SUNLINK HEALTH SYSTEMS INC
Form S-4
January 29, 2003
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As filed with the Securities and Exchange Commission on January 29, 2003

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-4
REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

SUNLINK HEALTH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Ohio	8062	31-0621189
(State of Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

900 Circle 75 Parkway, Suite 1300
Atlanta, Georgia 30339
(770) 933-7000
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Robert M. Thornton, Jr.
Chairman
SunLink Health Systems, Inc.
900 Circle 75 Parkway, Suite 1300
Atlanta, Georgia 30339
(770) 933-7000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies Of Communications To:
Howard E. Turner, Esq.
M. Timothy Elder, Esq.
Smith, Gambrell & Russell, LLP
1230 Peachtree Street, N.E., Suite 3100
Atlanta, Georgia 30309
Telephone: (404) 815-3594
Telecopy: (404) 685-6894

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement. If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨ If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, No par value per share	1,372,000	$ 2.40	$ 3,292,800	$ 302.94

(1) Represents the approximate maximum number of shares of SunLink common stock to be issued in connection with the merger including shares issuable pursuant to the exercise of certain outstanding options and warrants to purchase HealthMont common stock and shares issuable in certain events under the terms of a letter of credit agreement and certain consulting termination agreements to be executed in connection with the merger (the *Merger*) of HealthMont, Inc. with and into HM Acquisition Corp., a wholly owned subsidiary of SunLink Health Systems, Inc (*SunLink*).

(2) Estimated solely for the purpose of calculating the registration fee. Pursuant to Rules 457(c) and 457(f)(1) and (3), the proposed maximum offering price of the registrant s common stock was calculated as: (a) $2.40, the average of the high and low prices of SunLink common stock, as reported on the American Stock Exchange on January 28, 2003, multiplied by (b) 1,372,000, the total number of shares of SunLink common stock estimated to be issued in connection with the Merger.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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SUNLINK HEALTH SYSTEMS, INC.
900 CIRCLE 75 PARKWAY, SUITE 1300
ATLANTA, GEORGIA 30339

, 2003

Dear SunLink Shareholder:

You are cordially invited to attend the special meeting of shareholders of SunLink which will be held at 2:00 p.m., local time on March 27, 2003, at the Sheraton Suites Galleria, 2844 Cobb Parkway S.W., Atlanta, Georgia 30339.

The accompanying notice of the special meeting and proxy statement/prospectus contain detailed information concerning the matters to be considered and acted upon at the meeting including the proposed acquisition of HealthMont.

After careful consideration, SunLink s board of directors has determined that the merger and the merger agreement are fair to you and in your best interests. SunLink s board of directors has approved the merger agreement and unanimously recommends that you vote **FOR** the approval of the merger agreement at the special meeting.

The accompanying proxy statement/prospectus provides you with information about SunLink, HealthMont and the proposed merger. In addition, you may obtain information about SunLink from documents that we have filed with the Securities and Exchange Commission. We encourage you to read the entire proxy statement/prospectus carefully. **In particular, you should read the section entitled Risk Factors beginning on page 12 for a description of certain risks that you should consider in evaluating the merger.**

Your vote is very important. We hope you will be able to attend the meeting but whether or not you plan to attend the special meeting of shareholders of SunLink, please take the time to vote by marking, signing and dating the enclosed proxy card and returning it in the return envelope provided. If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote in favor of approval of the merger agreement and the other matters presented at the meeting. If you later find you can attend the meeting, you may then withdraw your proxy and vote in person. If you have questions or need assistance regarding your shares, please call our proxy solicitor, Georgeson Shareholder Communications, Inc., toll free, at 1 (866) 203-9401.

Sincerely,

ROBERT M. THORNTON, JR.
President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved the securities to be issued under the proxy statement/prospectus or determined if the proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

The proxy statement/prospectus is dated January 29, 2003, and is first being mailed to shareholders of SunLink on __________, 2003.

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NOTICE OF
SPECIAL MEETING OF SHAREHOLDERS
OF SUNLINK HEALTH SYSTEMS, INC.
MERGER PROPOSAL YOUR VOTE IS VERY IMPORTANT

To the shareholders of SunLink Health Systems, Inc.:

A special meeting of SunLink shareholders will be held at 2:00 p.m., local time on March 27, 2003, at the Sheraton Suites Galleria, 2844 Cobb Parkway S.W., Atlanta, Georgia 30339.

The boards of directors of SunLink Health Systems, Inc. has approved a merger agreement between SunLink, a wholly owned subsidiary of SunLink, and HealthMont, Inc., a corporation organized under the laws of Tennessee, in which HealthMont will become a wholly owned subsidiary of SunLink.

If the merger is completed, we will issue 1,155,000 SunLink shares in exchange for the outstanding capital stock of HealthMont. Accordingly, based on the number of HealthMont shares expected to be outstanding at the closing of the merger each HealthMont shareholder is expected to receive one common share of SunLink for each 5.4083 HealthMont shares (approximately 0.1849 of a share of SunLink for each share of HealthMont). SunLink will issue 95,000 additional shares in connection with the transaction to settle certain contractual obligations of HealthMont to its officers and directors. SunLink will also obligate itself to issue approximately 20,000 of its common shares in connection with certain outstanding HealthMont options, approximately 27,000 shares upon exercise of outstanding warrants of HealthMont and 75,000 shares upon exercise of warrants to be issued by SunLink in connection with the transaction financing. Based on the above, we estimate that SunLink will issue up to a total of approximately 1,372,000 shares of SunLink common stock in the merger or in connection with obligations assumed pursuant to the merger. After the merger, those shares will represent approximately 21.5% of the outstanding SunLink shares.

SunLink common stock is traded on the American Stock Exchange under the trading symbol SSY, and on January 28, 2003, the closing price of SunLink common stock was $2.40 per share.

We cannot complete the merger unless SunLink s shareholders approve (1) the merger agreement and (2) the issuance of SunLink shares, options, and warrants in the merger. We will not complete the merger unless all of the proposals with respect to the merger are approved. We also can not complete the merger unless HealthMont shareholders approve the merger agreement. HealthMont has scheduled its own special meeting for its shareholders to vote on the merger.

In connection with the transaction, SunLink also will assume up to a total of $9,800,000 in HealthMont senior debt and capital lease obligations, and will enter into a $3,000,000, 3-year, term loan intended primarily to provide additional working capital.

