete with Nu Skin personal care and IDN products without restriction but may not manufacture products which compete directly or indirectly with Nu Skin personal care and IDN products without NSI's prior consent, which consent will not be unreasonably withheld or delayed. Any products manufactured by the Company carrying an NSI trademark will be subject to the Trademark/Tradename License Agreements with NSI described below and will require the payment to NSI of certain royalties as set forth therein. If NSI discontinues a product that the Company would like to continue to sell, the Company may elect to manufacture the product itself or through a third party manufacturer unless NSI has a competing product. In this event, NSI has agreed to license the product formulation and any associated trademarks and tradenames to the Company pursuant to the Trademark/Tradename License Agreements described below.

When the Company determines to commence operations using its business model in Indonesia, Malaysia, the PRC, Singapore or Vietnam, NSI has agreed under the Regional Distribution Agreement to enter into new Trademark/Tradename License Agreements and Licensing and Sales Agreements substantially similar to those described below.

Trademark/Tradename License Agreements. The following discussion summarizes the terms of the Trademark/Tradename License Agreements for each of the Subsidiaries. Pursuant to the Trademark/Tradename License Agreements, NSI has granted to each Subsidiary an exclusive license to use in its market the Nu Skin and IDN trademarks, the individual product trademarks used on Nu Skin personal care and IDN products and any NSI tradenames. Each of the Subsidiaries may thus use the licensed trademarks and tradenames on products and commercial materials not purchased from NSI, including locally sourced products and commercial materials and products and commercial materials manufactured by such Subsidiary and may grant a sub-license, with the consent of NSI, for the licensed trademarks and tradenames in its market. In addition, each Subsidiary has the right to export such products and commercial materials into other Company markets with NSI's consent, which consent shall not be unreasonably withheld or delayed.

The Company pays a royalty to NSI for use of the licensed trademarks and tradenames on products, starter and introductory kits and commercial materials not purchased from NSI, including locally sourced products and commercial materials and products and commercial materials manufactured by the Company. The royalty is paid monthly and is equal to 5% of the Company's revenues from such products and commercial materials for such month generally and a total of 8% where NSI owns the formula or has exclusive rights in the subject market for such products or commercial materials.

NSI is responsible for securing and maintaining trademark registrations in the territory covered by each Trademark/Tradename Agreement. NSI has agreed to take such actions as the Company may reasonably request to protect its and the Company's rights to the licensed trademarks from infringement and related claims and has indemnified the Company from losses and liability resulting from such claims.

Licensing and Sales Agreements. Currently, all distributor agreements are entered into between the distributor and NSI rather than with the Company. Therefore, the Company does not own the distributor lists or the distribution system, the Global Compensation Plan, copyrights and related intangibles. Consequently, each of the Subsidiaries has entered into a Licensing and Sales Agreement with NSI. The following discussion summarizes the terms of the Licensing and Sales Agreement for each of the Subsidiaries, other than the Licensing and Sales Agreement for Nu Skin Korea where the intercompany agreements are modified to comply with local regulations.

The Licensing and Sales Agreements include a license to the Company to use the distributor lists, the Global Compensation Plan, know how, distributor system and related intellectual property exclusively in its markets. The Company pays a license fee to NSI of 4% of the Company's revenue from product sales (excluding starter and introductory kits) to NSI distributors for the use of such licensed property. The Company may not grant a sublicense for the licensed property.

The Company is required to use the Global Compensation Plan to distribute any products, except as NSI may agree to modify the plan in accordance with local requirements. The Company must comply with all policies implemented by NSI under the Global Compensation Plan. This is necessary to ensure global consistency in NSI's operations. The Company must also employ all NSI policies relating to commissions payable to, and other relationships with, NSI distributors.

The Company and the Subsidiaries are contractually obligated to pay a distributor commission expense of 42% 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% 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%, the Company must pay the difference to NSI. Under this formulation, the Company's total commission expense is fixed at 42% of commissionable product sales in each country. The 42% figure has been set on the basis of NSI's experience over the past eight years which indicates that actual commissions paid in a given year together with the cost of administering the Global Compensation Plan average approximately 42% of commissionable product sales for such year. In the event that actual commissions payable to distributors from sales in the Company's markets vary from these historical results, whether as a result of changes in distributor behavior or changes to the Global Compensation Plan or in the event that NSI's cost of administering the Global Compensation Plan increases or decreases, the Licensing and Sales Agreements provide that the settlement of distributor commission expense between the Company and NSI may be modified to more accurately reflect actual results. See "Risk Factors--Potential Increase in Distributor Compensation Expense."

In addition to payments to local distributors, the Company is generally responsible for distributor support and relations within Japan, Taiwan, Hong Kong, South Korea, Thailand and the Philippines. The Company has agreed to use its best efforts to support the development of NSI's distributor network in its markets by purchasing starter or introductory kits from NSI and selling them to potential NSI distributors.

NSI has agreed to take such actions as the Company may reasonably request to protect its and the Company's rights to the property licensed under the Licensing and Sales Agreements from infringement and related claims and has indemnified the Company from losses and liability resulting from such claims. Both NSI and the Company are required to maintain insurance coverage adequate to insure their assets and financial stability. NSI is responsible for ensuring that the property licensed under the Licensing and Sales Agreements complies with local laws and regulations, including direct selling laws. See "Risk Factors--Government Regulation of Direct Selling Activities."

Management Services Agreements. The following discussion summarizes the terms of the Management Services Agreements which each of the Subsidiaries have entered into with NSIMG. Pursuant to the Management Services Agreements, NSIMG has agreed to provide a variety of management and support services to each Subsidiary. These services include management, legal, financial, marketing and distributor support/training, public relations, international expansion, human resources, strategic planning, product development and operations administration services. Most of NSI's senior management personnel and most employees who deal with international issues are employees of NSIMG.

Generally, the management and support services are provided by employees of NSI and NSIMG acting through NSIMG either (i) on a temporary basis in a specific consulting role or (ii) on a full-time basis in a management position in the country in which the services are required. The Management Services Agreements do not cover the services of many of the Company's executive officers. See "Management--Executive Compensation."

General Provisions. The Operating Agreements are each for a term ending on December 31, 2016, and, after December 31, 2001, will be subject to renegotiation in the event that members of the families of, or trusts or foundations established by or for the benefit of the Original Stockholders on a combined basis no longer beneficially own a majority of the combined voting power of the outstanding shares of common stock of the Company or of NSI. Each Operating Agreement is subject to termination by either party in the event of: (i) a material breach by the other party which remains uncured for a period of 60 days after notice thereof; (ii) the bankruptcy or insolvency of the other party; or (iii) entry of a judgment by a court of competent jurisdiction against the other party in excess of $25,000,000. Each Operating Agreement to which NSI is a party and each Operating Agreement to which NSIMG is a party is further subject to termination by NSI or NSIMG, respectively, upon 30 days notice in the event of a change of control of the Subsidiary party thereto and by such Subsidiary upon 30 days notice in the event of a change of control of NSI or NSIMG, respectively. Each Operating Agreement provides that neither party may assign its rights thereunder without the consent of the other party. Each Operating Agreement is governed by Utah law. Any dispute arising under an Operating Agreement is to be settled by arbitration conducted in Utah in accordance with the applicable rules of the American Arbitration Association, as supplemented by the commercial arbitration procedures for international commercial arbitration.

Mutual Indemnification Agreement. The Company and NSI have entered into a mutual indemnification agreement pursuant to which NSI has agreed to indemnify the Company for certain claims, losses and liabilities relating to the operations of the Subsidiaries prior to the Reorganization and the Company has agreed to indemnify NSI for certain claims, losses and liabilities relating to the operations of the Subsidiaries after the Reorganization.

Competition

Personal Care and Nutritional Products. The markets for personal care and nutritional products are large and intensely competitive. The Company competes directly with companies that manufacture and market personal care and nutritional products in each of the Company's product categories and product lines. The Company competes with other companies in the personal care and nutritional products industry by emphasizing the value and premium quality of the Company's products and the convenience of the Company's distribution system. Many of the Company's competitors have much greater name recognition and financial resources than the Company. In addition, personal care and nutritional products can be purchased in a wide variety of channels of distribution. While the Company believes that consumers appreciate the convenience of ordering products from home through a sales person or through a catalog, the buying habits of many consumers accustomed to purchasing products through traditional retail channels are difficult to change. The Company's product offerings in each product category are also relatively small compared to the wide variety of products offered by many other personal care and nutritional product companies. There can be no assurance that the Company's business and results of operations will not be affected materially by market conditions and competition in the future.

Network Marketing Companies. The Company also competes with other direct selling organizations, some of which have a longer operating history and higher visibility, name recognition and financial resources. The leading network marketing company in the Company's existing markets is Amway Corporation and its affiliates. The Company competes for new distributors on the basis of the Global Compensation Plan and its premium quality products. Management envisions the entry of many more direct selling organizations into the marketplace as this channel of distribution expands over the next several years. The Company has been advised that certain large, well-financed corporations are planning to launch direct selling enterprises which will compete with the Company in certain of its product lines. There can be no assurance that the Company will be able to successfully meet the challenges posed by this increased competition. See "Risk Factors--Competition."

Government Regulation

Direct Selling Activities. Direct selling activities are regulated by various governmental agencies. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as "pyramid" or "chain sales" schemes, that promise quick rewards for little or no effort, require high entry costs, use high pressure recruiting methods and/or do not involve legitimate products. In Japan, the Company's distribution system is regulated under the "Door-to-Door" Sales Law, which requires the submission of specific information concerning the Company's business and products and which provides certain cancellation and cooling-off rights for consumers and new distributors. In Taiwan, the Fair Trade Law (and the Enforcement Rules and Supervisory Regulations of Multi-Level Sales) requires the Company to comply with registration procedures and also provides distributors with certain rights regarding cooling-off periods and product returns. The Company also complies with South Korea's strict Door-to-Door Sales Act, which requires, among other things, the regular reporting of revenue, the registration of distributors together with the issuance of a registration card, and the maintaining of a current distributor registry. This law also limits the amount of sponsoring bonuses that a registered multi-level marketing company can pay to its distributors to 35% of revenue in a given month. In Thailand and the Philippines, currently there are no laws (other than general fair trade laws) directly regulating direct selling or multi-level marketing activities. See "Risk Factors--Potential Effects of Adverse Publicity" and "--Government Regulation of Direct Selling Activities."

Based on research conducted in opening its existing markets (including assistance from local counsel), the nature and scope of inquiries from government regulatory authorities and the Company's history of operations in such markets to date, the Company believes that its method of distribution is in compliance in all material respects with the laws and regulations relating to direct selling activities of the countries in which the Company currently operates. Even though management believes that laws governing direct selling are generally becoming more permissive in certain Asian countries, many countries, including Singapore, one of the Company's potential markets, currently have laws in place that would prohibit the Company and NSI from conducting business in such markets. There can be no assurance that the Company will be allowed to conduct business in each of the new markets or continue to conduct business in each of its existing markets licensed from NSI. See "Risk Factors--Entering New Markets."

Regulation of Products and Marketing. The Company and NSI are subject to or affected by extensive governmental regulations not specifically addressed to network marketing. Such regulations govern, among other things, (i) product formulation, labeling, packaging and importation, (ii) product claims and advertising, whether made by the Company, NSI or NSI distributors, (iii) fair trade and distributor practices, (iv) taxes, transfer pricing and similar regulations that affect foreign taxable income and customs duties, and (v) regulations governing foreign companies generally.

The Japanese MOHW requires the Company to possess an import business license and to register each personal care product imported into Japan. Packaging and labeling requirements are also specified. The Company has had to reformulate many products to satisfy MOHW regulations. In Japan, nutritional foods, drugs and quasi-drugs are all strictly regulated. The chief concern involves the types of claims and representations that can be made regarding the efficacy of nutritional products. The Company's successful introduction of IDN nutritional supplements in Japan was achieved by utilizing the combined efforts of NSI's technical staff as well as external consultants.

In Taiwan, all "medicated" cosmetic and pharmaceutical products require registration. Non-medicated cosmetic products, such as shampoo and hair conditioner, require no registration.

In Hong Kong, cosmetic products not classified as "drugs" nor as "pharmaceutical products" are not subject to statutory registrations, packaging and labeling requirements apart from the Trade Descriptions Ordinance. In Macau, "pharmaceutical" products are strictly regulated; general products are not subject to registration requirements.

In South Korea, the Company is subject to and has obtained the mandatory certificate of confirmation as a qualified importer of cosmetics under the Pharmaceutical Affairs Law as well as additional product approvals for each of the 45 categories of cosmetic products which it imports. Each new cosmetic product undergoes a 60-day post-customs inspection where, in addition to compliance with ingredient requirements, each product is inspected for compliance with South Korean labeling requirements.

In Thailand, personal care products are regulated by the Food and Drug Association, and all of the initial Nu Skin personal care products to be introduced in Thailand have qualified for simplified registration procedures under Thai law.

In the Philippines, personal care products are regulated by the Bureau of Food and Drug, and all of the initial NSI personal care products to be introduced in the Philippines have qualified for simplified registration procedures under Philippine law.

Regulation of Potential Markets. Each of the proposed new markets will present additional unique difficulties and challenges. The PRC, for example, has proven to be a particularly difficult market for foreign corporations due to its extensive government regulation and the historical political tenets, and no assurance can be given that the Company will be able to establish Nu Skin operations in the PRC using the Company's business model or otherwise. The Company believes that entering the PRC may require the successful establishment of a joint venture enterprise with a Chinese partner and the establishment of a local manufacturing presence. These initiatives would likely require a significant investment over time by the Company. The Company believes that the PRC national regulatory agency responsible for direct selling periodically reviews the regulation of multi-level marketing. Management is aware of recent media and other reports in the PRC reporting an increasing desire on the part of senior government officers to curtail or even abolish direct selling and multi-level marketing activities. These views may lead to changes in applicable regulations. The Company believes that PRC regulators are currently not issuing direct selling or multi-level marketing licenses and may take action restricting or rescinding currently licensed direct selling businesses. The Company is actively working on these and other issues including joint ventures and potential marketing alternatives related to possible Nu Skin operations in the PRC. It is not known when or whether the Company will be able to implement in the PRC business models consistent with those used by the Company in other markets. The Company will likely have to apply for licenses on a province by province basis, and the repatriation of the Company's profits will be subject to restrictions on currency conversion and the fluctuations of the government controlled exchange rate. In addition, because distribution systems in the PRC are greatly fragmented, the Company may be forced to use business models significantly different from those used by the Company in more developed countries. The lack of a comprehensive legal system, the uncertainties of enforcement of existing legislation and laws, and potential revisions of existing laws could have an adverse effect on the Company's proposed business in the PRC. See "Risk Factors--Entering New Markets."

The other potential new markets also present significant regulatory, political and economic obstacles to the Company. In Singapore, for example, network marketing is currently illegal and is not permitted under any circumstances. Although the Company believes that this restriction will eventually be relaxed or repealed, no assurance can be given that such regulation will not remain in place and that the Company will not be permanently prevented from initiating sales in

Singapore. In addition, Malaysia has governmental guidelines that have the effect of limiting foreign ownership of direct selling companies operating in Malaysia to no more than 30%. There can be no assurance that the Company will be able to properly structure Malaysian operations to comply with this policy. In October of 1995, the Company's business permit applications were denied by the Malaysian government as a result of activities by certain NSI distributors. Therefore, the Company believes that although significant opportunities exist to expand its operations into new markets, there can be no assurance that these or other difficulties will not prevent the Company from realizing the benefits of this opportunity.

Other Regulatory Issues. As a U.S. entity operating through subsidiaries in foreign jurisdictions, the Company is subject to foreign exchange control and transfer pricing laws that regulate the flow of funds between the Subsidiaries and the Company as well as the flow of funds to NSI for product purchases, management services, and contractual obligations such as the payment of distributor commissions. In South Korea, in particular, the Company has come under the scrutiny of regulators because of the manner in which the Company and Nu Skin Korea implement the Global Compensation Plan. Pursuant to the Global Compensation Plan, Nu Skin Korea currently pays commissions to distributors in South Korea on both their local and foreign product sales. Similarly, commissions on product sales in South Korea by other distributors are paid by their local NSI affiliate. The Company believes that it operates in compliance with all applicable foreign exchange control and transfer pricing laws. However, there can be no assurance that the Company will continue to be found to be operating in compliance with foreign exchange control and transfer pricing laws, or that such laws will not be modified, which, as a result, may require changes in the Company's operating procedures.

