

Dear Fellow Shareholder,

Fiscal 2005 was a very successful year for SunLink Health Systems, Inc. We had record results and were rewarded with appreciation in our common stock price which exceeded the acute-care hospital industry average. We achieved this by adhering to a well-defined operating model and focusing on our key objectives for 2005 which were to continue to integrate the two hospitals we purchased from HealthMont, and to maintain and increase support from the 28 physicians we recruited in fiscal 2004, and the six we added this past fiscal year. As a result of these efforts, consolidated net revenues from continuing operations rose by 14.5 percent to \$129 million, compared to \$112 million for 2004, and same store-equivalent admissions rose 5.4 percent while same-store surgeries rose 15.3 percent. We reported record earnings from continuing operations of \$4.4 million, or \$0.57 per share, compared to a loss of \$1.3 million, or a loss of \$0.20 per share, for fiscal 2004. Our hospitals also substantially improved their operating profit to \$7.1 million, up from \$4.3 million last year, and increased their operating margin to 5.5 percent of net revenue from 3.8 percent last year.

In October 2004, we closed a new \$30 million senior credit facility under which approximately \$9.5 million is currently outstanding, with the balance available for internal growth and acquisitions. In addition, we have approximately \$29 million of shareholders' equity resulting in one of the lower debt-to-equity ratios (.34:1) among the publicly traded hospital companies. We believe our current capital structure provides us sufficient funds for internal growth as well as for selected hospital acquisitions.

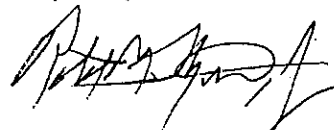
One of our objectives has been to grow your company through a disciplined acquisition program. However, we have been witnessing a somewhat difficult and pricey acquisition market that has been compounded with increasing uncertainty over government reimbursement programs as both the federal and state governments seek to temper the rise in healthcare costs. Based on these trends, our acquisition activities have been more conservative. Nevertheless, over the past 12 months we have reviewed and actively bid on a number of potential complementary hospital acquisition candidates. Our bids have not been successful due to the price we were willing to pay; however, the positive feedback we have received from sellers supports our belief that our operating model is well-accepted and desirable among sellers. This is particularly evident in responses from local not-for-profit authorities who seek continuity of quality local healthcare services when they sell their hospital.

Our assessment of the acquisition market has led us to concentrate on deploying growth capital in our existing hospitals. We believe there are less risks and more potential rewards in using our capital for expansion and improvement projects rather than investing in most acquisition opportunities we currently see. During 2005, we expended approximately \$4.0 million of capital on our seven existing hospitals compared to \$1.7 million in 2004. These expenditures included improved diagnostic equipment at each hospital and upgrades to the exterior of two hospitals. We have budgeted a similar level of hospital capital expenditures for fiscal 2006.

Each of our existing hospitals is well positioned as the only hospital in its respective community. We continue to work on adding needed services and increasing hospital revenues, while carefully managing costs. The success of our existing hospitals is due in great part to the skill and commitment of our employees and the loyalty and expertise of physicians on our medical staffs. We constantly strive to improve our employee and physician relationships and to provide quality, caring and compassionate services to each community we serve. Our operating approach has been in place in our hospitals for over four years now, and we believe it is being validated by our improving operating results.

We have further upgraded our website this year to provide more information about SunLink's activities, our hospitals and corporate governance. Please visit our website at www.sunlinkhealth.com to learn more about your company.

Very Truly Yours,



Robert M. Thornton, Jr.
Chairman of the Board
Chief Executive Officer