After careful consideration, SunLink s board of directors has determined that the acquisition of HealthMont pursuant to the merger agreement is fair to you and in your best interests. SunLink s board of directors has approved the merger agreement and unanimously recommends that you vote FOR the approval of the merger agreement and the transactions contemplated thereby at the special meeting.

The accompanying proxy statement/prospectus provides you with information about SunLink, HealthMont, and the proposed merger. In addition, you may obtain information about the transaction from documents that we have filed with the Securities and Exchange Commission. We encourage you to read the entire proxy statement/prospectus carefully. **In particular, you should read the section entitled Risk Factors beginning on page 12 for a description of certain risks that you should consider in evaluating the merger.**

Your vote is very important. Whether or not you plan to attend the SunLink special meeting, please take the time to vote by marking, signing and dating the enclosed proxy card and returning it in the return envelope provided. If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote in favor of approval of the merger agreement and the other matters presented at the Meeting. If you attend the special meeting, you may, if you desire, withdraw your proxy and vote in person. If you have questions or need assistance regarding your shares, please call our proxy solicitor, Georgeson Shareholder, toll free, at 1 (866) 203-9401.

Sincerely,

ROBERT M. THORNTON, JR.

President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved the securities to be issued under the proxy statement/prospectus or determined if the proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

The proxy statement/prospectus is dated January 29, 2003, and is first being mailed to shareholders of SunLink on ____________, 2003.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SUNLINK SPECIAL MEETING

Q: How is the acquisition structured?

A: The acquisition will be structured as a merger in which the shareholders of HealthMont will receive approximately 0.1849 of a share of SunLink in exchange for each share of HealthMont that they hold. HealthMont will merge with and into HM Acquisition Corp., a wholly-owned subsidiary of SunLink, with that subsidiary continuing to be a wholly-owned subsidiary of SunLink.

Q: When will I be asked to approve the merger?

A: SunLink will hold its special meeting of SunLink shareholders at 2:00 p.m., local time, on March 27, 2003, at the Sheraton Suites Galleria, 2844 Cobb Parkway S.W., Atlanta, Georgia 30339. At the special meeting, you will be asked to approve the merger. You can vote at the special meeting if you own SunLink common stock at the close of business on February 24, 2003, the record date for the special meeting.

HealthMont will hold a separate special meeting of HealthMont shareholders as set forth in its own proxy materials.

Q: Why are the two companies proposing to merge?

A: The boards of directors of SunLink and HealthMont each have determined that the acquisition of HealthMont by SunLink through the merger of HealthMont into a wholly-owned subsidiary of SunLink is in the best interests of their respective corporations and shareholders and presents a favorable opportunity to achieve long-term strategic and financial benefits. SunLink believes that the two HealthMont hospitals it will acquire are compatible with its business strategy of operating community hospitals.

Q: When do you expect the merger to be completed?

A: We are working as quickly as possible and expect to complete the merger by March 31, 2003. However, it is possible that factors outside the control of the parties could require us to complete the merger at a later time. Accordingly, we cannot predict the exact timing of the merger.

Q: What am I being asked to vote on?

A: You are being asked to approve the proposed merger of HealthMont into a wholly-owned subsidiary of SunLink and the issuance of SunLink common stock, options and warrants in connection with the merger.

Q: What do I need to do now?

A: After you carefully read this document, mail your signed proxy card in the enclosed envelope as soon as possible. In order to assure that your vote is obtained, please vote your proxy as instructed on your proxy card even if you currently plan to attend your meeting in person.

If you sign and send the proxy card without indicating how you want to vote, we will count your proxy card as a vote in favor of the merger.

The board of directors of SunLink recommends voting **FOR** the merger. The board of directors of HealthMont similarly recommended to their shareholders that they vote in favor of the merger.

Q: What are the consequences of a failure to vote?

A: Because approval of the merger transaction requires the affirmative vote of a majority of the outstanding shares of common stock of SunLink, if you do not vote your shares, or do not instruct your broker how to vote shares held for you in street name, the effect will be the same as a vote against the merger.

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As described in HealthMont s proxy materials, HealthMont must obtain the affirmative vote of 75% of its shareholders.

Q: If my SunLink shares are held in street name, will my broker vote my shares for me?

A: No. Your broker will not vote your SunLink shares without instructions from you. If you do not provide your broker with instructions on how to vote your street name shares, your broker will not vote them on any of the proposals. If you do not give voting instructions to your broker, you will not be counted as voting your SunLink shares, unless you appear in person at the SunLink meeting with a legal, valid proxy from the record holder. You should be sure to provide your broker with instructions on how to vote your SunLink shares.

Q: Can I change my vote after I have mailed my proxy card?

A: Yes. You can change your SunLink vote at any time before your proxy is voted at the SunLink special meeting. You can do this in one of three ways:

timely delivery of a valid, later-dated proxy;

written notice to the SunLink corporate secretary before the meeting that you have revoked your proxy; or

voting in person at our special meeting after revoking your proxy.

If you have instructed a broker to vote your shares, you must follow directions from your broker to change those instructions.

Q: Should HealthMont shareholders send in their stock certificates now?

A: No. If the merger is completed, SunLink will send HealthMont shareholders written instructions for exchanging their stock certificates. SunLink shareholders will keep their existing stock certificates.

If you would like additional copies of this document, or if you have questions about the merger, including the procedures for voting your shares, please contact:

If you are a SunLink shareholder:

Georgeson Shareholder
Communications, Inc.
17 State Street, 10th Floor
New York, New York 10004

Phone Number: 1 (866) 203-9401
or

SunLink Health Systems, Inc.
900 Circle 75 Parkway, Suite 1300
Atlanta, Georgia 30339

Phone Number: 1 (770) 933-7000

If you are a HealthMont shareholder:

HealthMont, Inc.
111 Long Valley Road
Brentwood, Tennessee 37027

Phone Number: 1 (615) 309-2166

SUMMARY

This summary highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the legal terms of the merger agreement, you should carefully read this entire proxy statement/prospectus and the other documents to which this document refers. See Where You Can Find More Information at page 112. We have included page numbers in parenthesis to direct you to a more complete description of some of the topics presented in this summary.