As is the case with most companies which operate in the Company's product segment, NSI and the Company have from time to time received inquiries from various government regulatory authorities regarding the nature of their businesses and other issues such as compliance with local direct selling, customs, taxation, foreign exchange control, securities and other laws. Although to date none of these inquiries has resulted in a finding materially adverse to the Company or NSI, adverse publicity resulting from inquiries into NSI's operations by certain government agencies in the early 1990's, stemming in part out of inappropriate product and earnings claims by distributors, materially adversely affected NSI's business and results of operations. There can be no assurance that the Company or NSI will not face similar inquiries in the future, which, either as a result of findings adverse to the Company or NSI or as a result of adverse publicity resulting from the instigation of such inquiries, could have a material adverse effect on the Company's business and results of operations. See "Risk Factors--Potential Effects of Adverse Publicity."

The Subsidiaries are periodically subject to reviews and audits by various governmental agencies, particularly in new markets, where the Company has experienced high rates of growth. In early 1997, the South Korean Ministry of Trade, Industry and Energy commenced an examination of the largest foreign and domestic owned network marketing companies in South Korea, including Nu Skin Korea. The purposes of the examination were stated to be to monitor how companies are operating and to audit current business practices. In addition, Nu Skin Korea has been subject to an audit by the South Korean Customs Service. Management believes that this audit was precipitated largely as a result of Nu Skin Korea's rapid growth and its position as the largest importer of cosmetics and personal care products in South Korea as well as by recent South Korean trade imbalances. The Customs Service has reviewed a broad range of issues relating to the operations of Nu Skin Korea, with a focus on reviewing customs valuation issues and intercompany payments.

The Customs Service resolved certain issues related to its audit without imposing sanctions. The intercompany payment issue was referred to various other government agencies, which have also recently concluded their reviews and found no wrong-doing and imposed no fines, sanctions or other restrictions. The import valuation issues, which management considers to be routine in light of the Company's extensive import and export activities, were referred to the valuation division of the Customs Service. See "Risk Factors--Potential Negative Impact of Distributor Actions." Management believes that other major importers of cosmetic products and foreign-owned direct selling companies have also been the focus of regulatory reviews by South Korean authorities.

Businesses which are more than 50% owned by non-citizens are not permitted to operate in Thailand unless they have an Alien Business Permit, which is frequently difficult to obtain. The Company is currently operating under the Treaty of Amity and Economic Relations between Thailand and the United States (the "Treaty of Amity"). Under the Treaty of Amity, an Alien Business Permit is not required if a Thailand business is owned by an entity organized in the United States, a majority of whose owners are U.S. citizens or entities. From time to time, it has been reported that certain Thailand government officials have considered supporting the termination of the Treaty of Amity. The Company could face particular difficulties in continuing operations in Thailand if the Treaty of Amity were terminated and the Company were forced to obtain an Alien Business Permit.

Based on the Company's and NSI's experience and research (including assistance from counsel) and the nature and scope of inquiries from government regulatory authorities, the Company and NSI believe that they are in material compliance with all regulations applicable to them. Despite this belief, either the Company or NSI could be found not to be in material compliance with existing regulations as a result of, among other things, the considerable interpretative and enforcement discretion given to regulators or misconduct by independent distributors. In 1994, NSI and three of its distributors entered into a consent decree with the Federal Trade Commission (the "FTC") with respect to its investigation of certain product claims and distributor practices, pursuant to which NSI paid approximately $1 million to settle the FTC investigation. In August 1997, NSI reached a settlement with the FTC with respect to certain product claims and its compliance with the 1994 consent decree, pursuant to which settlement NSI paid $1.5 million to the FTC. During 1997, NSI also voluntarily agreed to recall and rewrite virtually all of its sales and marketing materials to address FTC concerns. In February 1998, the State of Pennsylvania filed a lawsuit against NSI and one of its affiliates Big Planet, Inc. ("Big Planet"), alleging violations of Pennsylvania law. In early March 1998, NSI and Big Planet agreed to suspend for 30 days all sales and recruitment efforts related to Big Planet's potential electricity marketing program. Big Planet also volunteered certain other restrictions on its business. NSI's primary business of distributing personal care and nutritional products was unaffected by the lawsuit. These events were reported in certain media.

Any assertion or determination that either the Company, NSI or any NSI distributors are not in compliance with existing laws or regulations could have a material adverse effect on the Company's business and results of operations. In addition, in any country or jurisdiction, the adoption of new laws or regulations or changes in the interpretation of existing laws or regulations could generate negative publicity and/or have a material adverse effect on the Company's business and results of operations. The Company cannot determine the effect, if any, that future governmental regulations or administrative orders may have on the Company's business and results of operations. Moreover, governmental regulations in countries where the Company plans to commence or expand operations may prevent, delay or limit market entry of certain products or require the reformulation of such products. Regulatory action, whether or not it results in a final determination adverse to the Company or NSI, has the potential to create negative publicity, with detrimental effects on the motivation and recruitment of distributors and, consequently, on the Company's sales and earnings. See "Risk Factors--Potential Effects of Adverse Publicity" and "--Entering New Markets."

Employees

As of December 31, 1997, the Company had approximately 1,000 full-time and part-time employees. None of the employees is represented by a union or other collective bargaining group. The Company believes its relationship with its employees is good, and does not currently foresee a shortage in qualified personnel needed to operate the business. Each Subsidiary is directed by an experienced manager.

Risk Factors

There are certain significant risks facing the Company, many of which are substantial in nature. Stockholders and prospective stockholders in the Company should consider carefully the following risks and information in conjunction with the other information contained herein. The risk factors set forth below relate to the Company's business prior to the contemplated NSI Acquisition. Certain of these factors may be impacted by the proposed NSI Acquisition; however, no assurance can be given that the NSI Acquisition will be consummated. See "Recent Developments."

Reliance Upon Independent Distributors of NSI. The Company distributes its products exclusively through independent distributors who have contracted directly with NSI to become distributors. Consequently, the Company does not contract directly with distributors but licenses its distribution system and distributor force from NSI. Distributor agreements with NSI are voluntarily terminable by distributors at any time. The Company's revenue is directly dependent upon the efforts of these independent distributors, and any growth in future sales volume will require an increase in the productivity of these distributors and/or growth in the total number of distributors. As is typical in the direct selling industry, there is turnover in distributors from year to year, which requires the sponsoring and training of new distributors by existing distributors to maintain or increase the overall distributor force and motivate new and existing distributors. The Company experiences seasonal decreases in distributor sponsoring and product sales in some of the countries in which the Company operates because of local holidays and customary vacation periods. The size of the distribution force can also be particularly impacted by general economic and business conditions and a number of intangible factors such as adverse publicity regarding the Company or NSI, or the public's perception of the Company's products, product ingredients, NSI's distributors or direct selling businesses in general. Historically, the Company has experienced periodic fluctuations in the level of distributor sponsorship (as measured by distributor applications). However, because of the number of factors that impact the sponsoring of new distributors, and the fact that the Company has little control over the level of sponsorship of new distributors, the Company cannot predict the timing or degree of those fluctuations. There can be no assurance that the number or productivity of the Company's distributors will be sustained at current levels or increased in the future. In addition, the number of distributors as a percentage of the population in a given country or market could theoretically reach levels that become difficult to exceed due to the finite number of persons inclined to pursue a direct selling business opportunity. This is of particular concern in Taiwan, where industry sources have estimated that up to 10% of the population is already involved in some form of direct selling.

Since distributor agreements are entered into between NSI and distributors, all of the distributors who generate revenue for the Company are distributors of NSI. See "--Relationship with and Reliance on NSI; Potential Conflicts of Interest." Because distributors are independent contractors of NSI, neither NSI nor the Company is in a position to provide the same level of direction, motivation and oversight as either would with respect to its own employees. The Company relies on NSI to enforce distributors policies and procedures. Although NSI has a compliance department responsible for the enforcement of the policies and procedures that govern distributor conduct, it can be difficult to enforce these policies and procedures because of the large number of distributors and their independent status, as well as the impact of regulations in certain countries that limit the ability of NSI and the Company to monitor and control the sales practices of distributors.

Currency Risks. The Company's foreign-derived sales and selling, general and administrative expenses are converted to U.S. dollars for reporting purposes. Consequently, the Company's reported earnings are significantly impacted by changes in currency exchange rates, generally increasing with a weakening dollar and decreasing with a strengthening dollar. In addition, 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 the extent 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 believes that a variety of complex factors impact the value of local currencies relative to the U.S. dollar including, without limitation, interest rates, monetary policies, political environments, and relative economic strengths. The Company has been subject to exceptionally high volatility in currency exchange rates in certain markets during 1997. In order to partially offset the anticipated effect of these currency fluctuations, the Company implemented a price increase on certain of its products of between 5% and 9% on average in 1997. There can be no assurance that future currency fluctuations will not result in similar concerns or adversely affect the performance of the price of the Class A Common Stock. Although the Company tries to reduce its exposure to fluctuations in foreign exchange rates by using hedging transactions, such transactions may not entirely offset the impact of currency fluctuations. Accordingly, in the face of a strengthening of the U.S. dollar, the Company's earnings will be adversely affected. The Company does not use hedging transactions for trading or speculative purposes. See "Management's Discussion and Analysis of Financial

Condition and Results of Operations," incorporated herein by reference to the Company's 1997 Annual Report, sections of which are filed herewith as Exhibit 13--Currency Fluctuation and Exchange Rate Information."

Risks Related to the Proposed NSI Acquisition. The Company believes that the proposed NSI Acquisition will offer opportunities for long-term efficiencies in operations that should positively affect future results of the combined operations of the Company and the Acquired Entities. However, no assurances can be given whether or when such efficiencies will be realized. In addition, the combined companies will be more complex and diverse than the Company individually, and the combination and continued operation of their distinct business operations will present difficult challenges for the Company's management due to the increased time and resources required in the management effort. While management and the Board of Directors of the Company believe that the combination can be effected in a manner which will increase the value of the Company and the Acquired Entities, no assurance can given that such realization of value will be achieved. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," incorporated herein by reference to the Company's 1997 Annual Report, sections of which are filed herewith as Exhibit 13.

Although the parties to the NSI Acquisition have entered into definitive agreements, the closing of the NSI Acquisition is subject to the timely satisfaction of certain conditions contained in the Acquisition Agreement. Although the Company currently expects that such closing conditions will be satisfied or waived, there can be no assurance that the closing of the NSI Acquisition will occur. Such conditions include, among others, the receipt of an opinion from the Company's independent public accountants with respect to certain tax matters of the NSI Acquisition, the receipt of all necessary consents and approvals from governmental officials and other third parties and the absence of any material adverse change in the business or operations of the Acquired Entities.

Potential Effects of Adverse Publicity. The size of the distribution force and the results of the Company's operations can be particularly impacted by adverse publicity regarding the Company or NSI, or their competitors, including publicity regarding the legality of network marketing, the quality of the Company's products and product ingredients or those of its competitors, regulatory investigations of the Company or the Company's competitors and their products, distributor actions and the public's perception of NSI's distributors and direct selling businesses generally.

In 1991 and 1992, NSI was the subject of investigations by various regulatory agencies of eight states. All of the investigations were concluded satisfactorily. However, the publicity associated with the investigations resulted in a material adverse impact on NSI's results of operations. The denial by the Malaysian government in 1995 of the Company's business permit applications due to distributor actions resulted in adverse publicity for the Company. See"--Potential Negative Impact of Distributor Actions." In South Korea, publicity generated by a coalition of consumer groups targeted at a competitor of the Company negatively impacted the Company's operations in 1997. In addition, the South Korean government and certain consumer and trade organizations have expressed concerns which have attracted media attention regarding South Korean consumption of luxury and foreign products, in general. The Company believes that the adverse publicity resulting from these claims and media campaigns has adversely affected and may continue to adversely affect the direct selling industry and the Company's South Korean operations. See "--Seasonality and Cyclicality; Variations in Operating Results." The State of Pennsylvania recently filed an action against NSI for alleged violations of Pennsylvania law relating to activities of Nu Skin distributors promoting a business called Big Planet. The filing of the action precipitated certain negative media coverage just may have an impact on the operations of the Company and its affiliates. There can be no assurance that the Company will not be subject to adverse publicity in the future as a result of regulatory investigations or actions, whether of the Company or its competitors, distributor actions, actions of competitors or other factors, or that such adverse publicity will not have a material adverse effect on the Company's business or results of operations. See "--Government Regulation of Direct Selling Activities," "--Government Regulation of Products and Marketing; Import Restrictions," "--Other Regulatory Issues" and "--Entering New Markets."

Potential Negative Impact of Distributor Actions. Distributor actions can negatively impact the Company and its products. From time to time, the Company receives inquiries from regulatory agencies precipitated by distributor actions. For example, in October 1995, the Company's business permit applications were denied by the Malaysian government as the result of activities by certain NSI distributors before required government approvals could be secured. NSI subsequently terminated the distributorship rights of some of the distributors involved and elected to withdraw from the Malaysian market for a period of time. The denial by the Malaysian government of the Company's business permit applications resulted in adverse publicity for the Company. See "--Other Regulatory Issues." Distributor activities in other countries in which the Company has not commenced operations may similarly result in an inability to secure, or delay in securing required regulatory and business permits. See "Business--New Market Opportunities." In addition, the publicity which can result from a variety of potential distributor activities such as inappropriate earnings claims, product representations or improper importation of Nu Skin products from other markets, can make the sponsoring and retaining of distributors more difficult, thereby negatively impacting sales. See "--Potential Effects of Adverse Publicity." Furthermore, the Company's business and results of operations could be adversely affected if NSI terminates a significant number of distributors or certain distributors who play a key role in the Company's distribution system. There can be no assurance that these or other distributor actions will not have a material adverse effect on the Company's business or results of operations. The recent action filed by the State of Pennsylvania against the Company resulted from improper distributor actions. See "--Potential Effects of Adverse Publicity."

Seasonality and Cyclicality; Variations in Operating Results. 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 in Asia is impacted by certain seasonal trends such as major cultural events and vacation patterns. For example, sales are generally affected by local New Year celebrations in Japan, Taiwan, Hong Kong, South Korea and Thailand, which occur 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 revenue 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. The Company's operations in South Korea experienced a significant decline in 1997 which was due in part to a business cycle common to new markets opened by the Company but which was due primarily to general economic turmoil and adverse business conditions. See "--Potential Effects of Adverse Publicity." An additional factor which the Company believes has contributed to revenue decline in South Korea is the focus of key distributors on other recently-opened markets, including Thailand.

In addition, the Company may experience variations in its results of operations, on a quarterly basis as new products are introduced and new markets are opened. There can be no assurance that current revenue and productivity trends will be maintained in any of these markets or that future results of operations will follow historical performance.

Government Regulation of Direct Selling Activities. Direct selling activities are regulated by various governmental agencies. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as "pyramid" or "chain sales" schemes, that promise quick rewards for little or no effort, require high entry costs, use high pressure recruiting methods and/or do not involve legitimate products. In Japan, the Company's distribution system is regulated under the "Door-to-Door" Sales Law, which requires the submission of specific information concerning the Company's business and products and which provides certain cancellation and cooling-off rights for consumers and new distributors. Management has been advised by counsel that in some respects Japanese laws are becoming more restrictive with respect to direct selling in Japan. In Taiwan, the Fair Trade Law (and the Enforcement Rules and Supervisory Regulations of Multi-Level Sales) requires the Company to comply with registration procedures and also provides distributors with certain rights regarding cooling-off periods and product returns. The Company also complies with South Korea's strict Door-to-Door Sales Act, which requires, among other things, the regular reporting of revenue, the registration of distributors together with the issuance of a registration card, and the maintaining of a current distributor registry. This law also limits the amount of commissions that a registered multi-level marketing company can pay to its distributors to 35% of revenue in a given month. In Thailand and the Philippines, general fair trade laws impact direct selling and multi-level marketing activities.

Based on research conducted in opening its existing markets (including assistance from local counsel), the nature and scope of inquiries from government regulatory authorities and the Company's history of operations in such markets to date, the Company believes that its method of distribution is in compliance in all material respects with the laws and regulations relating to direct selling activities of all of the countries in which the Company currently operates. Many countries, however, including Singapore, one of the Company's potential markets, currently have laws in place that would prohibit the Company and NSI from conducting business in such markets. There can be no assurance that the Company will be allowed to conduct business in each of the new markets or continue to conduct business in each of its existing markets licensed from NSI. See "--Entering New Markets."

