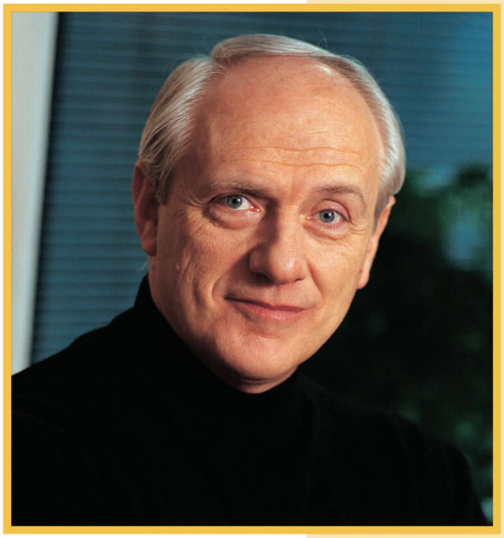
A LETTER TO OUR Shareholders

Dear AFC Shareholders,



As we look to 2004 with optimism, we are pleased to close the books on our 2002 Annual Report.

This report, as you know, was delayed as we undertook the time-consuming process of restating past earnings – a disappointing step for us to have to take. But as we complete this step, we are also truly excited about the future.

On the accounting side, we are moving quickly to get back to a normal process and timeline for filing our financials. And in a broader sense, while we've been humbled a bit, there is incredible energy at AFC® today. I believe we're smarter, hungrier and more committed than ever before.

Here's why:

Confronted with the need to restate our financials, coupled with a recessionary slowdown in sales, we made one critical choice. We decided not just to build a better finance operation; we decided to build a better company.

We put new people and new financial processes in place, and vastly improved our finance capabilities. We embarked on a major productivity initiative that we expect to reduce our annual overhead by more than 7 percent. We sold our Seattle Coffee Company subsidiary with its North American coffee business to Starbucks, to better focus on our core brands and on the Seattle's Best Coffee® international franchised units which we retained.

Clearly, this is a vibrant, healthy enterprise.

We set about building on our solid Popeyes® Chicken & Biscuits, Church's Chicken™ and Cinnabon® brands and strengthened our business – developing new advertising, launching new menu items, enhancing our restaurant and bakery facilities and improving support operations for our franchisees, whom we like to refer to as our "franchise partners." Much of this effort continues into 2004.

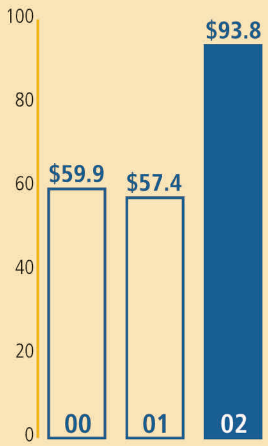
As last year unfolded, we were pleased to see improvement in our business in each quarter; setting up what we believe will be a rebound year for our company. We ended 2003 with more units and stronger same-store sales than we had a year ago.

Clearly, this is a vibrant, healthy enterprise. Our cash engine is running smoothly. We generated almost $94 million in cash flow from operating activities in 2002 – a 63 percent increase over the previous year. Our chicken brands generated a record $108 million in operating profit, up 19 percent over the previous year.

The particulars of our 2002 financial performance, as well as our restatement for 2000 and 2001, are detailed in the accompanying annual report.

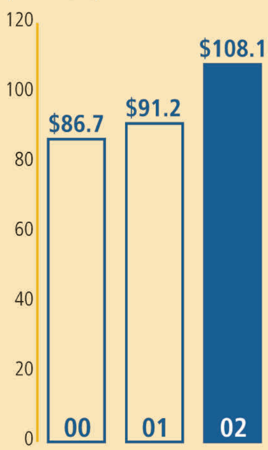
Cash Flow from Operating Activities

(in millions)



Operating Profit from Chicken Segment

(in millions)



Although we recorded a net loss of $11.7 million in 2002, the loss was primarily driven by nearly $45 million in impairment charges principally associated with our Seattle Coffee Company business. We saw some successes in the coffee business, but not the long-term rewards we envisioned. When presented with the opportunity to sell the business to the category leader, we made the strategic decision to do so. We believe it was a good deal for both sides.