The Companies
(See page 79 and Annex E)

SunLink Health Systems, Inc.
900 Circle 75 Parkway, Suite 1300
Atlanta, Georgia 30339
Phone Number: 1 (770) 933-7000

SunLink is a provider of healthcare services through the operation of community hospitals. SunLink supports the efforts of its community hospitals to link their patients needs with the professional expertise of quality medical practitioners and the dedication and compassion of skilled employees. SunLink hospitals strive to earn the support of local communities by meeting their healthcare needs in an efficient manner. SunLink s objective is to be a quality provider of healthcare services and the primary provider of such services in the communities it serves.

SunLink, through its subsidiaries, operates a total of six community hospitals in four states. We own five of the hospitals and we lease a sixth hospital. We also operate certain related businesses, consisting primarily of nursing homes located adjacent to, or in close proximity with, certain of our hospitals, and home health agencies servicing areas around certain of our hospitals. We believe our healthcare operations comprise a single business segment: community hospitals. Our hospitals are general acute care hospitals and have a total of 333 licensed beds. Our healthcare operations are conducted through our direct and indirect subsidiaries, including SunLink Healthcare Corp.

In fiscal 2001, we redirected our business strategy toward the operation of community hospitals in the United States. We acquired, for approximately $26.5 million on February 1, 2001, the six community hospitals and related businesses which we currently operate. On October 5, 2001, we sold all of the capital stock of what was then our wholly-owned United Kingdom housewares subsidiary, Beldray Limited, and we no longer own any operating businesses outside the United States. In August 2001, we changed our name to SunLink Health Systems, Inc. from KRUG International Corp., and changed our fiscal year end from March 31 to June 30. We are an Ohio corporation and were incorporated in June 1959. Our website address is www.sunlinkhealth.com. Information contained on our website does not constitute part of this proxy statement/prospectus.

HealthMont, Inc.
111 Long Valley Road
Brentwood, Tennessee 37027
Phone Number: 1 (615) 309-2166

HealthMont currently operates a total of three community hospitals in three states, one of which is to be divested by HealthMont immediately prior to the merger. HealthMont owns all three of its hospitals, as well as certain related businesses, consisting primarily of a nursing home located adjacent to one of its hospitals, and home health agencies servicing areas around certain of its hospitals. HealthMont s hospitals are general acute care hospitals and have a total of 190 licensed beds.

HealthMont is a Tennessee corporation, incorporated in February 2000, which commenced operations on September 1, 2000 following its acquisition of four hospitals. HealthMont acquired a fifth hospital in January

2001. As described below, in February 2002, HealthMont subsequently divested itself of two of its hospitals. HealthMont s website address is www.healthmont.com. Information contained on HealthMont s website does not constitute part of this proxy statement/prospectus.

The Merger
(See page 26)

Under the terms of the proposed merger, HealthMont will merge with and into HM Acquisition Corp., a wholly-owned subsidiary of SunLink. As a result, the separate corporate existence of HealthMont will cease and HM Acquisition Corp. will continue in existence as the surviving corporation and a wholly owned subsidiary of SunLink.

Except as described below, it is anticipated that HealthMont shareholders will be entitled to receive 0.1849 of a share of SunLink common stock in exchange for each share of HealthMont common stock they hold (one SunLink share for each 5.4083 HealthMont shares) based on 6,247,744 HealthMont shares expected to be outstanding at the close of the merger.

SunLink will not issue any fractional shares in the merger. In lieu of fractional shares, each HealthMont shareholder who would otherwise be entitled to a fraction of a SunLink common share will receive a cash payment for the value of the fraction of a share of SunLink common stock that he or she would otherwise receive. For purposes of determining the amount of cash paid in lieu of fractional shares, the value of a share of SunLink common stock will be the volume weighted daily average price of a share of SunLink common stock over the ten (10) trading-day period ending two (2) trading days prior to the date of the closing date of the merger. See *The Merger Agreement Consideration to be Received in the Merger* beginning on page 54.

SunLink shareholders will not receive any shares as a result of the merger. They will continue to hold the shares they currently own.

The merger agreement is attached as **Annex A** to this proxy statement/prospectus. Because it is the legal document that governs the merger, you should read the merger agreement carefully. For a summary of the merger agreement, see *The Merger Agreement* beginning on page 54.

Unanimous Recommendation of the HealthMont Board of Directors
(See page 40)

On October 4, 2002, after careful consideration, the HealthMont board of directors unanimously determined the merger and related transaction to be fair to HealthMont shareholders and in their best interests and unanimously approved the merger agreement. The HealthMont board of directors is recommending that HealthMont shareholders vote **FOR** approval of the merger agreement, the merger contemplated thereby, and the related transactions.

Unanimous Recommendation of the SunLink Board of Directors
(See page 36)

On October 3, 2002, after careful consideration, the SunLink board of directors unanimously determined the merger to be fair to SunLink shareholders and in their best interests and approved the merger agreement. The SunLink board of directors recommends that you vote **FOR** approval of the merger agreement.

Opinions of Financial Advisors
(See pages 37 and 42)

In connection with the merger, the SunLink board of directors received the opinion of Cardinal Advisory, Inc. (*Cardinal*) SunLink s financial advisors, and the HealthMont board of directors received the opinion of

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Harpeth Capital Atlanta, LLC (*Harpeth Capital Atlanta*), HealthMont s financial advisors. The SunLink board of directors received the written opinion of Cardinal that as of October 15, 2002, the merger is fair from a financial point of view to SunLink. The HealthMont board of directors received a written opinion from Harpeth Capital Atlanta that, as of October 15, 2002, the exchange ratio of the merger is fair to the HealthMont shareholders from a financial point of view. Harpeth Capital Atlanta also provided the HealthMont board of directors with the written opinion that the divestiture of the Dolly Vinsant Memorial Hospital immediately prior to the merger is fair to the HealthMont shareholders (other than HealthMont s Chief Executive Officer) from a financial point of view. The Cardinal opinion is attached as **Annex B**, and sets forth assumptions made, matters considered and limitations on the review undertaken in connection with the opinion. SunLink urges its shareholders to read the Cardinal opinion in its entirety. The Harpeth Capital Atlanta opinion is attached as **Annex C** and sets forth procedures followed, assumptions made, matters considered and limitations on the review undertaken in connection with the opinion. *The opinions are addressed to the board of directors of the respective companies and are not recommendations to shareholders with respect to any matter relating to the merger.*

Ownership of SunLink after the Merger
(See page 98)

SunLink will issue up to a total of approximately 1,372,000 shares of SunLink common stock to HealthMont shareholders in the merger and in connection with obligations assumed pursuant to the merger. The 1,372,000 shares of SunLink common stock consists of:

- 1,155,000 SunLink shares to be issued in exchange for the outstanding capital stock of HealthMont;
- 95,000 SunLink shares to be issued to settle certain contractual obligations of HealthMont to its officers and directors;
- approximately 20,000 SunLink shares issuable upon the exercise of certain outstanding HealthMont options;
- approximately 27,000 SunLink shares issuable upon the exercise of certain outstanding warrants of HealthMont; and
- 75,000 SunLink shares issuable upon the exercise of warrants to be issued in connection with the HealthMont financing.