Government Regulation of Products and Marketing; Import Restrictions. The Company and NSI are subject to or affected by extensive governmental regulations not specifically addressed to network marketing. Such regulations govern, among other things, (i) product formulation, labeling, packaging and importation, (ii) product claims and advertising, whether made by the Company, NSI or NSI distributors, (iii) fair trade and distributor practices, (iv) taxes, transfer pricing and similar regulations that affect foreign taxable income and customs duties, and (v) regulations governing foreign companies generally.

With the exception of a small percentage of revenues in Japan, virtually all of the Company's sales historically have been derived from products purchased from NSI. All of those products historically have been imported into the countries in which they were ultimately sold. The countries in which the Company currently conducts business impose various legal restrictions on imports. In Japan, the Japanese Ministry of Health and Welfare ("MOHW") requires the Company to possess an import business license and to register each personal care product imported into the country. Packaging and labeling requirements are also specified. The Company has had to reformulate many products to satisfy MOHW regulations. In Japan, nutritional foods, drugs and quasi-drugs are all strictly regulated. The chief concern involves the types of claims and representations that can be made regarding the efficacy of nutritional products. In Taiwan, all "medicated" cosmetic and pharmaceutical products require registration. In Hong Kong and Macau, "pharmaceutical" products are strictly regulated. In South Korea, the Company is subject to and has obtained the mandatory certificate of confirmation as a qualified importer of cosmetics under the Pharmaceutical Affairs Law as well as additional product approvals for each of the 45 categories of cosmetic products which it imports. Each new cosmetic product undergoes a 60-day post-customs inspection during which, in addition to compliance with ingredient requirements, each product is inspected for compliance with South Korean labeling requirements. In Thailand, personal care products are regulated by the Food and Drug Association and the Ministry of Public Health and all of the Nu Skin personal care products introduced in this market have qualified for simplified approval procedures under Thai law. In the Philippines, Nu Skin products are regulated by the Bureau of Food and Drug and all products introduced in this market have been registered. There can be no assurance that these or other applicable regulations will not prevent the Company from introducing new products into its markets or require the reformulation of existing products.

The Company has not experienced any difficulty maintaining its import licenses but has experienced complications regarding health and safety and food and drug regulations for nutritional products. Many products require reformulation to comply with local requirements. In addition, new regulations could be adopted or any of the existing regulations could be changed at any time in a manner that could have a material adverse effect on the Company's business and results of operations. Duties on imports are a component of national trade and economic policy and could be changed in a manner that would be materially adverse to the Company's sales and its competitive position compared to locally-produced goods, in particular in countries such as Taiwan, where the Company's products are already subject to high customs duties. In addition, import restrictions in certain countries and jurisdictions limit the Company's ability to import products from NSI. In some jurisdictions, such as the PRC, regulators may prevent the importation of Nu Skin and IDN products altogether. Present or future health and safety or food and drug regulations could delay or prevent the introduction of new products into a given country or marketplace or suspend or prohibit the sale of existing products in such country or marketplace.

Other Regulatory Issues. As a U.S. entity operating through subsidiaries in foreign jurisdictions, the Company is subject to foreign exchange control and transfer pricing laws that regulate the flow of funds between the Subsidiaries and the Company, as well as the flow of funds to NSI for product purchases, management services and contractual obligations such as payment of distributor commissions. The Company believes that it operates in compliance with all applicable customs, foreign exchange control and transfer pricing laws. However, there can be no assurance that the Company will continue to be found to be operating in compliance with foreign customs, exchange control and transfer pricing laws, or that such laws will not be modified, which, as a result, may require changes in the Company's operating procedures.

As is the case with most network marketing companies, NSI and the Company have from time to time received inquiries from various government regulatory authorities regarding the nature of their business and other issues such as compliance with local business opportunity and securities laws. Although to date none of these inquiries has resulted in a finding materially adverse to the Company or NSI, adverse publicity resulting from inquiries into NSI operations by certain government agencies in the early 1990's, stemming in part out of inappropriate product and earnings claims by distributors, materially adversely affected NSI's business and results of operations. There can be no assurance that the Company or NSI will not face similar inquiries in the future which, either as a result of findings adverse to the Company or NSI or as a result of adverse publicity resulting from the instigation of such inquiries, could have a material adverse effect on the Company's business and results of operations. See "--Potential Effects of Adverse Publicity."

The Subsidiaries are periodically subject to reviews and audits by various governmental agencies, particularly in new markets, where the Company has experienced high rates of growth. Recently, the South Korean Ministry of Trade, Industry and Energy commenced an examination of the largest foreign and domestic owned network marketing companies in South Korea, including Nu Skin Korea. The purposes of the examination were stated to be to monitor how companies are operating and to audit current business practices. In addition, Nu Skin Korea has been subject to an audit by the South Korean Customs Service. Management believes that this audit was precipitated largely as a result of Nu Skin Korea's rapid growth and its position as the largest importer of cosmetics and personal care products in South Korea as well as by recent South Korean trade imbalances. The Customs Service reviewed a broad range of issues relating to the operations of Nu Skin Korea, with a focus on reviewing customs valuation issues and intercompany payments. Recently, the Customs Service has resolved certain issues related to its audit without imposing sanctions. The intercompany payment issue was referred to various other government agencies which have also recently concluded their reviews and found no wrong-doing and imposed no fines, sanctions or other restrictions. The import valuation issues, which management considers to be routine in light of the Company's extensive import and export activities, were referred to the valuation division of the Customs Service. The Company continues to believe that its actions have been in compliance in all material respects with relevant regulations. See "--Potential Negative Impact of Distributor Actions." Management believes that other major importers of cosmetic products are also the focus of regulatory reviews by South Korean authorities.

Businesses which are more than 50% owned by non-citizens are not permitted to operate in Thailand unless they have an Alien Business Permit, which is frequently difficult to obtain. The Company is currently operating under the Treaty of Amity and Economic Relations between Thailand and the United States (the "Treaty of Amity"). Under the Treaty of Amity, an Alien Business Permit is not required if a Thailand business is owned by an entity organized in the United States, a majority of whose owners are U.S. citizens or entities. From time to time, it has been reported that certain Thailand government officials have considered supporting the termination of the Treaty of Amity. There can be no assurance that, if the Treaty of Amity were terminated, the Company would be able to obtain an Alien Business Permit and continue operations in Thailand.

Based on the Company's and NSI's experience and research (including assistance from counsel) and the nature and scope of inquiries from government regulatory authorities, the Company believes that it is in material compliance with all regulations applicable to the Company. Despite this belief, either the Company or NSI could be found not to be in material compliance with existing regulations as a result of, among other things, the considerable interpretative and enforcement discretion given to regulators or misconduct by independent distributors. In 1994, NSI and three of its distributors entered into a consent decree with the United States Federal Trade Commission (the "FTC") with respect to its investigation of certain product claims and distributor practices, pursuant to which NSI paid approximately $1 million to settle the FTC investigation. In August 1997, NSI reached a settlement with the FTC with respect to certain product claims and its compliance with the 1994 consent decree pursuant to which settlement NSI paid $1.5 million to the FTC. In connection with the August 1997 settlement, NSI also voluntarily agreed to recall and rewrite virtually all of its sales and marketing materials to address FTC concerns. In February 1998, the State of Pennsylvania filed a lawsuit against NSI and one of its affiliates Big Planet, Inc., alleging violations of Pennsylvania law. In early March 1998, NSI and Big Planet agreed to suspend for 30 days all sales and recruitment efforts related to Big Planet's potential electricity marketing program. Big Planet also volunteered certain other restrictions on its business. NSI's primary business of distributing personal care and nutritional products was unaffected by the lawsuit. These events were reported in certain media.

Even though neither the Company nor the Subsidiaries has encountered similar regulatory concerns, there can be no assurances that the Company and the Subsidiaries will not be subject to similar inquiries and regulatory investigations or disputes and the effects of any adverse publicity resulting therefrom. Any assertion or determination that either the Company, NSI or any NSI distributors are not in compliance with existing laws or regulations could potentially have a material adverse effect on the Company's business and results of operations. In addition, in any country or jurisdiction, the adoption of new laws or regulations or changes in the interpretation of existing laws or regulations could generate negative publicity and/or have a material adverse effect on the Company's business and results of operations. The Company cannot determine the effect, if any, that future governmental regulations or administrative orders may have on the Company's business and results of operations. Moreover, governmental regulations in countries where the Company plans to commence or expand operations may prevent, delay or limit market entry of certain products or require the reformulation of such products. Regulatory action, whether or not it results in a final determination adverse to the Company or NSI, has the potential to create negative publicity, with detrimental effects on the motivation and recruitment of distributors and, consequently, on the Company's sales and earnings. See "--Potential Effects of Adverse Publicity," "--Entering New Markets" and "Business--Government Regulation--Regulation of Products and Marketing."

Reliance on Certain Distributors; Potential Divergence of Interests between Distributors and the Company. The Global Compensation Plan allows distributors to sponsor new distributors. The sponsoring of new distributors creates multiple distributor levels in the network marketing structure. Sponsored distributors are referred to as "downline" distributors within the sponsoring distributor's "downline network." If downline distributors also sponsor new distributors, additional levels of downline distributors are created, with the new downline distributors also becoming part of the original sponsor's "downline network." As a result of this network marketing distribution system, distributors develop relationships with other distributors, both within their own countries and internationally. The Company believes that its revenue is generated from thousands of distributor networks. However, the Company estimates that, as of December 31, 1997, approximately 300 distributorships worldwide comprised NSI's two highest executive distributor levels (Hawaiian Blue Diamond and Blue Diamond distributors). These distributorships have developed extensive downline networks which consist of thousands of sub-networks. Together with such networks, these distributorships account for substantially all of the Company's revenue. Consequently, the loss of such a high-level distributor or another key distributor together with a group of leading distributors in such distributor's downline network, or the loss of a significant number of distributors for any reason, could adversely affect sales of the Company's products, impair the Company's ability to attract new distributors and adversely impact earnings.

Under the Global Compensation Plan, a distributor receives commissions based on products sold by the distributor and by participants in the distributor's worldwide downline network, regardless of the country in which such participants are located. The Company, on the other hand, receives revenues based almost exclusively on sales of products to distributors within the Company's markets. So, for example, if a distributor located in Japan sponsors a distributor in Europe, the Japanese distributor could receive commissions based on the sales made by the European distributor, but the Company would not receive any revenue since the products would have been sold outside of the Company's markets. The interests of the Company and distributors therefore diverge somewhat in that the Company's primary objective is to maximize the amount of products sold within the Company's markets, while the distributors' objective is to maximize the amount of products sold by the participants in the distributors' worldwide downline networks. The Company and NSI have observed that the commencement of operations in a new country tends to distract the attention of distributors from the established markets for a period of time while key distributors begin to build their downline networks within the new country. NSI is currently contemplating opening operations in additional countries outside of the Company's markets. To the extent distributors focus their energies on establishing downline networks in these new countries, and decrease their focus on building organizations within the Company's markets, the Company's business and results of operations could be adversely affected. Furthermore, the Company itself is currently contemplating opening new markets. In the event distributors focus on these new markets, sales in existing markets might be adversely affected. There can be no assurance that these new markets will develop or that any increase in sales in new markets will not be more than offset by a decrease in sales in the Company's existing markets.

Entering New Markets. As part of its growth strategy, the Company has acquired from NSI the right to act as NSI's exclusive distribution vehicle in Indonesia, Malaysia, the PRC, Singapore and Vietnam. The Company has undertaken reviews of the laws and regulations to which its operations would be subject in Indonesia, Malaysia, the PRC, Singapore and Vietnam. Given existing regulatory environments and economic conditions, the Company's entrance into Singapore and Vietnam is not anticipated in the short to mid-term. The regulatory and political climate in the other countries for which the Company has the right to act as NSI's exclusive distributor is such that a replication of the Company's current operating structure cannot be guaranteed. Because the Company's personal care and nutritional product lines are positioned as premium product lines, the market potential for the Company's product lines in relatively less developed countries, such as the PRC and Vietnam, remains to be determined. Modifications to each product line may be needed to accommodate the market conditions in each country, while maintaining the integrity of the Company's products. No assurance can be given that the Company will be able to obtain necessary regulatory approvals to commence operations in these new markets, or that, once such approvals are obtained, the Company and NSI, upon which the Company is largely dependent for product development assistance, will be able to successfully reformulate Nu Skin personal care and IDN product lines in any of the Company's new markets to attract local consumers.

Each of the proposed new markets will present additional unique difficulties and challenges. The PRC, for example, has proven to be a particularly difficult market for foreign corporations due to its extensive government regulation and historical political tenets, and no assurance can be given that the Company will be able to establish Nu Skin operations in the PRC using the Company's business model or otherwise. The Company believes that entering the PRC may require the successful establishment of a joint venture enterprise with a Chinese partner and the establishment of a local manufacturing presence. These initiatives would likely require a significant investment over time by the Company. The Company believes that the PRC national regulatory agency responsible for direct selling periodically reviews the regulation of multi-level marketing. Management is aware of recent media and other reports in the PRC reporting an increasing desire on the part of senior government officers to curtail or even abolish direct selling and multi-level marketing activities. These views may lead to changes in applicable regulations. The Company believes that PRC regulators are currently not issuing direct selling or multi-level marketing licenses and may take action restricting or rescinding currently licensed direct selling businesses. The Company is actively working on these and other issues including joint ventures and potential marketing alternatives related to possible Nu Skin operations in the PRC. It is not known when or whether the Company will be able to implement in the PRC business models consistent with those used by the Company in other markets. The Company will likely have to apply for licenses on a province by province basis, and the repatriation of the Company's profits will be subject to restrictions on currency conversion and the fluctuations of the government controlled exchange rate. In addition, because distribution systems in the PRC are greatly fragmented, the Company may be forced to use business models significantly different from those used by the Company in more developed countries. The lack of a comprehensive legal system, the uncertainties of enforcement of existing legislation and laws, and potential revisions of existing laws could have an adverse effect on the Company's proposed business in the PRC.

The other potential new markets also present significant regulatory, political and economic obstacles to the Company. In Singapore, for example, network marketing is currently illegal and is not permitted under any circumstances. Although the Company believes that this restriction will eventually be relaxed or repealed, no assurance can be given that such regulation will not remain in place and that the Company will not be permanently prevented from initiating sales in Singapore. In addition, Malaysia has governmental guidelines that have the effect of limiting foreign ownership of direct selling companies operating in Malaysia to no more than 30%. There can be no assurance that the Company will be able to properly structure Malaysian operations to comply with this policy. In October of 1995, the Company's business permit applications were denied by the Malaysian government as a result of activities by certain NSI distributors. Therefore, the Company believes that although significant opportunities exist to expand its operations into new markets, there can be no assurance that these or other difficulties will not prevent the Company from realizing the benefits of this opportunity.

Managing Growth. The Company has experienced rapid growth since operations in Hong Kong commenced in 1991. The management challenges imposed by this growth include entry into new markets, growth in the number of employees and distributors, expansion of facilities necessary to accommodate growth and additions and modifications to the Company's product lines. To manage these changes effectively, the Company may be required to hire additional management and operations personnel and to improve its operational, financial and management systems.

Possible Adverse Effect on the Company of the Change in the Status of Hong Kong. The Company has offices and a portion of its operations in Hong Kong. Effective July 1, 1997, the exercise of sovereignty over Hong Kong was transferred from the Government of the United Kingdom of Great Britain and Northern Ireland (the "United Kingdom"), to the government of the PRC pursuant to the Sino-British Joint Declaration on the Question of Hong Kong (the "Joint Declaration"), and Hong Kong became a Special Administrative Region (SAR) of the PRC. The Joint Declaration provided for Hong Kong to be under the authority of the government of the PRC but Hong Kong will enjoy a high degree of autonomy except in foreign and defense affairs, and that Hong Kong be vested with executive, legislative and independent judicial power. The Joint Declaration also provides that the current social and economic systems in Hong Kong will remain unchanged for 50 years after June 30, 1997 and that Hong Kong will retain the status of an international financial center. Although sales in Hong Kong accounted for less than 5% of the Company's revenues for the year ended December 31, 1997, Hong Kong serves as the location for the Company's regional offices and an important base of operations for many of the Company's most successful distributors whose downline distributor networks extend into other Asian markets. Any adverse effect on the social, political or economic systems in Hong Kong resulting from this transfer could have a material adverse effect on the Company's business and results of operations. Although the Company does not anticipate any material adverse change in the business environment in Hong Kong resulting from the 1997 transfer of sovereignty, the Company has formulated contingency plans to transfer the Company's regional office to another jurisdiction in the event that the Hong Kong business environment is so affected.