I believe the best companies anticipate well and perform to that anticipation. Every circumstance or set of events cannot be anticipated. However, I do believe that when faced with challenges, the best companies rise to the occasion, and employ leadership to right the ship and get it back on course – spending little time lamenting. Analysis is done and action is taken.

Amidst all that occurred in 2003, our people never lost sight of our ongoing business. I am very proud of that focus. In fact, I believe it to be one of our greatest achievements in a difficult year. In a year of economic recession, slumping consumer confidence and harsh scrutiny of our company, we responded to our challenges with determined action in 2003:

- Our brand teams took bold steps to revitalize every aspect of our business, with new product promotions such as Church's Shrimp Crunchers, Popeyes Po' Boy sandwiches and Cinnabon Cinnapoppers™. We also partnered with industry leading foodservice companies to add exciting new extensions of the Cinnabon brand, such as Orville Redenbacher Cinnabon gourmet popcorn and Betty Crocker Cinnabon cinnamon streusel muffins. Each of these steps has one aim: reaching more people with more of our delights more often.

- As our franchise partners coped with difficult economic conditions and aggressive discounting competition, they, and our company, responded forcefully, focusing on the basics of the business. At mid-year, 2003, each of our brands put in place two successive 100-day plans to jump-start sales, with new menu items and promotional activities. Our brand teams also focused on driving productivity, enhancing their core business processes and improving operational execution. The result was increased average checks in our restaurants and bakeries and improving sales as the year unfolded. As we enter 2004 we are prepared to redouble our efforts and capitalize on the progress made in recent months.

- Church's, in particular, ended 2003 on an encouraging note, with increases in average checks and improved same-store sales in the fourth quarter. This was the payoff of a heightened focus on quality, product availability and improved service. Momentum is also building at Popeyes and Cinnabon – Popeyes will see new advertising initiatives in early 2004; Cinnabon is focused on sales and portability of its products.

- We continued to invest strongly in our brands. Every brand in the AFC portfolio is undergoing revitalization and re-imaging, including renovation of most existing units. The new Louisiana "Heritage" look and feel at Popeyes is a great example; as one of my Popeyes colleagues put it, "the venue meets the menu."

- We focused on better customer service for our guests – enhancing training and improving systems to promote friendliness, increase accuracy and decrease wait times.

- We put new emphasis on menu research and development, to meet changing consumer tastes and create more exciting offerings to keep customers coming back. Church's, for instance, launched Zesty Tenders and Zesty Tender Crunchers. Popeyes introduced Roasted Chicken and Turkey. Cinnabon is testing Fruitbon, a fruit-filled variation of the classic cinnamon roll.

- At the company level, we invested in stronger technology platforms and business services, including new point-of-sale and back-office systems and supply chain tools to improve efficiency and performance and to enhance our brands' competitiveness. For example, our Supply Management Services group has developed a unique program with Arrowstream, Inc., one of our logistics partners, to deliver more than $1 million in freight and transportation savings to our restaurant and bakery systems in 2004.

Importantly, we have also added significant management talent at the corporate and brand levels.

Fred Beilstein has joined our team as chief financial officer, bringing a wealth of finance experience, including service as CFO at Days Inn of America and The Actava Group (formerly Fuqua Industries). I believe he is ideal for this role. In addition to overseeing our company's financial matters, Fred will be responsible for determining and implementing the most effective strategies to leverage our company's financial flexibility and maximizing shareholder value.

Earlier last year, Mel Hope, an accomplished financial professional and audit executive, joined us as Vice President-Finance, in the midst of our reaudit. His leadership and talents quickly proved vital to completing that difficult process.