The shares of SunLink common stock to be issued to HealthMont shareholders in the merger and in connection with obligations assumed pursuant to the merger will represent approximately 21.5% of the outstanding SunLink common stock after the merger. This information is based on the number of SunLink and HealthMont shares outstanding on December 31, 2002.

Conditions to the Merger
(See page 60)

The merger depends upon the satisfaction or waiver of a number of conditions, including the following:

- approval of the merger agreement and the merger by the SunLink shareholders, including the issuance of SunLink common stock, options and warrants in the merger;
- approval of the merger agreement and the merger by the holders of at least 75% of HealthMont s common stock;
- receipt of regulatory approvals and the absence of legal restraints;
- receipt of opinion of counsel to HealthMont, dated as of the date of the merger, to the effect that the merger will qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code and certain related matters.

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Share Ownership of Management and Directors

On December 31, 2002, directors and executive officers of SunLink and their affiliates held and were entitled to vote 1,230,109 shares of SunLink common stock, or approximately 24.6% of the shares of SunLink common stock outstanding.

On December 31, 2002, directors and executive officers of HealthMont and their affiliates, held and were entitled to vote 1,786,087 shares of HealthMont common stock, or approximately 26.9% of the shares of HealthMont common stock outstanding.

Termination of the Merger Agreement
(See page 62)

The merger agreement may be terminated at any time before the closing in any of the following ways:

- by mutual written consent
- by SunLink or HealthMont, if:
  - the merger is not completed by , 2003 (the Termination Date), provided that neither SunLink nor HealthMont may terminate the merger agreement if the failure to complete the merger by that date is caused by the failure of the company seeking termination to fulfill its obligations under the merger agreement; or
  - any court of competent jurisdiction or governmental authority issues a final non-appealable order or injunction that prohibits the completion of the merger, and SunLink and HealthMont shall have used reasonable best efforts to prevent such order or injunction from being issued; or
  - the other party breaches, in any material respect, any of its representations, warranties or covenants contained in the merger agreement, which, unless cured within 30 days following written notice of breach from the non-breaching party, would result in conditions to the merger not being satisfied, unless such breach has been waived by the non-breaching party; or
  - approval of the merger agreement by the shareholders of either party shall not have been obtained.
- by SunLink if:
  - SunLink pays the fee and expenses described below under *Termination Payments* and under *The Merger Agreement Termination Payments* on page 63; or
  - HealthMont breaches its obligations described under *The Merger Agreement Offers for Alternative Transactions* beginning on page 58; or
  - if at any time (a) trading or quotation in SunLink s securities shall have been suspended or limited by the SEC or by the American Stock Exchange, or trading in securities generally on the American Stock Exchange, the Nasdaq Stock Market or the New York Stock Exchange shall have been suspended or limited, or minimum or maximum prices shall have been generally established on any of such exchanges by the SEC or the NASD; (b) a general banking moratorium shall have been declared by any federal or state authorities; (c) there shall have occurred any outbreak or escalation of national or international hostilities war, material U.S. military activity, a significant act or acts of domestic or international terrorism, whether or not similar to the events of September 11, 2001, or any crisis or calamity, or any change in the United States or international financial markets, or any U.S. or international political, financial or economic conditions, as in the reasonable good faith judgment of SunLink is a material adverse development which makes it materially impracticable, inadvisable or imprudent for SunLink to continue with or consummate the merger; or (d) HealthMont or any of its subsidiaries shall have sustained an uninsured loss by strike, fire, flood, earthquake, accident or other calamity of such character as in the judgment of the SunLink may impair the value of the HealthMont and its subsidiaries (other than HealthMont of Texas, Inc.) or may interfere materially with the conduct of the business and operations of HealthMont or such subsidiary (other than HealthMont of Texas, Inc.).

by HealthMont, if

HealthMont receives an offer to engage in a merger, consolidation or similar transaction or to purchase all or substantially all of HealthMont s shares or assets which satisfies the conditions described under *The Merger Agreement Offers for Alternative Transactions* and SunLink and HealthMont are unable to negotiate adjusted terms for the merger within ten business days after the receipt of such offer which would enable HealthMont to proceed with the merger; and

HealthMont pays the fees and expenses described below under *Termination Payments* and under *The Merger Agreement Termination Payments* beginning on page 63.

Termination Payments
(See page 63)

Termination Fees and Expenses Payable

If the merger agreement is terminated due to a knowing or willful breach of its terms, or failure by the breaching party to obtain its shareholders approvals the breaching party is required to pay the non-breaching party a termination fee of $500,000 and reimburse the non-breaching party for expenses incurred in connection with the merger up to a limit of reimbursable expenses payable to SunLink of $75,000 and $50,000 payable to HealthMont. Additionally, if HealthMont enters into an agreement regarding a merger, consolidation or similar transaction involving HealthMont or the purchase or sale of all or substantially all of its shares or assets within six months following the termination of the merger agreement by SunLink as provided above, HealthMont is required to pay an additional $250,000 to SunLink.

If the merger agreement is terminated due to a non-willful breach of the representations, warranties or covenants which results in a termination right as described above, remedies under the merger agreement generally are more limited. If SunLink is the terminating party, HealthMont is only required to reimburse SunLink for SunLink s expenses up to $75,000 and if HealthMont is the terminating party SunLink is only required to reimburse HealthMont for HealthMont s expenses up to $50,000.