Relationship with and Reliance on NSI; Potential Conflicts of Interest. NSI has ownership and control of the NSI trademarks, tradenames, the Global Compensation Plan, distributor lists and related intellectual property and know-how (collectively, the "Licensed Property"), and licenses to the Company rights to use the Licensed Property in certain markets. NSI and its affiliates currently operate in 17 countries, excluding the countries in which the Company currently operates, and will continue to market and sell Nu Skin personal care and IDN nutritional products in these countries, as well as in additional countries outside of the Company's markets, through the network marketing channel. Thus, the Company cannot use the NSI trademarks to expand into other markets for which the Company does not currently have a license without first obtaining additional licenses or other rights from NSI. There can be no assurance that NSI will make any additional markets available to the Company or that the terms of any new licenses from NSI will be acceptable to the Company. See "--Recent Developments."

NSI has licensed to the Company, through the Subsidiaries, rights to distribute Nu Skin and IDN products and to use the Licensed Property in the Company's markets, and NSIMG, an affiliate of NSI, will provide management support services to the Company and the Subsidiaries, pursuant to distribution, trademark/tradename license, licensing and sales, and management services agreements (the "Operating Agreements"). The Company relies on NSI for research, development, testing, labeling and regulatory compliance for products sold to the Company under the distribution agreements, and virtually all of the Company's revenues are derived from products and sales aids purchased from NSI pursuant to these agreements. NSIMG provides the Company with a variety of management and consulting services, including, but not limited to, management, legal, financial, marketing and distributor support/training, public relations, international expansion, human resources, strategic planning, product development and operations administration services. Each of the Operating Agreements (other than the distribution, trademark/tradename license and licensing and sales agreements for Nu Skin Korea, which have shorter terms), is for a term ending December 31, 2016, and is subject to renegotiation after December 31, 2001, in the event that the Original Stockholders and their affiliates, on a combined basis, no longer beneficially own a majority of the combined voting power of the outstanding shares of Common Stock of the Company or of the common stock of NSI. The Company is almost completely dependent on the Operating Agreements to conduct its business, and in the event NSI is unable or unwilling to perform its obligations under the Operating Agreements, or terminates the Operating Agreements as provided therein, the Company's business and results of operations will be adversely affected. See "Business--Relationship with NSI" and "Recent Developments."

After consummation of the Offerings and the NSI Acquisition, approximately 98% of the combined voting power of the outstanding shares of Common Stock will be held by the Original Stockholders and certain of their affiliates. Consequently, the Original Stockholders and certain of their affiliates will have the ability, acting in concert, to elect all directors of the Company and approve any action requiring approval by a majority of the stockholders of the Company. Certain of the Original Stockholders also own 100% of the outstanding shares of NSI. As a result of this ownership, and if the NSI Acquisition is not consummated, the Original Stockholders who are also shareholders of NSI will consider the short-term and the long-term impact of all stockholder decisions on the consolidated financial results of NSI and the Company. See "--Control by Existing Stockholders; Anti-Takeover Effects of Dual Classes of Common Stock."

The Operating Agreements were approved by the Board of Directors of the Company, which was, except with respect to the approval of the Operating Agreements with Nu Skin Thailand and Nu Skin Philippines, composed entirely of individuals who were also officers and shareholders of NSI at the time of approval. The Operating Agreements with Nu Skin Thailand and Nu Skin Philippines were approved by a majority of the disinterested directors of the Company. In addition, some of the executive officers of the Company are also executive officers of NSI. It is expected that a number of the Company's executive officers will continue to spend a portion of their time on the affairs of NSI, for which they will continue to receive compensation from NSI.

In view of the substantial relationships between the Company and NSI, conflicts of interest may exist or arise with respect to existing and future business dealings, including, without limitation, the relative commitment of time and energy by the executive officers to the respective businesses of the Company and NSI, potential acquisitions of businesses or properties, the issuance of additional securities, the election of new or additional directors and the payment of dividends by the Company. There can be no assurance that any conflicts of interest will be resolved in favor of the Company. Under Delaware and Utah law, a person who is a director of both the Company and NSI owes fiduciary duties to both corporations and their respective shareholders. As a result, persons who are directors of both the Company and NSI are required to exercise their fiduciary duties in light of what they believe to be best for each of the companies and its shareholders.

Control by Existing Stockholders; Anti-Takeover Effect of Dual Classes of Common Stock. Because of the relationship between the Company and NSI, management elected to structure the capitalization of the Company in such a manner as to minimize the possibility of a change in control of the Company without the consent of the Original Stockholders. Consequently, the shares of Class B Common Stock enjoy ten to one voting privileges over the shares of Class A Common Stock until the outstanding shares of Class B Common Stock constitute less than 10% of the total outstanding shares of Common Stock. After consummation of the Offerings, and the NSI Acquisition, the Original Stockholders and certain of their affiliates will collectively own 100% of the outstanding shares of the Class B Common Stock, representing approximately 98% of the combined voting power of the outstanding shares of Common Stock. Accordingly, the Original Stockholders and certain of their affiliates, acting fully or partially in concert, will have the ability to control the election of the Board of Directors of the Company and thus the direction and future operations of the Company without the supporting vote of any other stockholder of the Company, including decisions regarding acquisitions and other business opportunities, the declaration of dividends and the issuance of additional shares of Class A Common Stock and other securities. NSI is a privately-held company, all of the shares of which are owned prior to consummation of the NSI Acquisition by certain of the Original Stockholders. As long as the shareholders of NSI prior to consummation of the NSI Acquisition are majority stockholders of the Company, assuming they act in concert, third parties will not be able to obtain control of the Company through purchases of shares of Class A Common Stock.

Adverse Impact on Company Income Due to Distributor Option Program. Prior to the Underwritten Offerings, the Original Stockholders converted 1,605,000 shares of Class B Common Stock to Class A Common Stock and contributed such shares of Class A Common Stock to the Company. The Company granted to NSI options to purchase such shares of Class A Common Stock (the "Distributor Options"), and NSI offered these options to qualifying distributors of NSI. The Exercise Price for each Distributor Option is $5.75, which is 25% of the initial price per share to the public of the Class A Common Stock in the Underwritten Offerings. The Distributor Options vested December 31,1997. The shares of Class A Common Stock underlying the Distributor Options have been registered pursuant to Rule 415 under the 1933 Act.

The Company incurred a total pre-tax non-cash compensation expense of $19.9 million in connection with the grant of the Distributor Options. This non-cash compensation expense resulted in a corresponding impact on net income and net income per share.

Reliance on and Concentration of Outside Manufacturers. Virtually all the Company's products are sourced through NSI and are produced by manufacturers unaffiliated with NSI. The Company currently has little or no direct contact with these manufacturers. The Company's profit margins and its ability to deliver its existing products on a timely basis are dependent upon the ability of NSI's outside manufacturers to continue to supply products in a timely and cost-efficient manner. Furthermore, the Company's ability to enter new markets and sustain satisfactory levels of sales in each market is dependent in part upon the ability of suitable outside manufacturers to reformulate existing products, if necessary to comply with local regulations or market environments, for introduction into such markets. Finally, the development of additional new products in the future will likewise be dependent in part on the services of suitable outside manufacturers.

The Company currently acquires products or ingredients from sole suppliers or suppliers that are considered by the Company to be the superior suppliers of such ingredients. The Company believes that, in the event it is unable to source any products or ingredients from its current suppliers, the Company could produce such products or replace such products or substitute ingredients without great difficulty or prohibitive increases in the cost of goods sold. However, there can be no assurance that the loss of such a supplier would not have a material adverse effect on the Company's business and results of operations.

With respect to sales to the Company, NSI currently relies on two unaffiliated manufacturers to produce approximately 70% and 80% of its personal care and nutritional products, respectively. NSI has a written agreement with the primary supplier of the Company's personal care products that expires at the end of 2000. An extension to such contract is currently being negotiated. NSI does not currently have a written contract with the primary supplier of the Company's nutritional products. The Company believes that in the event that NSI's relationship with any of its key manufacturers is terminated, NSI will be able to find suitable replacement manufacturers. However, there can be no assurance that the loss of either manufacturer would not have a material adverse effect on the Company's business and results of operations.

Reliance on Operations of and Dividends and Distributions from Subsidiaries. The Company is a holding company without operations of its own or significant assets other than ownership of 100% of the capital stock of each of the Subsidiaries. Accordingly, an important source of the Company's income will be dividends and other distributions from the Subsidiaries. Each of the Subsidiaries has its operations in a country other than the United States, the country in which the Company is organized. In addition, each of the Subsidiaries receives its revenues in the local currency of the country or jurisdiction in which it is situated. As a consequence, the Company's ability to obtain dividends or other distributions is subject to, among other things, restrictions on dividends under applicable local laws and regulations, and foreign currency exchange regulations of the country or jurisdictions in which the Subsidiaries operate. The Subsidiaries' ability to pay dividends or make other distributions to the Company is also subject to their having sufficient funds from their operations legally available for the payment of such dividends or distributions that are not needed to fund their operations, obligations or other business plans. Because the Company will be a stockholder of each of the Subsidiaries, the Company's claims as such will generally rank junior to all other creditors of and claims against the Subsidiaries. In the event of a Subsidiary's liquidation, there may not be assets sufficient for the Company to recoup its investment in such Subsidiary.

Taxation Risks and Transfer Pricing. The Company is subject to taxation in the United States, where it is incorporated, at a statutory corporate federal tax rate of 35.0% plus any applicable state income taxes. In addition, each Subsidiary is subject to taxation in the country in which it operates, currently ranging from a statutory tax rate of 57.9% in Japan to 16.5% in Hong Kong. The Company is eligible to receive foreign tax credits in the U.S. for the amount of foreign taxes actually paid in a given period. In the event that the Company's operations in high tax jurisdictions such as Japan grow disproportionately to the rest of the Company's operations, the Company will be unable to fully utilize its foreign tax credits in the U.S., which could, accordingly, result in the Company paying a higher overall effective tax rate on its worldwide operations.

Because the Subsidiaries operate outside of the United States, the Company is subject to the jurisdiction of numerous foreign tax authorities. In addition to closely monitoring the Subsidiaries' locally based income, 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 of foreign corporations and their intercompany transfers. The Company is currently undergoing a customs audit in South Korea. See "--Government Regulation of Products and Marketing; Import Restrictions" and "--Other Regulatory Issues." Although the Company believes that its tax and transfer pricing structures are in compliance in all material respects with the laws of every jurisdiction in which it operates, no assurance can be given that these structures will not be challenged by foreign tax authorities or that such challenges or any required changes in such structures will not have a material adverse effect on the Company's business or results of operations.

Increase in Distributor Compensation Expense. Under the Licensing and Sales Agreements (the "Licensing and Sales Agreements") between each of the Subsidiaries and NSI, the Company, through its Subsidiaries, is contractually obligated to pay a distributor commission expense of 42% 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% 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% 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%, the Company must pay the difference to NSI. Under this formulation, the Company's total commission expense is fixed at 42% of commissionable product sales in each country (except for South Korea). The 42% figure has been set on the basis of NSI's experience over the past eight years during which period actual commissions paid in a given year together with the cost of administering the Global Compensation Plan have ranged between 41% and 43% of commissionable product sales for such year (averaging approximately 42%). In the event that actual commissions payable to distributors from sales in the Company's markets vary from these historical results, whether as a result of changes in distributor behavior or changes to the Global Compensation Plan or in the event that NSI's cost of administering the Global Compensation Plan increases or decreases, the Licensing and Sales Agreements provide that the intercompany settlement figure may be modified to more accurately reflect actual results. This could result in the Company becoming obligated to make greater settlement payments to NSI under the Licensing and Sales Agreements. Such additional payments could adversely affect the Company's results of operations. Because the Company licenses the right to use the Global Compensation Plan from NSI, the structure of the plan, including commission rates, is under the control of NSI.

Product Liability. The Company may be subject, under applicable laws and regulations, to liability for loss or injury caused by its products. The Company's Subsidiaries are currently covered for product liability claims to the extent of and under insurance programs maintained by NSI for their benefit and for the benefit of its affiliates purchasing NSI products. Accordingly, NSI maintains a policy covering product liability claims for itself and its affiliates with a $1 million per claim and $1 million annual aggregate limit and an umbrella policy with a $40 million per claim and $40 million annual aggregate limit. Although the Company has not been the subject of material product liability claims and the laws and regulations providing for such liability in the Company's markets appear to have been seldom utilized, no assurance can be given that the Company may not be exposed to future product liability claims, and, if any such claims are successful, there can be no assurance that the Company will be adequately covered by insurance or have sufficient resources to pay such claims. The Company does not currently maintain its own product liability policy.

Competition. The markets for personal care and nutritional products are large and intensely competitive. The Company competes directly with companies that manufacture and market personal care and nutritional products in each of the Company's product lines. The Company competes with other companies in the personal care and nutritional products industry by emphasizing the value and premium quality of the Company's products and the convenience of the Company's distribution system. Many of the Company's competitors have much greater name recognition and financial resources than the Company. In addition, personal care and nutritional products can be purchased in a wide variety of channels of distribution. While the Company believes that consumers appreciate the convenience of ordering products from home through a sales person or through a catalog, the buying habits of many consumers accustomed to purchasing products through traditional retail channels are difficult to change. The Company's product offerings in each product category are also relatively small compared to the wide variety of products offered by many other personal care and nutritional product companies. There can be no assurance that the Company's business and results of operations will not be affected materially by market conditions and competition in the future.

The Company also competes with other direct selling organizations, some of which have longer operating histories and higher visibility, name recognition and financial resources. The leading network marketing company in the Company's existing markets is Amway Corporation and its affiliates. The Company competes for new distributors on the basis of the Global Compensation Plan and its premium quality products. Management envisions the entry of many more direct selling organizations into the marketplace as this channel of distribution expands over the next several years. The Company has been advised that certain large, well-financed corporations are planning to launch direct selling enterprises which will compete with the Company in certain of its product lines. There can be no assurance that the Company will be able to successfully meet the challenges posed by this increased competition.

The Company competes for the time, attention and commitment of its independent distributor force. Given that the pool of individuals interested in the business opportunities presented by direct selling tends to be limited in each market, the potential pool of distributors for the Company's products is reduced to the extent other network marketing companies successfully recruit these individuals into their businesses. Although management believes that the Company offers an attractive business opportunity, there can be no assurance that other network marketing companies will not be able to recruit the Company's existing distributors or deplete the pool of potential distributors in a given market.

Operations Outside the United States. The Company's revenues and most of its expenses are recognized primarily outside of the United States. Therefore, the Company is subject to transfer pricing regulations and foreign exchange control, taxation, customs and other laws. The Company's operations may be materially and adversely affected by economic, political and social conditions in the countries in which it operates. A change in policies by any government in the Company's markets could adversely affect the Company and its operations through, among other things, changes in laws, rules or regulations, or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, currency repatriation or imports, or the expropriation of private enterprises. Although the general trend in these countries has been toward more open markets and trade policies and the fostering of private business and economic activity, no assurance can be given that the governments in these countries will continue to pursue such policies or that such policies will not be significantly altered in future periods. This could be especially true in the event of a change in leadership, social or political disruption or upheaval, or unforeseen circumstances affecting economic, political or social conditions or policies. The Company is aware of news releases in South Korea, for example, reporting comments by political figures proposing restrictions on foreign direct sellers designed to protect the market share of local companies. There can be no assurance that such activities, or other similar activities in the Company's markets, will not result in passage of legislation or the enactment of policies which could materially adversely affect the Company's operations in these markets. In addition, the Company's ability to expand its operations into the new markets for which it has received an exclusive license to distribute NSI products will directly depend on its ability to secure the requisite government approvals and comply with the local government regulations in each of those countries. The Company has in the past experienced difficulties in obtaining such approvals as a result of certain actions taken by its distributors, and no assurance can be given that these or similar problems will not prevent the Company from commencing operations in those countries. See "--Entering New Markets."