At Church's, which was particularly impacted by tightened consumer spending, Nana Mensah joined our team as chief operating officer, bringing an outstanding track record in quick-service restaurant brands. Church's has also added a new chief financial officer and chief marketing officer.

And at Popeyes, our company's president and COO, Dick Holbrook, suited up and took the playing field to personally manage our largest brand, building a firm foundation for continued growth under a new Popeyes chief in 2004.

Now, as we look to the year ahead, I believe our future is a bright one indeed.

As of December 28, 2003, AFC had 4,091 restaurants, bakeries and cafes in 36 countries. We anticipate adding approximately 200 net new units in 2004. At the end of 2003, we had over 2,000 commitments for future development – many of them internationally – where we expect increasing future unit growth. As a result of our restatement delays, in 2003 we suspended domestic franchising of our brands, but we expect to sign over 550 new commitments when this effort resumes in 2004.

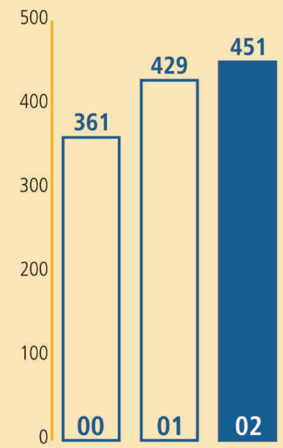
Of course, we still face significant challenges in 2004, such as resolving the outstanding litigation arising out of the earnings restatement, filing our overdue 2003 quarterly reports and getting back on a timely financial reporting schedule. In addition, we look forward to applying for the relisting of our shares on the NASDAQ National Market. NASDAQ management and staff have been very helpful to us, and we are grateful for their support. We are eager to take our place once again in 2004 with the outstanding companies on that market.

We generated almost $94 million in cash flow from operations – a 63% increase over the previous year.

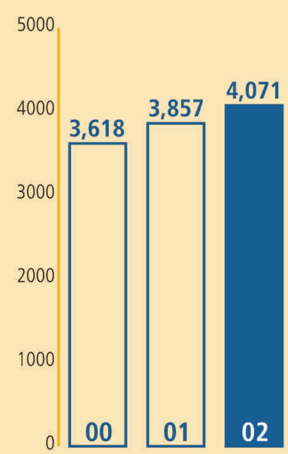
Throughout the challenges of the past months, we have been guided by our company's long-term aspiration: to be the Franchisor of Choice®. Our strength remains the leveraging of strong brands to create bold opportunities for our franchise partners. That makes a difference in the way we run our company. Our franchise agreements typically last 20 years or more, so we strive to build brands that will thrive decades from now. I believe the steps we are taking this year will make us an even better business partner for our franchisees for many years to come.

Obviously, 2003 will not go down as AFC's finest hour. Yet, at the end of a tumultuous journey, I can tell you that we have learned more about our character, our will and our resolve than at any time in our history. We made difficult choices and we have changed a great deal. We are entering 2004, not focused on last year, but determined to regain our momentum. We share a strong commitment to our stakeholders. We're focused not simply on saying the right things,

System-wide Unit Openings



System-wide Units



but on doing the right things. As we improve our restaurants, bakeries and international cafes, and take care of our people, the results will speak for themselves.

I am most grateful to our management team and to all of our employees for their dedication, their spirit and their hard work. I also appreciate the confidence and loyalty of our franchise partners and you, our shareholders, who have stood behind us, confident in our ability to provide a greater return in the months and years ahead.

In a meeting in late December with some of our franchise partners, Dick Holbrook and I renewed our promise to them that we are first and foremost a franchising company, and our franchise partners are our number one priority. In putting them first, and motivating our people to help them get the absolute best return on their investment, we reset the agenda for better guest experiences, stronger growth and healthy cash flow – which is why investors are attracted to our stock. We have entered 2004 with that promise in our plans, and in our hearts.

On behalf of everyone at AFC Enterprises, we sincerely hope you share our optimism as we work to build a better company for you.

Frank Belatti
Chairman and CEO
January 23, 2004

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