If HealthMont terminates the merger agreement in connection with a merger, consolidation, or similar transaction or a purchase of all or substantially all of the shares or assets of HealthMont as described under *The Merger Agreement Offers for Alternative Transactions*, HealthMont is required to pay SunLink a termination fee of $750,000, and SunLink s expenses up to $75,000.

SunLink may terminate the merger agreement at any time if it pays HealthMont a termination fee of $500,000 and HealthMont s expenses up to $50,000.

Certain United States Federal Income Tax Consequences of the Merger
(See page 47)

The United States federal income tax consequences described below assume that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. The consummation of the merger is conditioned on, among other things, the receipt by SunLink and HealthMont of a tax opinion from HealthMont s counsel, dated as of the date of the merger, confirming such counsel s earlier opinion that the merger will so qualify.

In general, HealthMont shareholders will not recognize gain or loss with respect to their receipt of SunLink common stock in the merger, except for gain or loss attributable to any cash received in lieu of fractional shares of SunLink common stock. HealthMont shareholders who exercise statutory dissenter s rights in connection with the merger generally will recognize capital gain or loss (assuming the HealthMont common stock is held as a capital asset) equal to the difference, if any, between such holder s tax basis in the HealthMont common stock exchanged and the amount of cash received in exchange therefor.

Tax matters are very complicated and the tax consequences of the merger to each HealthMont shareholder will depend on the shareholder s particular facts and circumstances. HealthMont shareholders are urged to consult their own tax advisors about their personal tax situation to understand fully the tax consequences to them of the merger.

Listing of SunLink Common Stock

The shares of SunLink common stock to be issued in the merger will be listed on the American Stock Exchange under the ticker symbol SSY.

Dissenters Rights
(See page 64)

If you are a HealthMont shareholder, Tennessee law permits you to dissent from the merger. If you dissent, you have the right to receive payment of the fair value of your HealthMont common stock. To do this, you must follow certain procedures, including giving HealthMont certain notices and not voting your shares in favor of the merger. The relevant sections of Tennessee Business Corporation Act governing this process are attached to this proxy statement/prospectus as **Annex D**. The fair value of your HealthMont common stock as determined in accordance with the Tennessee Business Corporation Act may be more or less than the merger consideration**.**

Interests of Certain Persons in the Merger
(See page 52)

When HealthMont and SunLink shareholders consider their respective board of directors recommendation that they vote in favor of the approval and adoption of the merger agreement and the merger, they should be aware that a number of HealthMont executive officers and directors may have interests in the merger that may be different from, or in addition to, the interests of HealthMont shareholders generally.

Accounting Treatment of the Merger
(See page 47)

SunLink will account for the merger under the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations.* Accordingly, SunLink will record the fair value of assets acquired less liabilities assumed (plus transaction costs) with any excess purchase price recorded as separately identifiable intangible assets or goodwill. Based on the initial purchase price allocation, there is no goodwill.

SunLink Selected Historical Financial Data

We are providing the following selected historical financial data to assist you in your analysis of the financial aspects of the merger. We derived the SunLink data as of and for each of the years ended March 31, 1998, 1999, 2000, and 2001, the three-month transition period ended June 30, 2001 and the year ended June 30, 2002 from the audited consolidated financial statements of SunLink. We derived the SunLink data as of and for the three months ended September 30, 2001 and 2002 from SunLink s quarterly report on Form 10-Q for the quarterly period ended September 30, 2002. The SunLink financial information reflects the acquisitions and dispositions of certain businesses during the period April 1, 1997 through June 30, 2002, including the acquisition of SunLink s existing community hospital business. In connection with the acquisition of SunLink s current business, we changed our fiscal year end from March 31 to June 30, beginning with the year ended June 30, 2002. As a result, the following summary presents selected historical financial data for SunLink the years ended March 31, 1998, 1999, 2000, 2001, the three-month transition period ended June 30, 2001, and for the year ended June 30, 2002, and the three months ended September 30, 2001 and 2002.

SunLink Selected Historical Financial Data
(All amounts in thousands, except per share amounts)

	As of and for the							
	Fiscal Years Ended March 31,				Three Month Transition Period Ended	Fiscal Year Ended	Three Month Interim Period Ended	Three Month Interim Period Ended
	1998	1999	2000	2001	June 30, 2001	June 30, 2002	September 30, 2001	September 30, 2002
							(unaudited)	(unaudited)
Net revenues (a)	$ 0	$ 0	$ 0	$ 13,639	$ 20,527	$ 87,457	$ 21,549	$ 23,801
Earnings (loss) from continuing operations	(822)	(3,674)	(937)	(881)	(319)	(98)	(592)	450
Net earnings (loss)	256	(8,633)	1,583	478	(4,316)	833	(346)	435
Earnings (loss) per share from continuing operations:								
Basic	(0.16)	(0.73)	(0.19)	(0.18)	(0.06)	(0.02)	(0.12)	0.09
Diluted	(0.16)	(0.73)	(0.19)	(0.18)	(0.06)	(0.02)	(0.12)	0.08
Net earnings (loss) per share:								
Basic	0.05	(1.71)	0.32	0.10	(0.87)	0.17	(0.07)	0.09
Diluted	0.05	(1.71)	0.32	0.10	(0.87)	0.17	(0.07)	0.08
Total assets	26,460	15,751	12,778	47,458	43,842	48,571	41,930	48,010
Long-term debt, including current maturities	4,595	3,236	0	19,916	20,406	24,221	19,916	24,567
Shareholders equity	$ 18,099	$ 7,480	$ 9,513	$ 9,631	$ 5,307	$ 5,955	$ 4,842	$ 6,368

(a) All of SunLink s net revenues relate to the U.S. community hospital segment which was acquired February 1, 2001. Net revenues for the periods presented represent only the revenues subsequent to the acquisition date. The operations of SunLink s other business segments which were operated during the periods presented (the U.K. housewares, child safety products, and leisure marine segments and the U.S. life sciences and engineering segments) have been reported as discontinued operations, and, therefore, have been excluded in the selected financial data for continuing operations presented above.

HealthMont Selected Historical Financial Data

HealthMont was formed on February 15, 2000 and commenced operations on September 1, 2000 following its acquisition of the following four hospitals from New American Healthcare Corporation (NAHC): Memorial Hospital of Adel (Adel), Dolly Vinsant Memorial Hospital (Vinsant), Eastmoreland Hospital (Eastmoreland) and Woodland Park Hospital (Woodland); (such hospitals collectively are referred to as the Initial HealthMont Hospitals). On January 1, 2001, HealthMont acquired a fifth hospital, Callaway Community Hospital (Callaway), from a subsidiary of CHAMA, Inc. On February 28, 2002, HealthMont sold Eastmoreland and Woodland Park.