Anti-Takeover Effects of Certain Charter, Contractual and Statutory Provisions. The Board of Directors is authorized, subject to certain limitations, to issue without further consent of the stockholders up to 25,000,000 shares of preferred stock with rights, preferences and privileges designated by the Board of Directors. In addition, the Company's Certificate of Incorporation requires the approval of 66 2/3% of the outstanding voting power of the Class A

Common Stock and the Class B Common Stock to authorize or approve certain change of control transactions. See "Description of Capital Stock--Common Stock--Voting Rights" and "--Mergers and Other Business Combinations." The Company's Certificate of Incorporation and Bylaws also contain certain provisions that limit the ability to call special meetings of stockholders and the ability of stockholders to bring business before or to nominate directors at a meeting of stockholders. See "Description of Capital Stock--Other Charter and Bylaw Provisions." Pursuant to the 1996 Stock Incentive Plan, in the event of certain change of control transactions the Board of Directors has the right, under certain circumstances, to accelerate the vesting of options and the expiration of any restriction periods on stock awards. Finally, the Operating Agreements with NSI and NSIMG are subject to renegotiation after December 31, 2001 upon a change of control of the Company. Any of these actions, provisions or requirements could have the effect of delaying, deferring or preventing a change of control of the Company. See "Business--Relationship with NSI--General Provisions" and "Recent Developments."

The Company is subject to the provisions of Section 203 of the General Corporation Law of the State of Delaware (the "Anti-Takeover Law") regulating corporate takeovers. The Anti-Takeover Law prevents certain Delaware corporations, including those whose securities are listed on the New York Stock Exchange, from engaging, under certain circumstances, in a "business combination" (which includes a merger of more than 10% of the corporations' assets) with an "interested stockholder" (a stockholder who, together with affiliates and associates, within the prior three years owned 15% or more of the corporation's outstanding voting stock) for three years following the date that such stockholder became an "interested stockholder," unless the "business combination" or "interested stockholder" is approved in a prescribed manner. A Delaware corporation may "opt out" of the Anti-Takeover Law with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from a stockholders' amendment approved by at least a majority of the outstanding voting shares. The Company has not "opted out" of the provisions of the Anti-Takeover Law.

Absence of Dividends. The Company does not anticipate that any dividends will be declared on its Common Stock in the immediate future. The Company intends from time to time to re-evaluate this policy based on its net income and its alternative uses for retained earnings, if any. Any future declaration of dividends will be subject to the discretion of the Board of Directors of the Company and subject to certain limitations under the General Corporation Law of the State of Delaware. The timing, amount and form of dividends, if any, will depend, among other things, on the Company's results of operations, financial condition, cash requirements and other factors deemed relevant by the Board of Directors of the Company. There can be no assurance regarding the timing or payment of any future dividends by the Company. It is anticipated that any dividends, if declared, will be paid in U.S. dollars. The Company, as a holding company, will be dependent on the earnings and cash flow of, and dividends and distributions from, the Subsidiaries to pay any cash dividends or distributions on the Class A Common Stock that may be authorized by the Board of Directors of the Company. See "--Reliance on Operations of and Dividends and Distributions from Subsidiaries."

ITEM 2. PROPERTIES

In each of its current markets, the Company has established a central office for the local administrative staff directed by a general manager. These offices also have a training room for distributor and employee use and an adjoining distribution center where distributors can place, pay for, and pick up orders. In Japan, Taiwan, and South Korea additional pick up centers have been added to provide better service to distributors and meet the increasing demand for product. In Hong Kong, the Company maintains a distributor business center where established distributors can use office space for training and sponsoring activities at cost.

In addition to the Company's corporate headquarters in Provo, Utah, the following table summarizes, as of March 5, 1998, the Company's leased office and distribution facilities in each country where the Company currently has operations.

Location	Function	Approximate Square Feet
Tokyo, Japan.............	Central office/distribution center	44,000
Osaka, Japan.............	Distribution center/office	14,000
Fukuoka, Japan...........	Warehouse/distribution center	12,000
Taipei, Taiwan...........	Central office/distribution center	26,000
Kaohsiung, Taiwan........	Distribution center/office	10,000
Taichung, Taiwan.........	Distribution center/office	17,000
Nankan, Taiwan...........	Warehouse/distribution center	37,000
Tainan, Taiwan...........	Warehouse/distribution center	8,000
Causeway Bay, Hong Kong...	Central office/distribution center/distributor business center/regional office	19,000
Tsing Yi, Hong Kong.......	Warehouse	10,000
Macau....................	Distribution center/office	2,000
Seoul, South Korea........	Central office/distribution center	30,000
Seoul, South Korea........	Distribution center	7,000
Kyungki-Do, South Korea...	Warehouse	16,000
Pusan, South Korea........	Distribution center	10,000
Bangkok, Thailand.........	Central office/distribution center	13,000
Bangkok, Thailand.........	Warehouse/distribution center	10,000
Chiang Mai, Thailand......	Distribution center	6,000
Manila, Philippines.......	Central office/distribution center	10,000
Manila, Philippines.......	Distribution center	5,000

ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any litigation or other legal proceedings which are expected to have a material adverse effect on its financial condition or results of operations, nor are any such proceedings known to be contemplated.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the security holders during the fourth quarter of the fiscal year ended December 31, 1997.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information required by Item 5 of Form 10-K is incorporated herein by reference from the information contained in the section captioned "Common Stock" in the Company's 1997 Annual Report to Stockholders, sections of which are attached hereto as Exhibit 13.

ITEM 6. SELECTED FINANCIAL DATA

The information required by Item 6 of Form 10-K is incorporated herein by reference from the information contained in the section captioned "Selected Financial Data" in the Company's 1997 Annual Report to Stockholders, sections of which are attached hereto as Exhibit 13.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by Item 7 of Form 10-K is incorporated herein by reference from the information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations " in the Company's 1997 Annual Report to Stockholders, sections of which are attached hereto as Exhibit 13.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by Item 8 of Form 10-K is incorporated herein by reference from the information contained in the section captioned "Financial Statements and Supplementary Data" in the Company's 1997 Annual Report to Stockholders, sections of which are attached hereto as Exhibit 13.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The directors and executive officers of the Company and key managers of the Subsidiaries as of March 5, 1998 were as follows:

Name	Age	Position
Blake M. Roney	39	Chairman of the Board
Steven J. Lund	44	President, Chief Executive Officer and Director
Renn M. Patch	47	Chief Operating Officer
Corey B. Lindley	33	Chief Financial Officer
Michael D. Smith	52	Vice President of North Asia
Grant F. Pace	46	Vice President of Southeast Asia and China
M. Truman Hunt	38	Vice President of Legal Affairs and Investor Relations
Keith R. Halls	40	Secretary and Director
Takashi Bamba	62	President, Nu Skin Japan
John Chou	51	President, Nu Skin Taiwan
Sandra N. Tillotson	41	Director
Brooke B. Roney	35	Director
Max L. Pinegar	66	Director
E.J. "Jake" Garn	65	Director
Paula Hawkins	71	Director
Daniel W. Campbell	43	Director

Blake M. Roney has served as Chairman of the Board since the Company's inception. Mr. Roney is a director, the president and a shareholder of NSI and a director and shareholder of the Subsidiaries and an executive officer of certain of the Subsidiaries. He received a B.S. degree from Brigham Young University. He is the brother of Brooke B. Roney.

Steven J. Lund has been President, Chief Executive Officer and a Director of the Company since its inception. Mr. Lund is a director, executive officer and shareholder of NSI and the Subsidiaries. Mr. Lund previously worked as an attorney in private practice. He received a B.A. degree from Brigham Young University and a J.D. degree from Brigham Young University's J. Reuben Clark Law School.

Renn M. Patch has been Chief Operating Officer of the Company since its inception. Since 1992, he has served as Vice President of Global Operations and Assistant General Manager of NSI. From 1991 to 1992, he served as Director of Government Affairs of NSI. Prior to joining NSI in 1991, Mr. Patch was associated with the Washington, D.C. consulting firm of Parry and Romani Associates. Mr. Patch earned a B.A. degree from the University of Minnesota, a J.D. degree from Hamline University School of Law and an L.L.M. degree from Georgetown University.

Corey B. Lindley has been Chief Financial Officer of the Company since its inception. From 1993 to 1996, he served as Managing Director, International of NSI. Mr. Lindley worked as the International Controller of NSI from 1991 to 1994 and lived in Hong Kong and Japan during that time. From 1990 to 1991, he served as Assistant Director of Finance of NSI. Mr. Lindley is a Certified Public Accountant. Prior to joining NSI in 1990, he worked for the accounting firm of Deloitte and Touche. He earned a B.S. degree from Brigham Young University and an M.B.A. degree from Utah State University.

Michael D. Smith has been Vice President of North Asia for the Company since December 1997. Mr Smith was Vice President of Operations for the Company from inception until December 1997. He also served previously as Vice President of Asian Operations for NSI. In addition, he served as General Counsel of NSI from 1992 to 1996 and as Director of Legal Affairs of NSI from 1989 to 1992. He earned B.S. and M.A. degrees from Brigham Young University and a J.D. degree from the University of Utah.

Grant F. Pace has served as Vice President Southeast Asia and China since December 1997. From 1992 to 1997, he was Regional Vice President-Direct Selling in the Asian region for Sara Lee and from 1988 to 1997 he was President and Regional Managing Director, Southeast Asia for Avon Products. He received a J.D. degree from Brigham Young University and an M.B.A. degree from Harvard University.

M. Truman Hunt has served as Vice President of Legal Affairs and Investor Relations since the Company's inception. He also served as Counsel to the President of NSI from 1994 to 1996. From 1991 to 1994, Mr. Hunt served as President and Chief Executive Officer of Better Living Products, Inc., an NSI affiliate involved in the manufacture and distribution of houseware products sold through traditional retail channels. Prior to that time, he was a securities and business attorney in private practice. He received a B.S. degree from Brigham Young University and a J.D. degree from the University of Utah.

Keith R. Halls has served as Secretary and a Director of the Company since its inception. Mr. Halls is a director, general vice president and shareholder of NSI and a director and shareholder of the Subsidiaries and an executive officer of certain of the Subsidiaries. Mr. Halls is a Certified Public Accountant. Mr. Halls received a B.A. degree from Stephen F. Austin State University and a B.S. degree from Brigham Young University.

Takashi Bamba has served as President and/or General Manager of Nu Skin Japan since 1993. Prior to joining Nu Skin Japan in 1993, Mr. Bamba served five years as President and CEO of Avon Products Co., Ltd., the publicly traded Japanese subsidiary of Avon Products, Inc. Prior to working at Avon Products Co., Ltd., he spent 17 years at Avon Products, Inc. He received a B.A. degree from Yokohama National University.

John Chou has served as President and/or General Manager of Nu Skin Taiwan since 1991. Prior to joining Nu Skin Taiwan in 1991, he spent twenty-one years in international marketing and management with 3M Taiwan Ltd., Amway Taiwan and Universal PR Co. Mr. Chou is a standing director of the Taiwan ROC Direct Selling Association. He is also a member of the Kiwanis International, and the Taiwan American Chamber of Commerce. He received a B.A. degree from Tan Kang University in Taipei, Taiwan.

Sandra N. Tillotson has served as a Director of the Company since its inception. Ms. Tillotson is a director, general vice president and shareholder of NSI and a director and shareholder of the Subsidiaries and an executive officer of certain of the Subsidiaries. She earned a B.S. degree from Brigham Young University.

Brooke B. Roney has served as a Director of the Company since its inception. Mr. Roney is a director, general vice president and shareholder of NSI and a director and shareholder of the Subsidiaries and an executive officer of certain of the Subsidiaries. He is the brother of Blake M. Roney.

Max L. Pinegar has served as a Director of the Company since September 1996. He has also served as General Manager of NSI since 1989 and as Vice President of NSI since 1992. He received a B.A. degree from Brigham Young University and an M.B.A. degree from the University of Utah.

E.J. "Jake" Garn has served as a Director of the Company since March 1997. Senator Garn has been Vice Chairman of Huntsman Corporation, one of the largest privately-held companies in the U.S., since 1993. He currently serves as a director for Dean Witter Funds, John Alden Life Insurance Company and Franklin Covey & Co., Inc. From 1974 to 1993, Senator Garn was a member of the United States Senate and served on numerous senate committees. He received a B.A. degree from the University of Utah.

Paula Hawkins has served as a Director of the Company since March 1997. Senator Hawkins is the principal of Paula Hawkins & Associates, Inc., a management consulting company. From 1980 to 1986, Senator Hawkins was a member of the United States Senate and served on numerous senate committees.

Daniel W. Campbell has served as a Director of the Company since March 1997. Mr. Campbell has been a Managing General Partner of EsNet, Ltd. since 1994. From 1992 to 1994, Mr. Campbell was the Senior Vice President and Chief Financial Officer of WordPerfect Corporation and prior to that was a Partner of Price Waterhouse LLP. He received a B.S. degree from Brigham Young University.

Blake M. Roney and Brooke B. Roney are brothers. The Company is not aware of any other family relationships among any director, executive officer or person nominated to become a director. The Certificate of Incorporation of the Company contains provisions eliminating or limiting the personal liability of directors for violations of a director's fiduciary duty to the extent permitted by the Delaware General Corporation Law.

COMPLIANCE WITH SECTION 16(a) OFTHE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers and directors and persons who own beneficially more than ten percent of a registered class of the Company's equity securities to file with the Securities and Exchange Commission and the New York Stock Exchange initial reports of ownership and reports of changes in ownership of the Company's equity securities. Officers, directors and greater than ten percent beneficial owners are required to furnish the Company with copies of all Section 16(a) reports they file.

Based solely upon a review of the copies of such reports furnished to the Company or written representations that no other reports were required, the Company believes that during the fiscal year ended December 31, 1997 the Company's officers, directors and greater than ten percent beneficial owners complied with all applicable Section 16(a) filing requirements, except that each of Messrs. Bamba, Chou, Lindley, Patch, and Smith did not timely report on Form 5 the grant of stock bonus awards made in 1996 and Mr. Pace filed a late Form 3 in connection with his commencement of employment with the Company.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth certain information regarding the annual and long-term compensation for services rendered in all capacities during the fiscal years ended December 31, 1995, 1996 and 1997 of those persons who were the Company's chief executive officer or one of the other four most highly compensated executive officers of the Company or key managers of the Subsidiaries during the last fiscal year (collectively, the "Named Officers").

The Company was formed in September 1996, and consequently paid no compensation to the Named Officers during the fiscal year ended December 31, 1995 and during the first eight months of the fiscal year ended December 31, 1996. However, salary, bonus and other compensation is presented in the table below for 1995 and until September 1996 based on payments by NSI and the Subsidiaries and from September 1996 through 1997 based on payments by the Company and the Subsidiaries to the Named Officers as if the Company had been in existence during all of 1995 and 1996. During 1995, 1996 and 1997, Messrs. Bamba and Chou were, and continue to be, employed full time as the General Managers and/or Presidents of Nu Skin Japan and Nu Skin Taiwan, respectively, and received all of their compensation from the Company through certain of the Subsidiaries. During 1995, 1996 and 1997, Messrs. Lund and Patch were, and continue to be, executive officers of NSI. The compensation presented in the table below reflects an allocation of the time spent by Messrs. Lund and Patch providing services to the Company and certain Subsidiaries during 1995, 1996 and 1997. During 1995 and 1996, Mr. Lindley was an employee of NSI.

The compensation presented in the table below reflects an allocation of the time spent by Mr. Lindley providing services to the Company during 1996. These salaries and bonuses are in addition to any amounts received during the relevant periods by these officers from NSI in return for their services to NSI.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation	
Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation	Restricted Stock Awards	All Other Compensation
Steven J. Lund...............	1997	$275,779	$227,752(1)	$ --	--	$ --
President and Chief	1996	259,973	89,345(1)	--	--	--
Executive Officer	1995	236,364	82,529(1)	--	--	--
Takashi Bamba................	1997	393,520	180,364(2)	180,364(3)	--	3,450(5)
President, Nu Skin Japan	1996	364,138	174,557(2)	195,401(3)	401,375(4)	3,297(5)
	1995	361,028	105,563(2)	98,063(3)	--	3,297(5)
John Chou....................	1997	253,408	84,469(2)	84,469(6)	--	--
President, Nu Skin Taiwan	1996	211,000	56,232(2)	77,897(6)	401,375(4)	--
	1995	185,370	75,786(2)	63,730(6)	--	--
Corey B. Lindley.............	1997	163,727	89,947(1)	16,373(7)	--	15,582(8)
Chief Financial Officer	1996	62,780	17,288(1)	--	401,375(4)	--
	1995	--	--	--	--	--
Renn M. Patch................	1997	148,673	72,819(1)	23,788(7)	--	1,151(8)
Chief Operating Officer	1996	98,638	20,437(1)	13,800(7)	401,375(4)	5,542(8)
	1995	97,175	104,765(9)	18,750(10)	--	--

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(1) Cash bonus paid to the recipient not pursuant to a formal bonus plan.

