

Dear Fellow Shareholder,

Fiscal 2006 was another successful year for SunLink Health Systems, Inc. We reported earnings from continuing operations of \$4,181,000 (\$0.53 per fully diluted share) despite lower patient volume and higher bad debts, trends that are being seen throughout the hospital industry. While these earnings were below our fiscal 2005 results of \$4,383,000 (\$0.57 per fully diluted share), we increased our operating profit margin slightly to 5.6% of net revenue from 5.5% last year. We were able to achieve these results because of our attention to cost details in our hospitals and favorable reimbursement from indigent care programs. Although we can not predict how long the lower volume trends and higher bad debt trends will persist, we are focusing our operating efforts on physician recruiting, cost control and business office functions which we think will mitigate the impact of these trends and position us for future improvements.

Looking longer term, we invested over \$8,000,000 in capital expenditures in fiscal 2006, substantially higher than the approximately \$4,000,000 we invested in fiscal 2005. We believe our future success will be enhanced by the additional physicians, services and facilities we are investing in now. We have concentrated on internal investments in our existing facilities over the last two years because we believe this is the most effective use of funds and reflects a cautious approach to the acquisition market, which we have seen as somewhat over-priced. We believe the acquisition market may become more favorable in the year to come, and we continue to monitor hospitals we believe would be suitable candidates for acquisition by SunLink. At June 30, 2006, we had shareholders' equity of approximately \$34,300,000 and approximately \$20,000,000 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 2006, your Board of Directors decided to evaluate strategic alternatives in light of, among other things, two previous 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 evaluation process is currently on-going and the Board has not ruled out any alternatives. During this process, management is dedicating itself to maintaining and growing the company's operations and continuing its monitoring of potential acquisitions.

We invite you to visit our website where you will find more information about your company's activities, hospitals and corporate governance. Please visit our website at www.sunlinkhealth.com to learn more about your company.

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

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