Since the financial statements for HealthMont only include the Initial HealthMont Hospitals from September 1, 2000 and Callaway from January 1, 2001, the Initial HealthMont Hospitals and Callaway selected historical financial data presented includes net revenues, net revenues over direct operating expenses, and total assets information derived from the unaudited statements of revenue over direct operating expenses and unaudited balance sheet information as of and for the years ended March 31, 1998, 1999, 2000 and as of and for the five months ended August 31, 2000 for each of the Initial HealthMont Hospitals and as of and for the years ended March 31, 1998, 1999, 2000 and as of and for the nine months ended December 31, 2000 for Callaway.

In addition, the HealthMont selected historical financial data presented is derived from the audited balance sheet information and audited statements of operations information as of and for the years ended March 31, 2001 and 2002 and unaudited interim selected historical financial data as of and for the six months ended September 30, 2001 and 2002. We derived the HealthMont data from the audited consolidated financial

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statements of HealthMont as of and for each of the years ended March 31, 2001 and 2002, and the unaudited consolidated financial statements of HealthMont as of and for the six months ended September 30, 2001 and 2002.

Initial HealthMont Hospitals and Callaway Selected Historical Financial Data
(All amounts in thousands)
(unaudited)

	As of and for the				
	Fiscal Years Ended March 31,			Five Months Ended August 31, 2000	Nine Months Ended December 31, 2000
	1998	1999	2000		
Net revenues:					
Adel	$ 17,026	$ 17,422	$ 17,151	$ 6,637	
Vinsant	9,172	8,845	8,769	2,926	
Eastmoreland	16,257	16,510	16,899	6,978	
Woodland	20,228	20,583	18,985	8,093	
Callaway	11,135	10,973	11,172		$ 7,198
Net revenues over (under) direct operating expenses:					
Adel	3,044	2,697	2,148	(278)	
Vinsant	708	500	(321)	(671)	
Eastmoreland	(248)	1,205	563	(170)	
Woodland	(94)	1,167	(1,369)	(319)	
Callaway	(116)	(533)	633		(125)
Total assets:					
Adel	8,862	12,919	12,629	12,438	
Vinsant	9,754	9,093	10,039	9,940	
Eastmoreland	7,361	6,415	7,233	6,780	
Woodland	13,391	14,647	11,599	$ 12,263	
Callaway	$ 9,231	$ 9,328	$ 7,469		$ 6,760

HealthMont Selected Historical Financial Data
(All amounts in thousands, except per share amounts)

	As of and for the			
	Fiscal Years Ended March 31,		Six Months Ended September 30, 2001	Six Months Ended September 30, 2002
	2001	2002	(unaudited)	(unaudited)
Net revenues	$ 37,322	$ 75,830	$ 39,327	$ 18,946
Net loss	(1,530)	(2,866)	(262)	(2,130)
Loss per share:				
Basic and diluted	(0.21)	(0.40)	(0.04)	(0.32)
Total assets	31,777	21,258	34,795	20,790
Long-term debt, including current maturities	9,629	6,775	11,253	6,617
Shareholders equity	$ 7,263	$ 4,608	$ 7,022	$ 2,471

This information is only a summary and should be read in conjunction with the historical consolidated financial statements of SunLink and related notes contained in the annual reports and other information that SunLink has filed with the SEC, and the historical consolidated financial statements of HealthMont included elsewhere in this proxy statement/prospectus. See *Where You Can Find More Information* beginning on page

112 for information on where you can obtain copies of information filed by SunLink with the SEC.

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Selected Unaudited Pro Forma Combined Financial Information

The following selected unaudited pro forma combined balance sheet financial information as of September 30, 2002, gives effect to the exchange as if it had occurred on September 30, 2002. The following selected unaudited pro forma combined statements of earnings financial information for the year ended June 30, 2002 and for the three months ended September 30, 2002, give effect to the exchange of 1,155,000 shares of common shares of SunLink for all outstanding common shares of HealthMont as if the exchange had occurred July 1, 2001.

The aggregate purchase price of $3,690,000 to be paid in the merger includes the value of 1,155,000 common shares SunLink will issue in exchange for all the outstanding common shares of HealthMont, the estimated fair value of 19,000 SunLink options to be granted to certain directors of HealthMont to replace outstanding HealthMont options, and estimated transaction fees and other costs directly related to the merger. The $2,784,000 value of the 1,155,000 shares to be issued was determined for accounting purposes by using the average market price of SunLink s common stock two days before, the day of and two days after the date the agreement was signed by both parties, in accordance with Emerging Issues Task Force Consensus No. 99-12, *Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination*.

In connection with the transaction, SunLink will assume up to a total of $9,800,000 in HealthMont senior debt and capital lease obligations and enter into a $3,000,000, 3-year, term loan with an annual interest rate of 15% intended to provide working capital and to repay $600,000 of debt related to Vinsant. In connection with the transaction financing, SunLink will pay fees of $170,000 to Cardinal and Healthcare Finance, Inc. (Heller), payable at the closing of the merger, and a 5% annual fee to directors of HealthMont for maintaining guarantees for standby letters of credit, grant 75,000 and 27,000 warrants to Chatham Investment Fund, LLC (Chatham) and Heller, respectively and issue 60,000 common shares to directors of HealthMont to keep letter of credit guarantees in place. The financing costs will be amortized over the life of the debt agreements with the exception of the annual fee which will be expensed ratably over the guarantee period.

In addition, SunLink will assume certain of HealthMont s obligations as a result of the merger as follows:

- SunLink will issue 35,000 shares in connection with the transaction to settle certain contractual obligations of HealthMont;
- HealthMont has executed a plan to terminate certain corporate executives which will result in severance expense of $295,000; and
- HealthMont will make a capital contribution to Vinsant of $275,000 at the closing of the merger and will be contingently liable to make an additional payment of up to $150,000 to Vinsant based on an earnings before interest, taxes, depreciation and amortization (EBITDA) calculation.