(2) Cash bonus paid during the year reported pursuant to a cash bonus long-term incentive plan for the Presidents of the Subsidiaries.

(3) Includes deferred portion of a bonus accrued during the year reported pursuant to a cash bonus long-term incentive plan for the Presidents of the Subsidiaries and annual lease payments for an automobile.

(4) Employee stock bonus awards for 13,000 shares of Class A Common Stock were granted in 1996 to each of Messrs. Bamba, Chou and Lindley by the Company pursuant to the 1996 Stock Incentive Plan and to Mr. Patch by NSI pursuant to its own stock incentive plan. The awards vest 25% per year beginning in November 1997. Dividends will be paid only on shares actually issued pursuant to employee stock bonus awards and only as, when and if declared by the Company's Board of Directors. Employee stock bonus awards have been valued for purposes of this table using the closing market price of the Company's Class A Common Stock on December 31, 1996 (307/8) multiplied by the number of shares underlying the awards.

(5) Annual premium for pension insurance policy.

(6) Includes deferred portion of a bonus accrued during the year reported pursuant to a cash bonus long-term incentive plan for the Presidents of the Subsidiaries and annual payments for an automobile and club dues.

(7) Includes deferred portion of a bonus accrued during the year reported not pursuant to a formal bonus plan.

(8) Includes compensation in the form of the cash value of the use of certain NSI-owned property and other perquisites.

(9) Noncash bonus paid to Mr. Patch, not pursuant to a formal bonus plan.

(10) Includes $16,500 of accrued deferred compensation and $2,250 of vested deferred compensation awarded to Mr. Patch under NSI's deferred compensation plan.

The following table sets forth certain information with respect to grants of stock options pursuant to the Nu Skin Asia Pacific, Inc. 1996 Stock Incentive Plan (the "1996 Stock Incentive Plan") during fiscal year 1997 to the Named Officers.

Option Grants in Last Fiscal Year(1)

Name	Options Granted (Shares)	Percentage of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2) 5%	10%
Steven J. Lund	0	--	--	--	--	--
Takashi Bamba	25,000	11.6%	$20.875	10/20/07	$328,204	$831,734
John Chou	25,000	11.6	20.875	10/20/07	328,204	831,734
Corey B. Lindley	26,000	12.0	20.875	10/20/07	341,333	865,004
Renn M. Patch	26,000	12.0	20.875	10/20/07	341,333	865,004

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(1) Under the terms of the 1996 Stock Incentive Plan, all options granted become exercisable in four equal annual installments beginning on the date of grant. Options are granted for a term of ten years, subject to earlier termination in certain events. The exercise price is equal to the fair market value of the Class A Common Stock on the date of grant. The Compensation Committee and/or the Board of Directors retains or retain discretion, subject to certain restrictions, to modify the terms of outstanding options and to reprice outstanding options.

(2) Potential gains are net of the exercise price, but before taxes associated with the exercise. Amounts represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. The assumed 5% and 10% rates of stock price appreciation are provided in accordance with the rules of the Securities and Exchange Commission, and do not represent the Company's estimate or projection of the future Class A Common Stock price. Actual gains, if any, on stock option exercises are dependent upon the future financial performance of the Company, overall market conditions and the option holder's continued employment through the vesting period. This table does not take into account any actual appreciation in the price of the Class A Common Stock from the date of grant.

The following table sets forth certain information with respect to unexercised options under the 1996 Stock Incentive Plan held by the Named Officers as of December 31, 1997. No options were exercised by any of the Named Officers in 1997.

Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/SAR Values

	Number of Unexercised Options at December 31, 1997		Value of Unexercised In-the-Money Options at December 31, 1997(1)	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
Steven J. Lund	0	0	$ 0	$ 0
Takashi Bamba	0	25,000	0	0
John Chou	0	25,000	0	0
Corey B. Lindley ...	0	26,000	0	0
Renn M. Patch	0	26,000	0	0

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(1) Based on the average of the high and low sales price of the Class A Common Stock on the New York Stock Exchange on December 31, 1997 ($17.31), none of the unexercised options were in the money.

Employment Agreements

Messrs. Bamba and Chou have entered into employment agreements with Nu Skin Japan and Nu Skin Taiwan, respectively. Under these agreements, these individuals are paid an annual salary and receive various other benefits. These individuals are also entitled to participate in a cash bonus long-term incentive plan.

Mr. Bamba is employed as the President of Nu Skin Japan at a 1998 annual salary of approximately $341,000. This salary is subject to annual review. Under the terms of his employment agreement, Mr. Bamba is entitled to reimbursement of business-related expenses, the use of an automobile provided by Nu Skin Japan, and participation in any retirement plan offered by Nu Skin Japan. Mr. Bamba also has the right under his employment agreement to have Nu Skin Japan purchase a country club membership and pay related dues, although he has not exercised this right. Mr. Bamba is also provided with a private insurance plan paid for by Nu Skin Japan provided the premium for such private insurance plan does not exceed (Y)300,000 per year. Under his employment agreement, Mr. Bamba has agreed to certain confidentiality obligations. The term of Mr. Bamba's employment is indefinite, subject to termination by Mr. Bamba or Nu Skin Japan upon three months' notice.

Mr. Chou is employed as the President of Nu Skin Taiwan at a 1998 annual salary of approximately $300,000. Under the terms of his employment agreement, Mr. Chou received a personal loan in the amount of $1 million. The loan bears no interest and is payable upon demand if Mr. Chou ceases to be employed by Nu Skin Taiwan or an affiliate. The loan is to be repaid by applying $100,000 of the sum earned by Mr. Chou under the Bonus Incentive Plan per year against the loan balance. If less than $100,000 is earned under the Bonus Incentive Plan in a given year, $100,000 is nevertheless applied against the loan balance. If Mr. Chou is terminated "without cause," any loan balance will be forgiven. Under the terms of his employment agreement, Mr. Chou is also entitled to health insurance paid for in part by Nu Skin Taiwan. Nu Skin Taiwan also provides Mr. Chou with a monthly car allowance. The term of Mr. Chou's employment agreement currently extends until August 2002. Under his employment agreement, Mr. Chou has agreed to certain confidentiality and non-competition obligations.

Bonus Incentive Plan

The Company has adopted a bonus incentive plan for the Presidents of certain of the Subsidiaries. Under the current bonus incentive plan, Messrs. Bamba and Chou are entitled to receive an annual cash bonus based upon the prior year's operating results of the Subsidiary for which they are responsible. Participants in this bonus incentive plan are able to receive a bonus equal to 100% of their respective salaries, conditioned on meeting certain performance criteria and subject to cash availability and approval of the Board of Directors of the Company. One half of this bonus is payable by February 15 of the year following the year in which the bonus is earned and the remaining one half is deferred and vests ratably over 10 years or at age 65, whichever occurs first. The Company has not adopted a formal bonus plan for executives of the Company. The Company has, from time to time, paid discretionary cash bonuses to executives based on market and individual performance.

Compensation of Directors

Each director who does not receive compensation as an officer or employee of the Company, NSI or its affiliates is entitled to receive an annual fee of $25,000 for serving on the Board of Directors, a fee of $1,000 for each meeting of the Board of Directors or any committee meeting thereof attended and a fee of $1,000 for each committee meeting attended if such director is the chairperson of that committee. Each director may be reimbursed for certain expenses incurred in attending Board of Directors and committee meetings.

In addition, certain directors may be granted options or stock bonus awards under the 1996 Stock Incentive Plan. On October 20, 1997, the Board of Directors approved stock bonus awards for E.J. "Jake" Garn, Paula Hawkins and Daniel W. Campbell of 2,500 shares of Class A Common Stock each under the 1996 Stock Incentive Plan. All of such shares were immediately vested. Also on October 20, 1997, the Board of Directors ratified stock option grants to E.J. "Jake" Garn, Paula Hawkins and Daniel W. Campbell to purchase 10,000 shares each of Class A Common Stock under the 1996 Stock Incentive Plan. All options were granted with an exercise price equal to the fair market value of the Class A Common Stock on September 16, 1997, the date the Compensation Committee approved the grants. The options vest on the day before the next annual meeting of stockholders following the date of grant.

COMPENSATION COMMITTEE REPORT

Notwithstanding anything to the contrary set forth in any of the previous filings made by the Company under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, that might incorporate future filings, including, but not limited to, this Proxy Statement, in whole or in part, the following Compensation Committee Report and the performance graph appearing herein shall not be deemed to be incorporated by reference into any such future filings.

This Compensation Committee Report discusses the Company's executive compensation policies and the basis for the compensation paid to the Company's executive officers, including its Chief Executive Officer, Steven J. Lund, during the fiscal year ended December 31, 1997.

Compensation Policy. The Company's policy with respect to executive compensation has been designed to:

- Adequately and fairly compensate executive officers in relation to their responsibilities, capabilities and contributions to the Company and in a manner that is commensurate with compensation paid by companies of comparable size or within the Company's industry;
- Reward executive officers for the achievement of short-term operating goals and for the enhancement of the long-term value of the Company; and
- Align the interests of the executive officers with those of the Company's stockholders with respect to short-term operating goals and long-term increases in the price of the Company's Common Stock.

The components of compensation paid to certain executive officers consist of (a) base salary, (b) incentive compensation in the form of discretionary annual bonus payments, annual bonus payments and other awards made by the Company (through the Compensation Committee) under the Company's bonus incentive plan for the Presidents of certain Subsidiaries and the Nu Skin Asia Pacific, Inc. 1996 Stock Incentive Plan, respectively, and (c) certain other benefits provided to the Company's executive officers. The Compensation Committee has been responsible for reviewing and approving cash compensation paid by the Company to its executive officers and members of the Company's senior management team, including bonuses and awards made under the aforementioned incentive plans, selecting the individuals who will receive such bonuses and awards and determining the timing, pricing and amount of all such bonuses and awards granted.

As described above, the Company has adopted a bonus incentive plan for the Presidents of certain of the Subsidiaries. The Company has not yet adopted a formal bonus incentive plan for other executive officers. During 1997, bonuses made to executive officers other than the Presidents of certain Subsidiaries were discretionary and based on achievement of business targets and objectives. The Company believes its incentive compensation plan for the Presidents of certain Subsidiaries rewards those individuals when the Company and its stockholders have benefited from achieving the Company's goals and targeted objectives, all of which the Compensation Committee feels will dictate, in large part, the Company's future operating results. The Compensation Committee believes that its policy of compensating certain of its executive officers with incentive-based compensation fairly and adequately compensates those individuals in relation to their responsibilities, capabilities and contribution to the Company, and in a manner that is commensurate with compensation paid by companies of comparable size or within the Company's industry. In 1997, the Compensation Committee engaged the consulting firm of Towers Perrin to review and evaluate the compensation and incentive plans for the Company's executive officers. Certain of the recommendations made by Towers Perrin have been implemented and certain recommendations are still being considered by the Compensation Committee.

Components of Compensation. The primary components of compensation paid by the Company to its executive officers and senior management personnel, and the relationship of such components of compensation to the Company's performance, are discussed below:

Base Salary. For the fiscal year ended December 31, 1997, the Compensation Committee reviewed and approved the base salary paid by the Company to its executive officers and the Presidents of certain Subsidiaries. Annual adjustments to base salaries are determined based upon a number of factors, including the Company's performance (to the extent such performance can fairly be attributed or related to each executive's officer's performance), as well as the nature of each executive officer's responsibilities, capabilities and contributions. In addition, for the fiscal year ended December 31, 1997, the Compensation Committee reviewed the base salaries of its executive officers in an attempt to ascertain whether those salaries fairly reflect job responsibilities and prevailing market conditions and rates of pay. The Compensation Committee believes that base salaries for the Company's executive officers have been reasonable in relation to the Company's size and performance in comparison with the compensation paid by similarly sized companies or companies within the Company's industry.

Incentive Compensation. As discussed above, a substantial portion of the compensation paid to the Presidents of certain of the Subsidiaries is in the form of incentive compensation designed to reward the achievement of operating goals. Under the terms of the bonus incentive plan for the Presidents of the Subsidiaries and the Nu Skin Asia Pacific, Inc. 1996 Stock Incentive Plan, the Board of Directors and the Compensation Committee have authority, within the terms of such plans, to select the executive officers and employees who will be granted bonuses and other awards and to determine the timing, pricing and amount of any such bonuses or awards.

Other Benefits. The Company maintains certain other plans and arrangements for the benefit of its executive officers. The Company believes these benefits are reasonable in relation to the executive compensation practices of other similarly sized companies or companies within the Company's industry.

Compensation of the Chief Executive Officer. Steven J. Lund, the Company's President and Chief Executive Officer also served during 1997 as Executive Vice President of NSI and an officer of certain other Subsidiaries. During 1998, Mr. Lund will continue to be an executive officer of Nu Skin USA, Inc., an affiliate of the Company, and a portion of his compensation will be paid by that entity and certain of its affiliates. During 1997, Mr. Lund received a portion of his cash compensation from NSI. The amounts set forth in the table above reflect that portion of Mr. Lund's salary and bonus which is allocated to the Company based on the relative amount of time spent on the Company's affairs in 1997.

Conclusion. The Compensation Committee believes that the concepts discussed above further the stockholders' interests and that officer compensation encourages responsible management of the Company. The Compensation Committee regularly considers the effect of management compensation on stockholder interests. In the past, the Board of Directors based its review in part on the experience of its own members and on information requested from management personnel. In 1997, the Compensation Committee sought input from Towers Perrin, an executive compensation and benefits firm regarding the Company's compensation policies and strategies. In the future, these factors, reports of the Compensation Committee and discussions with and information compiled by various independent consultants retained by the Company will be used in determining officer compensation.

COMPENSATION COMMITTEE OF THE
BOARD OF DIRECTORS

Keith R. Halls
Max L. Pinegar
Paula Hawkins
Daniel W. Campbell

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee is comprised of Keith R. Halls, Daniel W. Campbell, Paula Hawkins and Max L. Pinegar. Mr. Halls is also the Secretary of the Company. Mr. Halls has entered into a Stockholders Agreement with the Company and certain other stockholders of the Company. See "Certain Relationships and Transactions--Stockholders Agreement." During fiscal 1997, Mr. Halls was an executive officer, director and stockholder of NSI, and is now an executive officer, director and stockholder of Nu Skin USA, Inc. and various other affiliates of the Company. During fiscal 1997, Mr. Pinegar was an employee of NSI. Several members of the Company's Board of Directors were also directors of NSI and have set compensation for certain executive officers of the Company who have been or will continue to be executive officers of NSI, Nu Skin USA, Inc. or certain of their affiliates. See "Certain Relationships and Transactions--Acquisition of NSI," "--Operating, License and Distribution Agreements; Certain Effects of the NSI Acquisition," "Proposal 3--Approval of Class A Common Stock Issuable Upon Conversion of Series A Preferred Stock" and "Interests of Certain Persons in the Proposals."

STOCK PERFORMANCE GRAPH

Set forth below is a line graph comparing the cumulative total stockholder return (stock price appreciation plus dividends) on the Company's Class A Common Stock with the cumulative total return of the S&P 500 Index and a market weighted index of publicly traded peers for the period from November 22, 1996 (the date of the Company's initial public offering) through December 31, 1997. The graph assumes that $100 is invested in each of the Class A Common Stock, the S&P 500 Index and the index of publicly traded peers on November 22, 1996 and that all dividends were reinvested. The publicly traded companies in the peer group are Amway Asia Pacific, Ltd., Amway Japan, Ltd., Tupperware Corporation, Revlon, Inc. and Avon Products.

