

Dear Fellow Shareholder,

Fiscal 2007 was a challenging year for SunLink Health Systems, Inc. and for the hospital industry. Earnings from continuing operations were \$1,577,000, or \$0.20 per fully diluted share, due primarily to pricing pressure and higher bad debts. The increase in provision for bad debts amounted to \$4,593,000. The bad debt trends are being seen throughout the hospital industry and the pricing pressure reflects an industry-wide trend to more outpatient services which have a lower unit price. While these earnings were below our fiscal 2006 earnings from continuing operations of \$4,181,000, or \$0.53 per fully diluted share, we increased our net revenue by \$8,069,000, or 6.0 percent, to \$143,645,000 as a result of our physician recruiting efforts and investments in our facilities. Although we cannot predict how long the higher bad debt trends will persist, we continue to focus our operating efforts on physician recruiting, cost control and business office functions that we think will mitigate the impact of these trends and position us for future improvements.

Outpatient revenue increased \$8,474,000 to 47.5 percent of net revenue and outpatient surgeries increased to 3,549 in 2007 up from 3,501 in 2006. This growth was primarily attributable to upgrades at our facilities and the addition of seven new physicians.

Over the past two years, our focus has been on internal investments in our existing facilities. We believe this to be the most effective use of funds and reflect a cautious and strategic approach to the acquisition market, which we have seen as somewhat over-priced in recent years. More recently, it appears the acquisition market has become more favorable, and we continue to monitor hospitals that could be suitable candidates for acquisition by SunLink.

In 2007, we continued to invest in our hospitals, including over \$9,000,000 that was in addition to approximately \$8,000,000 we invested in fiscal 2006. Our 2007 investments were primarily in equipment to support our physicians and renovation and expansion of our facility and services in Dahlonega, GA.

At June 30, 2007, we had shareholders' equity of approximately \$36,000,000 and approximately \$15,300,000 available under our existing senior credit facility. We believe our current capital structure provides us sufficient capital for internal growth as well as for selected hospital acquisitions when the right opportunities arise.

During fiscal 2007, your Board of Directors considered strategic alternatives in light of, among other things, acquisition proposals it received for the company. The Board engaged an investment advisor to assist it in the process and noted that the strategic alternatives could include a sale of the company or a merger, acquisition or other transaction. The Board also stated its belief that the company's business plan is sound and working. The formal evaluation process ended in December 2006 with the Board's

conclusion that the corporation should proceed with its existing business plan, although the Board has not ruled out any alternatives.

We believe our future success will be enhanced by the additional physicians, services and facilities we are investing in now, as well as by seeking out strategic acquisitions to grow our hospital portfolio. We invite you to visit our website at www.sunlinkhealth.com where you will find more information about your company's activities, hospitals and corporate governance.

We appreciate your continued support and interest in SunLink and we will continue to endeavor to generate rewards for our shareholders.

Very Truly Yours