The pro forma adjustments as reflected in the *Unaudited Pro Forma Combined Financial Information* section beginning on page 70 are based upon available information and certain assumptions that SunLink believes are reasonable under the circumstances. The pro forma financial information is not necessarily indicative of the operating results or financial position that would have been achieved had the acquisition been consummated on the dates indicated and should not be construed as representative of future operating results or financial position. The pro forma financial information should be read in conjunction with the financial statements and notes thereto in SunLink s Annual Report on Form 10-K for the year ended June 30, 2002 and SunLink s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 which are incorporated herein by reference and set forth in the separately bound **Annex E** delivered with this proxy statement/prospectus.

The pro forma adjustments were applied to the respective historical financial statements to reflect and account for the acquisition using the purchase method of accounting. The aggregate purchase price of

HealthMont will be allocated to the tangible and intangible assets acquired and liabilities assumed based on their respective fair values. The allocation of the aggregate purchase price is preliminary. The actual purchase accounting to reflect the fair value of the assets to be acquired and liabilities assumed will be based upon valuation studies and SunLink s evaluation of such assets and liabilities as of the actual closing date of the merger. Accordingly, the pro forma financial information presented herein is subject to change pending the final purchase price allocations. Based on the initial purchase price allocation, there is no goodwill. Management does not believe the final purchase price allocation will change materially from the preliminary purchase price allocation.

Selected Unaudited Pro Forma
Combined Financial Information
(All amounts in thousands, except per share amounts)

	Pro Forma As Adjusted	Pro Forma As Adjusted
	As of and for the Year Ended June 30, 2002	As of and for the three months ended September 30, 2002
	(unaudited)	(unaudited)
Net revenues	$ 115,664	$ 31,046
Loss from continuing operations	$ (1,988)	$ (159)
Loss per share from continuing operations:		
Basic	$ (0.32)	$ (.03)
Diluted	$ (0.32)	$ (.03)
Weighted-average common shares outstanding:		
Basic	6,230	6,248
Diluted	6,230	6,248
Total assets		$ 70,964
Long-term debt		$ 36,815
Shareholders equity		$ 9,633

See Unaudited *Pro Forma Combined Financial Information* beginning on page 71 for pro forma adjustments.

SunLink Per Share and Pro Forma Per Share Information

The following table sets forth (i) certain historical per share data of SunLink and HealthMont and (ii) pro forma as adjusted per share data as if SunLink s acquisition of HealthMont had occurred on July 1, 2001. This data should be read in conjunction with the selected historical financial data and the historical financial statements of SunLink and the notes thereto that are incorporated herein by reference and the *Unaudited Pro Forma Combined Financial Information* and notes thereto appearing beginning on page 70 of this proxy statement/prospectus. The unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of the combined financial position or results of operations for future periods or the results that actually would have been realized had SunLink and HealthMont been a single entity during the periods presented.

Comparative Per Share Information

	As Reported SunLink		As Reported HealthMont	
	As of and for the Year Ended June 30, 2002	As of and for the Three Months Ended September 30, 2002	As of and for the Year Ended March 31, 2002	As of and for the Three Months Ended September 30, 2002
		(unaudited)		(unaudited)
Earnings (loss) per share from continuing operations:				
Basic	$ (0.02)	$ 0.09	$ (0.40)	$ (0.27)
Diluted	(0.02)	0.08	(0.40)	(0.27)

Book value per share(1)	1.20	1.19	0.65	0.37

(1) Book value per share is computed by dividing stockholders equity at the period end by the diluted weighted average shares outstanding for the period.

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	SunLink Pro Forma As Adjusted		HealthMont Equivalent Pro Forma As Adjusted(2)	
	As of and for the Year Ended September 30, 2002	As of and for the Three Months Ended September 30, 2002	As of and for the Year Ended September 30, 2002	As of and for the Three Months Ended September 30, 2002
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Loss per share from continuing operations:				
Basic	$ (0.32)	$ (0.03)	$ (0.06)	$ (0.01)
Diluted	(0.32)	(0.03)	(0.06)	(0.01)
Book value per share		1.54(1)		0.28

(1) Book value per share is computed by dividing pro forma stockholders equity at period end by the pro forma diluted weighted average shares outstanding for the period.

(2) Calculated by multiplying the SunLink pro forma as adjusted data by the exchange ratio for each share of HealthMont common stock. The exchange ratio used herein of 0.1849 is based on the 1,155,000 shares of SunLink common stock to be issued in the merger divided by the 6,247,744 HealthMont shares expected to be outstanding at the close of the merger. This ratio may change as the final exchange ratio will be based on the actual number of HealthMont shares outstanding at the close of the merger.

Selected and Pro Forma Market Price Information

The following table sets forth the closing price per share of SunLink common stock as reported on the American Stock Exchange on October 14, 2002, the last trading day prior to the public announcement of the proposed merger, and on January 28, 2003 the most recent date for which prices were practicably available prior to the printing of this proxy statement/prospectus. The table also sets forth the assumed value of the shares of SunLink common stock that a HealthMont shareholder would have received for one share of HealthMont common stock assuming the merger had taken place on those dates. These numbers have been calculated by multiplying 0.1849, the anticipated exchange ratio, by the closing price per share of SunLink common stock on each of those dates. The actual value of the shares of SunLink common stock that a HealthMont shareholder will receive on the date the merger takes place may be higher or lower than the prices set forth below.

	Closing Price of SunLink Common Stock	HealthMont Common Stock Equivalent Price
October 14, 2002	$2.36	$0.44
January 23, 2003	$2.40	$0.44

HealthMont common stock is not publicly traded.

See *Market Price and Dividend Information* on page 70 for additional market price information.

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RISK FACTORS

In addition to the other information contained in this document, you should carefully consider the following factors in evaluating the merger agreement and SunLink and its business.

Risks Relating to the Merger

You are being offered a fixed number of SunLink shares, accordingly, the value of the SunLink shares received in the merger will fluctuate.

SunLink will issue 1,155,000 shares of its common stock in the merger. Accordingly, based on the number of HealthMont shares that are anticipated to be outstanding as of the date of the merger, SunLink anticipates that HealthMont shareholders will receive 0.1849 shares of SunLink common stock in the merger for each share of HealthMont common stock (one share of SunLink for each 5.4083 HealthMont shares). Although the number of shares of SunLink common stock to be issued is fixed, the market price of SunLink common stock when the merger is completed will likely vary from its market price on the date of this document and on the date of the shareholder meetings of SunLink and HealthMont. Because the market price of SunLink shares fluctuates, the value of the consideration received by HealthMont shareholders at the time of the merger will depend on the market price of SunLink shares at that time. See *Stock Market Price and Dividend Information* on page 70 for more detailed share price information.