COMPARISON OF CUMULATIVE TOTAL STOCKHOLDER RETURN
AMONG NU SKIN ASIA PACIFIC, INC.,
PEER GROUP AND BROAD MARKET

[GRAPHIC OMITTED]

Measurement Period	Company	S&P 500 Index	Peer Group Index
November 22, 1996	$100.00	$100.00	$100.00
December 31, 1996	107.39	98.02	99.03
December 31, 1997	63.48	130.72	75.48

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of the Company's Class A Common Stock and Class B Common Stock as of March 2, 1998, by (i) each person (or group of affiliated persons) who is known by the Company to own beneficially more than 5% of the outstanding shares of the Class A Common Stock or Class B Common Stock, (ii) each of the Company's directors, (iii) each of the Company's "Named Officers" (as defined under "Executive Compensation"), and (iv) all executive officers and directors and director nominees of the Company as a group. The information in this table assumes (a) the exercise of all the options to purchase shares of Class A Common Stock (the "Distributor Options") offered in the Company's Rule 415 Offerings commenced in connection with the Company's initial public offering, (b) the issuance of the 64,500 shares of Class A Common Stock pursuant to employee stock bonus awards (which have not yet vested) offered by the Company in the Rule 415 Offerings and the shares of Class A Common Stock underlying such stock bonus awards, (c) the issuance of the 1,250,000 stock bonus awards offered by NSI and its affiliates excluding the Company in the Rule 415 Offerings and the shares of Class A Common Stock underlying such stock bonus awards, (d) the exercise by an executive officer of the Company of an option to purchase 250,825 shares of Class A Common Stock, and (e) the exercise by certain directors and executive officers of unvested non-qualified stock options to purchase 189,000 shares of Class A Common Stock. The business address of the 5% stockholders is 75 West Center Street, Provo, Utah, 84601.

Name	Class A Common Stock(1,2) Shares	% of Class	Class B Common Stock(1,2) Shares	% of Class	% of Voting Power(2)
Blake M. Roney(3)	--	--	20,414,763	29.0	28.5
Nedra D. Roney(4)	--	--	14,213,895	20.2	19.8
Sandra N. Tillotson(5)	--	--	8,554,510	12.2	11.9
Craig S. Tillotson(6)	--	--	4,402,658	6.3	6.1
R. Craig Bryson(7)	--	--	4,918,236	7.0	6.9
Steven J. Lund(8)	--	--	4,223,224	6.0	5.9
Brooke B. Roney(9)	--	--	3,425,322	4.9	4.8
Keith R. Halls(10)	--	--	894,115	1.3	1.2
Max L. Pinegar(11)	11,300	*	--	--	*
Daniel W. Campbell(12)	12,500	*	--	--	*
E.J. "Jake" Garn(13)	12,500	*	--	--	*
Paula Hawkins(14)	12,500	*	--	--	*
Renn M. Patch(15)	40,500	*	--	--	*
Corey B. Lindley(16)	40,600	*	--	--	*
Takashi Bamba(17)	38,000	*	--	--	*
John Chou(18)	38,215	*	--	--	*
BNASIA, Ltd.(19)	--	--	19,881,455	28.3	27.8
RCKASIA, Ltd.(20)	--	--	4,775,736	6.8	6.7
All directors and officers as a group(16 persons) (21)	535,440	4.5	37,759,803	53.7	52.7

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*Less than 1%

(1) Each share of Class B Common Stock is convertible at any time at the option of the holder into one share of Class A Common Stock and each share of Class B Common Stock is automatically converted into one share of Class A Common Stock upon the transfer of such share of Class B Common Stock to any person who is not a Permitted Transferee as defined in the Company's Amended and Restated Certificate of Incorporation.

(2) Each share of Class A Common Stock has one vote per share, each share of Class B Common Stock has ten votes per share, and each share of Series A Preferred Stock generally has no voting rights.

(3) Includes shares beneficially owned or deemed to be owned beneficially by Blake M. Roney as follows: 19,881,455 shares of Class B Common Stock as general partner of BNASIA, Ltd., a limited partnership, and with respect to which he shares voting and investment power with his wife Nancy L. Roney as set forth in footnote 19 below; 357,143 shares of Class B Common Stock as co-trustee and with respect to which he shares voting and investment power with his wife Nancy L. Roney; and 176,165 shares of Class B Common Stock as trustee and with respect to which he has sole voting and investment power.

(4) Includes shares beneficially owned or deemed to be owned beneficially by Nedra D. Roney as follows: 13,913,895 shares of Class B Common Stock directly and with respect to which she has sole voting and investment power; and 300,000 shares of Class B Common Stock as co-trustee and with respect to which she shares voting and investment power.

(5) Includes shares beneficially owned or deemed to be owned beneficially by Sandra N. Tillotson as follows: 7,584,743 shares of Class B Common Stock directly and with respect to which she has sole voting and investment power; 424,767 shares of Class B Common Stock as trustee and with respect to which she has sole voting and investment power; 500,000 shares of Class B Common Stock as manager of a limited liability company and with respect to which she has sole voting and investment power; and 45,000 shares of Class B Common Stock as co-trustee and with respect to which she shares voting and investment power.

(6) Includes shares beneficially owned or deemed to be owned beneficially by Craig S. Tillotson as follows: 2,962,912 shares of Class B Common Stock directly and with respect to which he has sole voting and investment power; 112,500 shares of Class B Common Stock as trustee and with respect to which he has sole voting and investment power; 327,246 shares of Class B Common Stock as co-trustee and with respect to which he shares voting and investment power; and 1,000,000 shares of Class B Common Stock as manager of a limited liability company and with respect to which he has sole voting and investment power.

(7) Includes shares beneficially owned or deemed to be owned beneficially by R. Craig Bryson as follows: 4,775,736 shares of Class B Common Stock as general partner of RCKASIA, Ltd., a limited partnership, and with respect to which he shares voting and investment power with his wife Kathleen D. Bryson as set forth in footnote 20 below; and 142,500 shares of Class B Common Stock as co-trustee and with respect to which he shares voting and investment power with his wife Kathleen D. Bryson.

(8) Includes shares beneficially owned or deemed to be owned beneficially by Steven J. Lund as follows: 3,144,751 shares of Class B Common Stock as general partner of a limited partnership and with respect to which he shares voting and investment power with his wife Kalleen Lund; 897,902 shares of Class B Common Stock as trustee and with respect to which he has sole voting and investment power; and 180,571 shares of Class B Common Stock as co-trustee and with respect to which he shares voting and investment power with his wife Kalleen Lund.

(9) Includes shares beneficially owned or deemed to be owned beneficially by Brooke B. Roney as follows: 3,362,665 shares of Class B Common Stock as general partner of a limited partnership and with respect to which he shares voting and investment power with his wife Denice R. Roney; and 62,657 shares of Class B Common Stock as co-trustee and with respect to which he shares voting and investment power with his wife Denice R. Roney.

(10) Includes shares beneficially owned or deemed to be owned beneficially by Keith R. Halls as follows: 563,258 shares of Class B Common Stock as general partner of a limited partnership and with respect to which he shares voting and investment power with his wife Anna Lisa Massaro Halls; 50,000 shares of Class B Common Stock as the manager of a limited liability company and with respect to which he has sole voting and investment power; 250,000 shares of Class B Common Stock as trustee and with respect to which he has sole voting and investment power; and 30,857 shares of Class B Common Stock as co-trustee and with respect to which he shares voting and investment power with his wife Anna Lisa Massaro Halls.

(11) Includes shares beneficially owned or deemed to be owned beneficially by Max L. Pinegar as follows: 1,550 shares of Class A Common Stock directly and with respect to which he has sole voting and investment power; and 9,750 shares of Class A Common Stock issued to Mr. Pinegar as an employee stock bonus award which will vest ratably, according to its terms, over the remaining term of the award.

(12) Includes shares beneficially owned or deemed to be owned beneficially by Daniel W. Campbell as follows: 2,500 shares of Class A Common Stock directly and with respect to which he has sole voting and investment power; and 10,000 shares of Class A Common Stock issuable to Mr. Campbell pursuant to a non-qualified stock option which will vest on the day before the next annual meeting of stockholders following the date of the grant.

(13) Includes shares beneficially owned or deemed to be owned beneficially by E.J. "Jake" Garn as follows: 2,500 shares of Class A Common Stock directly and with respect to which he has sole voting and investment power; and 10,000 shares of Class A Common Stock issuable to Mr. Garn pursuant to a non-qualified stock option which will vest on the day before the next annual meeting of stockholders following the date of the grant.

(14) Includes shares beneficially owned or deemed to be owned beneficially by Paula Hawkins as follows: 2,500 shares of Class A Common Stock directly and with respect to which she has sole voting and investment power; and 10,000 shares of Class A Common Stock issuable to Ms. Hawkins pursuant to a non-qualified stock option which will vest the day before the next annual meeting of stockholders following the date of the grant.

(15) Includes shares beneficially owned or deemed to be owned beneficially by Renn M. Patch as follows: 4,750 shares of Class A Common Stock directly and with respect to which he has sole voting and investment power; 9,750 shares of Class A Common Stock issued to Mr. Patch as an employee stock bonus award which will vest ratably, according to its terms,over the remaining term of the award; and 26,000 shares of Class A Common Stock issuable to Mr. Patch pursuant to a non-qualified stock option which will vest ratably, according to its terms, over four years following the date of the grant.

(16) Includes shares beneficially owned or deemed to be owned beneficially by Corey B. Lindley as follows: 4,850 shares of Class A Common Stock directly and with respect to which he has sole voting and investment power; 9,750 of Class A Common Stock issued to Mr. Lindley as an employee stock bonus award which will vest ratably, according to its terms, over the remaining term of the award; and 26,000 shares of Class A Common Stock issuable to Mr. Lindley pursuant to a non-qualified stock option which will vest ratably, according to its terms, over four years following the date of the grant.

(17) Includes shares beneficially owned or deemed to be owned beneficially by Takashi Bamba as follows: 3,250 shares of Class A Common Stock directly and with respect to which he has sole voting and investment power; 9,750 shares of Class A Common Stock issued to Mr. Bamba as an employee stock bonus award which will vest ratably, according to its terms, over the remaining term of the award; and 25,000 shares of Class A Common Stock issuable to Mr. Bamba pursuant to a non-qualified stock option which will vest ratably, according to its terms, over four years following the date of the grant.

(18) Includes shares beneficially owned or deemed to be owned beneficially by John Chou as follows: 3,465 shares of Class A Common Stock directly and with respect to which he has sole voting and investment power; 9,750 shares of Class A Common Stock issued to Mr. Chou as an employee stock bonus award which will vest ratably, according to its terms, over the remaining term of the award; and 25,000 shares of Class A Common Stock issuable to Mr. Chou pursuant to a non-qualified stock option which will vest ratably, according to its terms, over four years following the date of the grant.

(19) Includes 19,881,455 shares of Class B Common Stock owned by BNASIA, Ltd., a limited partnership of which Blake M. Roney and his wife Nancy L. Roney are the general partners and who share voting and investment power.

(20) Includes 4,850,736 shares of Class B Common Stock owned by RCKASIA, Ltd., a limited partnership of which R. Craig Bryson and his wife Kathleen D. Bryson are the general partners and who share voting and investment power.

(21) Class A Common Stock includes: 250,825 shares subject to a stock option which has been granted to an executive officer of the Company and which is exercisable until January 1, 2004; 31,115 shares owned directly by certain directors and executive officers; and 64,500 shares issued to certain directors and executive officers as employee stock bonus awards which will vest ratably, according to their terms, over the remaining terms of the awards; and 189,000 shares issued to certain directors and executive officers as non-qualified stock options which will vest either ratably, according to their terms, over four years or, with respect to options held by non-employee directors, the day before the next annual meeting of stockholders following the date of grant.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

S Corporation Distribution

Prior to the Reorganization, each Subsidiary involved elected to be treated as an "S" corporation under Subchapter S of the Code and comparable state tax laws. On November 19, 1996, the S corporation status of such Subsidiaries was terminated (the "S Termination Date"). Prior to the S Termination Date, the Company declared a distribution to the Orininal Stockholders that included all of such Subsidiaries' previously earned and undistributed S corporation earnings through the S Termination Date (the "S Corporation Distribution"). As of the date of the Reorganization, such Subsidiaries' aggregate undistributed taxable S corporation earnings were $86.5 million. The S Corporation Distribution was distributed in the form of promissory notes bearing interest at 6% per annum (the "S Distribution Notes"). On April 4, 1997, the Company paid the outstanding S Distribution Notes balances together with the related interest expense due. The Original Stockholders, which include Messrs. Blake M. Roney, Steven J. Lund and Keith R. Halls, who during 1997 served and continue to serve as officers and directors of the Company, were holders of the S Distribution Notes.

Control By Original Stockholders

As of March 5, 1998, approximately 98% of the combined voting power of the outstanding shares of Common Stock was held by the Original Stockholders and certain of their affiliates. Consequently, as of such date, the Original Stockholders and certain of their affiliates have the ability, acting in concert, to elect all directors of the Company and approve any action requiring approval by a majority of the stockholders of the Company.

Acquisition of NSI

On February 27, 1998, the Company entered into the Acquisition Agreement with the NSI Stockholders to acquire the Acquired Entities. The consideration to be paid by the Company to the NSI Stockholders will consist of the Series A Preferred Stock, in an amount determined as set forth below, the assumption of the Acquired Entities' S Distribution Notes payable to the NSI Stockholders in the amount of approximately $180 million (taking into account the Acquired Entities' S Distribution Notes in the amount of approximately $136.2 million as of December 31, 1997 and additional Acquired Entities' S Distribution Notes covering undistributed earnings for the period commencing January 1, 1998 and ending on the closing date of the NSI Acquisition) and, contingent upon NSI and the Company meeting certain earnings growth targets, up to $25 million in cash per year over the next four years. In addition, the Acquisition Agreement provides that if the Acquired Entities' S Distribution Notes for the above-referenced periods do not equal or exceed $180 million, the Company will pay each NSI Stockholder in cash or in the form of promissory notes the difference between (i) $180 million and (ii) the aggregate principal amount of the Acquired Entities' S Distribution Notes multiplied by each NSI Stockholder's proportional ownership interest in the outstanding capital stock of NSI. The Acquisition Agreement provides that the number of shares of Series A Preferred Stock to be delivered to the NSI Stockholders shall be determined by dividing $70 million by the average closing price of the Class A Common Stock for the 20 consecutive trading days ending five trading days prior to the closing of the NSI Acquisition. See "Recent Developments."

Operating, License and Distribution Agreements

NSI licenses to the Company, through the Subsidiaries, rights to distribute NSI products and to use certain NSI property in the Company's markets. NSIMG, an NSI affiliate, provide management support services to the Company and the Subsidiaries, pursuant to the Operating Agreements with the Subsidiaries. Virtually all of the products sold by the Company are purchased from NSI pursuant to distribution agreements. The Company also manufactures itself, or through third-party manufacturers, certain products and commercial materials which it then sells using NSI trademarks or tradenames licensed under trademark/tradename license agreements. In addition, the Company does not have its own sales or distribution network but licenses the right to use NSI's distribution network and global distributor compensation plan pursuant to licensing and sales agreements. NSIMG also provides a broad range of management, administrative and technical support to the Company pursuant to management services agreements.

During the fiscal year ended December 31, 1997, NSI and NSIMG charged the Company approximately $241.0 million and $7.3 million, respectively, for goods and services provided to the Company under the Operating Agreements.

The Operating Agreements were approved by the original Board of Directors of the Company, which was composed entirely of officers and shareholders of NSI. In addition, two of the executive officers of the Company, including the Chief Executive Officer, were also executive officers of NSI through the date of the NSI Acquisition. During 1997 a portion of such officers' time was spent on the affairs of NSI, for which they receive compensation from NSI, in addition to amounts they received from the Company for services to the Company.

During 1997, Nu Skin Japan paid NSI a royalty of 8% of the revenue from sales of products manufactured by a third party manufacturer under a license agreement between Nu Skin Japan and NSI. In the fiscal year ended December 31, 1997, Nu Skin Japan paid NSI $3.7 million in royalties under this agreement.

During 1997, pursuant to wholesale distribution agreements, Nu Skin Hong Kong distributed certain NSI products to Nu Skin Personal Care Australia, Inc. and Nu Skin New Zealand, Inc., affiliates of NSI. Pursuant to these agreements, Nu Skin Hong Kong was paid approximately $4.3 million in 1997 by Nu Skin Personal Care Australia, Inc. and Nu Skin New Zealand, Inc.

Concurrently with the Company's initial public offering, the Company purchased from NSI for $25 million, the exclusive rights to distribute NSI products in Thailand, Indonesia, Malaysia, the Philippines, the People's Republic of China, Singapore and Vietnam. As of February 1, 1998, the Company had paid all of this amount. Following the NSI Acquisition, the Company, through its Subsidiary, NSI, will license to Nu Skin USA, Inc. and other affiliates operating in Canada, Mexico, Puerto Rico and Guatemala, rights to distribute Nu Skin products and to use certain intellectual property. NSIMG, a wholly-owned subsidiary of the Company, will provide management support services to the Retained Entities. Virtually all of the products sold by the Retained Entities will be purchased from the Company.

The Company anticipates the above described relationships will be modified or impacted to some degree by the NSI Acquisition. See "Recent Developments."

Stockholders Partnership

R. Craig Bryson and Craig S. Tillotson are major stockholders of the Company and have been NSI distributors since 1984. Messrs. Bryson and Tillotson are partners in an entity (the "Partnership") which receives substantial commissions from NSI, including commissions on sales generated within the Company's markets. For the fiscal year ended December 31, 1997, total commissions paid to the Partnership on sales originating in the Company's then open markets (Japan, Taiwan, Hong Kong, South Korea and Thailand) were approximately $1.1 million. By agreement, NSI pays commissions to the Partnership at the highest level of commissions available to distributors. Management believes that this arrangement allows Messrs. Bryson and Tillotson the flexibility of using their expertise and reputations in network marketing circles to sponsor, motivate and train distributors to benefit NSI's distributor force generally, without having to focus solely on their own organizations.

Stockholders Agreement

The Original Stockholders entered into a stockholders agreement with the Company (the "Original Stockholders Agreement") immediately prior to the initial public offering of the Company's Class A Common Stock in November 1996. Pursuant to the Original Stockholders Agreement and in order to ensure the qualification of the Reorganization under Section 351 of the Code, the Original Stockholders agreed not to transfer any shares through November 28, 1997 without the consent of the Company except for certain transfers relating to the funding of the Distributor Options and the grant of employee stock bonus awards.

Effective as of November 28, 1997, the Original Stockholders entered into an amended and restated stockholders agreement with the Company (the "Stockholders Agreement"). As of March 5, 1998, the Original Stockholders and certain of their affiliates beneficially owned shares having approximately 98% of the combined voting power of the outstanding shares of Common Stock. The Original Stockholders agreed not to transfer any shares they own through November 28, 1998 (the "Initial Lock-up Period") without the consent of the Company except for certain transfers relating to the funding of Distributor Options and the grant of employee stock bonus awards. However, the NSI Acquisition has effected an automatic extension of the lock-up period until one year following the closing date of the NSI Acquisition (the "Extended Lock-up Period").

For one year following the last to expire of (i) the Initial Lock-up Period, and (ii) the Extended Lock-up Period (the "Restricted Resale Period"), all sales of Shares in a public resale pursuant to Rule 144 or any other exempt transaction under the Securities Act, shall not exceed in any calendar quarter an amount determined by multiplying (x) a percentage determined for each Original Stockholder in accordance with each Original Stockholder's pro-rata ownership percentage in the Company by (y) the average weekly trading volume for the Company's Class A Common Stock on the New York Stock Exchange during the calendar quarter immediately preceding any transfer permitted during the Restricted Resale Period (the "Rule 144 Allotment"). In no event, however, shall any Stockholder's Rule 144 Allotment be less than 20,000 shares per calendar quarter with the exception of certain of the Original Stockholders' controlled entities identified in the Stockholders Agreement whose Rule 144 Allotment for any calendar quarter shall be equal to 5% of the shares held by such Original Stockholder on the date of the Stockholders Agreement. The Original Stockholders have been granted registration rights by the Company permitting each such Original Stockholder to register his or her shares of Class A Common Stock, subject to certain restrictions, on any registration statement filed by the Company until such Original Stockholder has sold a specified value of shares of Class A Common Stock.

Certain Loans

As part of his employment agreement, the Company loaned Mr. Chou $1 million. The loan bears no interest and is payable upon demand if Mr. Chou ceases to be employed by Nu Skin Taiwan or an affiliate. The loan is to be repaid by applying $100,000 of the sum earned by Mr. Chou under the Bonus Incentive Plan per year against the loan balance. If less than $100,000 is earned under the Bonus Incentive Plan in a given year, $100,000 is nevertheless applied against the loan balance. If Mr. Chou is terminated "without cause," any loan balance will be forgiven. See "Executive Compensation-- Employment Agreements."

On December 10, 1997, the Company loaned $5 million (the "Original Principal Amount") to Nedra D. Roney. This loan is secured by a pledge by Ms. Roney of three hundred forty-nine thousand four hundred six (349,406) shares of Class B Common Stock. The loan is payable on demand with interest on the original principal amount at the statutory rate on the date of the loan as set forth under the Internal Revenue Code of 1986, as amended. This loan was made in connection with Ms. Roney's entering into the Stockholders Agreement, as amended.

Repurchase of Class B Common Stock

On December 10, 1997, the Company repurchased in a series of private transactions a total of 1,067,529 shares of Class B Common Stock from certain of the Original Stockholders as follows: 281,615 shares from Kirk V. Roney; 281,614 shares from Melanie K. Roney; 214,286 shares from Rick A. Roney; 214,286 shares from Burke F. Roney; 20,964 shares from Park R. Roney and 54,764 shares from The MAR Trust. The Company purchased all of such shares for $14.31 per share, a purchase price based on seventy percent (70%) of the December 9, 1997 closing price of the Company's Class A Common Stock as reported on the New York Stock Exchange. These shares were repurchased in connection with the execution by such Original Stockholders of the Stockholders Agreement and converted to Class A Common Stock upon purchase by the Company.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this Form 10-K:

1. Financial Statements (pursuant to Part II, Item 8)

   Report of Independent Accountants

   Consolidated Balance Sheets at December 31, 1996 and 1997

   Consolidated Statements of Income for the years ended December 31, 1995, 1996 and 1997

   Consolidated Statements of Stockholders' Equity for the years ended December 31, 1995, 1996 and 1997

   Consolidated Statements of Cash Flows for the years ended December 31, 1995, 1996 and 1997

   Notes to Consolidated Financial Statements

2. Financial Statement Schedules: Financial statement schedules have been omitted because they are not required or are not applicable, or because the required information is shown in the financial statements or notes thereto.

3(a) Exhibits: The following Exhibits are filed with this Form 10-K:

Exhibit Number	Exhibit Description
*2.1	Stock Acquisition Agreement between Nu Skin Asia Pacific, Inc. and each of the persons on the signature pages thereof, dated February 27, 1998.
3.1	Amended and Restated Certificate of Incorporation of the Company incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 333-12073) (the "Form S-1").
3.2	Amended and Restated Bylaws of the Company incorporated by reference to Exhibit 3.2 to the Company's Form S-1.
4.1	Specimen Form of Stock Certificate for Class a Common Stock incorporated by reference to Exhibit 4.1 to the Company's Form S-1.
4.2	Specimen Form of Stock Certificate for Class B Common Stock incorporated by reference to Exhibit 4.2 to the Company's Form S-1.
10.1	Form of Indemnification Agreement to be entered into by and among the Company and certain of its officers and directors incorporated by reference to Exhibit 10.1 to the Company's Form S-1.

10.2 Form of Stockholders' Agreement by and among the initial stockholders of the Company incorporated by reference to Exhibit 10.2 to the Company's Form S-1.

10.3 Employment Contract, dated December 12, 1991, by and between Nu Skin Taiwan and John Chou incorporated by reference to Exhibit 10.3 to the Company's Form S-1.

10.4 Employment Agreement, dated May 1, 1993, by and between Nu Skin Japan and Takashi Bamba incorporated by reference to Exhibit 10.4 to the Company's Form S-1.

10.5 Service Agreement, dated January 1, 1996, by and between Nu Skin Korea and Sung-Tae Han incorporated by reference to Exhibit 10.5 to the Company's Form S-1.

10.6 Form of Purchase and Sale Agreement between Nu Skin Hong Kong and NSI incorporated by reference to Exhibit 10.6 to the Company's Form S-1.

10.7 Form of Licensing and Sales Agreement between NSI and each Subsidiary (other than Nu Skin Korea) incorporated by reference to Exhibit 10.7 to the Company's Form S-1.

10.8 Form of Regional Distribution Agreement between NSI and Nu Skin Hong Kong incorporated by reference to Exhibit 10.8 to the Company's Form S-1.

10.9 Form of Wholesale Distribution Agreement between NSI and each Subsidiary (other than Nu Skin Hong Kong incorporated by reference to Exhibit 10.9 to the Company's Form S-1.

10.10 Form of Trademark/Tradename License Agreement between NSI and each Subsidiary incorporated by reference to Exhibit 10.10 to the Company's Form S-1.

10.11 Form of Management Services Agreement between NSIMG and each subsidiary incorporated by reference to Exhibit 10.11 to the Company's Form S-1.

10.12 Form of Licensing and Sales Agreement between NSI and Nu Skin Korea incorporated by reference to Exhibit 10.12 to the Company's Form S-1.

10.13 Form of Independent Distributor Agreement by and between NSI and Independent Distributors in Hong Kong/Macau incorporated by reference to Exhibit 10.13 to the Company's Form S-1.

10.14 Form of Independent Distributor Agreement by and between NSI and Independent Distributor Agreement by and between NSI and Independent Distributors in Japan.

10.15 Form of Independent Distributor Agreement by and between NSI and Independent Distributors in South Korea incorporated by reference to Exhibit 10.15 to the Company.

10.16 Form of Independent Distributor Agreement by and between NSI and Independent Distributors in Taiwan incorporated by reference to Exhibit 10.16 to the Company.

10.17 Nu Skin Asia Pacific, Inc. 1996 Stock Incentive Plan incorporated by reference to Exhibit 10.17 to the Company's Form S-1.

10.18 Form of bonus Incentive Plan for Subsidiary Presidents incorporated by reference to Exhibit 10.18 to the Company's Form S-1.

10.19 Option Agreement, by and between the Company and M. Truman Hunt incorporated by reference to Exhibit 10.19 to the Company's Form S-1.

10.20 Form of Mutual Indemnification Agreement by and between the Company and NSI.

10.21 Manufacturing Sublicense Agreement, dated July 27, 1995, by and between NSI and Nu Skin Japan incorporated by reference to Exhibit 10.21 to the Company's Form S-1.

10.22 1996 Option Agreement by and between the Company and NSI incorporated by reference to Exhibit 10.22 to the Company's Form S-1.

10.23 Form of Addendum to Amended and Restated Licensing and Sales Agreement incorporated by reference to Exhibit 10.23 to the Company's Form S-1.

10.24 Form of Administrative Services Agreement incorporated by reference to Exhibit 10.24 to the Company's Form S-1.

*10.25 Form of Amended and Restated Stockholders Agreement dated as of November 28, 1997.

*10.26 Demand Promissory Note in the original principal amount of $5,000,000 dated December 10, 1997 from Nedra Roney payable to Nu Skin Asia Pacific, Inc.

*10.27 Stock Pledge Agreement between Nu Skin Asia Pacific, Inc. and Nedra Roney dated as of December 10, 1997.

*10.28 Stock Purchase Agreement dated as of December 10, 1997 between Nu Skin Asia Pacific, Inc. and Kirk V. Roney and Melanie R. Roney.

*10.29 Stock Purchase Agreement dated as of December 10, 1997 between Nu Skin Asia Pacific, Inc. and Rick A. Roney and certain affiliates.

*10.30 Stock Purchase Agreement dated as of December 10, 1997 between Nu Skin Asia Pacific, Inc. and Burke F. Roney.

*10.31 Stock Purchase Agreement dated December 10, 1997 between Nu Skin Asia Pacific, Inc. and Park R. Roney.

*10.32 Stock Purchase Agreement dated December 10, 1997 between Nu Skin Asia Pacific, Inc. and The MAR Trust.

13. 1997 Annual Report to Stockholders (Only items incorporated by reference).

*21.1 Subsidiaries of the Company.

27. Financial Data Schedule.

* These Exhibits were previously filed with the Form 10-K of Nu Skin Asia Pacific, Inc. on March 13, 1998.

(b) The Company did not file a Current Report on Form 8-K during the last quarter of the period covered by this report.

(c) The exhibits required by Item 601 of Regulation S-K are set forth in (a)3 above.

(d) The financial statement schedules required by Regulation S-K are set forth in (a)2 above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 19th day of March, 1998.

NU SKIN ASIA PACIFIC, INC.

By: /s/ Corey B. Lindley
Corey B. Lindley
Its: Chief Finacial Officer (Principal
Financial and Accounting Officer)

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:

Security	Quarter Ended	Sales Price High	Sales Price 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

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(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.

SELECTED FINANCIAL DATA

	Year Ended September 30, 1993	Year Ended September 30, 1994	Three Months Ended December 31, 1994	Year Ended December 31, 1994	Year Ended December 31, 1995	Year Ended December 31, 1996	Year Ended December 31, 1997
	(in thousands, except per share data)						
Income Statement Data:							
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:			
Basic	78,645	79,194	83,331
Diluted	80,518	81,060	85,371

	As of September 30,		As of December 31,			
	1993	1994	1994	1995	1996	1997
			(in thousands)			
Balance Sheet Data:						
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

	As of September 30,		As of December 31,			
	1993	1994	1994	1995	1996	1997
Other Information(1):						
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

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(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.

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.

Country(1)	Date Operations Commenced	Year Ended December 31, 1995	1996	1997
	(in millions)			
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
		$ 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.

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. See "Risk Factors--Taxation Risks and Transfer Pricing."

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.

	Year Ended December 31, (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, 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	

	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%	

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(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, 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.

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 remaining proceeds of the Underwritten Offerings are being used for general corporate purposes.

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

The following table sets forth certain unaudited quarterly data for the periods shown.

	1996				1997			
	1st Quarter(1)	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter(2)	2nd Quarter	3rd Quarter	4th Quarter
	(in millions, except per share amounts)							
Revenue...................	$ 124.2	$ 163.5	$ 183.6	$ 207.3	$ 211.0	$ 230.0	$ 226.4	$ 223.1
Gross profit..............	89.4	117.4	130.9	147.7	150.3	164.5	164.9	162.4
Operating income..........	23.2	31.9	37.5	35.8	30.8	38.2	35.8	33.9
Net income................	14.8	20.3	25.2	21.4	20.5	23.3	24.5	25.3
Net income per share:								
Basic...............	0.19	0.26	0.32	0.26	0.25	0.28	0.29	0.30
Diluted.............	0.18	0.25	0.31	0.26	0.24	0.27	0.29	0.30

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(1) The Company commenced operations in South Korea in February of 1996.
(2) The Company commenced operations in Thailand in March of 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 intercompany 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:

	1995				1996				1997			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Japan(1)	96.2	84.4	94.2	101.5	105.8	107.5	109.0	112.9	121.4	119.1	118.1	125.6
Taiwan	26.2	25.6	27.0	27.2	27.4	27.4	27.5	27.5	27.5	27.7	28.4	31.0
Hong Kong	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7	7.7
South Korea	786.9	763.1	765.6	769.1	782.6	786.5	815.5	829.4	863.9	889.6	894.8	1,097.0
Thailand	24.9	24.6	24.9	25.1	25.2	25.3	25.3	25.5	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.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Financial Statements:

All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

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.

/s/ Price Waterhouse LLP

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

Nu Skin Asia Pacific, Inc.
Consolidated Balance Sheets
(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.

Nu Skin Asia Pacific, Inc.
Consolidated Statements of Income
(in thousands, except per share amounts)

	Year Ended December 31,		
	1995	1996	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.

Nu Skin Asia Pacific, Inc.
Consolidated Statements of Stockholders' Equity
(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 terminaton 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.

Nu Skin Asia Pacific, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	1995	1996	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

Supplemental schedule of non-cash investing and financing activities in 1996: o $20.0 million note payable to NSI issued as partial consideration for the $25.0 million purchase of distribution rights from NSI.

o $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).

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

- $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).

The accompanying notes are an integral part of these 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 (in thousands):

Product purchases

	Year Ended December 31,		
	1995	1996	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

	Year Ended December 31,		
	1995	1996	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 (in thousands):

	December 31,	
	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 (in thousands):

	December 31,	
	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 (in thousands):

	December 31, 1996	December 31, 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 (in thousands):

Year Ending December 31,	
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 (in thousands):

	Year Ended December 31,		
	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 TAXES

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 (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 (in thousands):

	December 31, 1996	December 31, 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.

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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.

This schedule contains summary financial information extracted from the financial statements as of and for the year ended December 31, 1997 and is qualified in its entirety by reference to such financial statements.)

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Year
DEC-31-1997
DEC-31-1997
166,305
0
9,585
0
52,448
276,262
19,352
8,468
352,449
174,921
0
0
0
82
177,446
352,449
890,548
890,548
248,367
751,918
0
0
0
149,356
55,710
93,646
0
0
0
93,646
1.12
1.10