These variations in stock price may be the result of various factors, including:

- changes in the business, operations or prospects of SunLink or HealthMont;
- governmental and/or litigation developments and/or regulatory considerations;
- market assessments as to whether and when the merger will be consummated;
- the timing of the merger;
- governmental action affecting the healthcare industry generally and the community hospital segment, in particular; and
- general market and economic conditions.

In addition, the stock markets continue to experience significant price and volume fluctuations, which could have an adverse effect on the trading price of SunLink common stock prior to the merger.

The merger will not be completed until after the SunLink and HealthMont shareholder meetings. At the time of their respective shareholder meetings, SunLink and HealthMont shareholders will not know the exact market value of the SunLink common stock that will be issued in connection with the merger. In addition, the exchange of certificates evidencing HealthMont shares for SunLink shares will not take place immediately upon completion of the merger. Thus, the market value of the SunLink shares a HealthMont shareholder receives in the merger may be lower or higher at the time such shareholder actually receives them, and becomes able to sell them, than at the time of the merger.

You are urged to obtain current market quotations for SunLink common stock.

We may be unable to successfully integrate our operations which could have an adverse effect on the business, results of operations, financial condition or prospects of SunLink after the merger.

The merger involves the integration of two companies that have previously operated independently. The difficulties of combining the companies operations include the necessity of coordinating geographically disparate organizations and integrating personnel. SunLink and HealthMont also have a number of dissimilar information systems. Many of HealthMont s systems will have to be integrated with SunLink s systems or replaced.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of SunLink s business after the merger. Special risks include:

- possible unanticipated liabilities;
- inability to collect, or inability to timely collect, accounts receivable;
- unanticipated costs;
- diversion of management attention to the acquired facilities;
- unanticipated cash needs; and
- loss of hospital level personnel and physicians at the acquired facilities.

The diversion of management s attention and any delays or difficulties encountered in connection with the merger and the integration of the two companies operations could have an adverse effect on the business, results of operations, financial condition or prospects of SunLink after the merger, as well as on the trading prices of SunLink common stock.

We may be unable to realize the full cost savings we anticipate from the merger.

Among the factors considered by the SunLink and HealthMont boards of directors in connection with their respective approvals of the merger agreement were the potential for cost savings and efficiencies that could result from the merger. We cannot give any assurance that these savings will be realized within the time periods contemplated or even if they will be realized at all.

We will incur expenses and charges in connection with the merger which could have an adverse effect on SunLink s financial results.

We will incur approximately $900,000 of costs, consisting of transaction fees and other costs related to the merger. The majority of these fees and costs will be recorded after the consummation of the merger. Additional unanticipated costs may be incurred in the integration of the HealthMont facilities into SunLink. If the benefits of the merger do not exceed the costs associated with the merger, including any dilution to shareholders resulting from the issuance of shares in connection with the merger, SunLink s financial results could be adversely affected. See *Unaudited Pro Forma Combined Financial Information* beginning on page 70 for more detail on the charges we expect to incur in connection with the merger.

Obtaining required approvals and satisfying closing conditions may delay or prevent completion of the merger.

Completion of the merger is conditioned upon the receipt of all material governmental authorizations, consents, orders, and approvals. SunLink and HealthMont intend to vigorously pursue all required approvals. The requirement for these approvals could delay or prevent the completion of the merger. See *The Merger Agreement Conditions to Each Party s Obligations to Complete the Merger* beginning on page 60 for a discussion of the conditions to the completion of the merger and *The Merger Regulatory Matters Relating to the Merger* on page 50 for a description of the regulatory approvals necessary in connection with the merger.

Executive officers and directors of HealthMont have potential conflicts of interest in their recommendation that HealthMont shareholders vote for approval of the merger.

Shareholders should be aware of potential conflicts of interest of, and the benefits available to, executive officers and directors of HealthMont when considering HealthMont s and SunLink s board of directors determinations to approve the merger. Gene E. Burleson, a director of HealthMont, will become a director of SunLink. Timothy Hill, CEO of HealthMont, will acquire the one hospital SunLink declined to acquire. Certain existing directors and shareholders of HealthMont are expected to participate in a private placement of securities by such divested hospital to raise working capital for its operations. Certain officers and directors of HealthMont have agreed to continue to personally guarantee letters of credit in favor of HealthMont after the merger for warrants and other potential consideration. As discussed beginning on page 52 under *The Merger Interests of Certain Persons in the Merger*, the executive officers and directors of HealthMont have interests in the merger that are different from, or in addition to, your interests as shareholders, which may influence these directors in making their recommendation that HealthMont shareholders vote in favor of approval of the merger.

The market price of the SunLink common stock may be subject to downward pressure for a period of time after the merger as a result of sales of SunLink common stock by former HealthMont shareholders.

After the merger, former shareholders of HealthMont may sell a significant number of shares of SunLink common stock that they will receive in the merger. Such sales could adversely affect the market price for SunLink common stock for a period of time after completion of the merger. Shareholders of HealthMont who may sell shares in connection with the merger include directors and officers of HealthMont who hold HealthMont common stock, stock issuable upon the exercise of currently vested options and warrants and stock issuable upon the exercise of options vesting upon, or in connection with, the completion of the merger. As of December 31, 2002, the last date for which this information is available, directors and officers of HealthMont held an aggregate of approximately 1,786,087 shares of HealthMont common stock and options to acquire 805,000 shares of HealthMont common stock. Assuming the merger is completed by March 31, 2003, approximately 105,000 of these options are expected to be converted to options to acquire SunLink common stock which will be fully vested and immediately exercisable upon the completion of the merger. For a discussion of certain limits on resales of SunLink securities immediately after the merger see, *The Other Merger-Related Agreements The Lock-Up Agreement* on page 67. Such lockup agreement will expire 180 days after the merger.

Due to the nature of HealthMont s financial statements, after the acquisition of HealthMont, SunLink will not be able to utilize certain registration statement forms and the SEC will not declare registration statements or post-effective amendments to registration statements effective until SunLink has filed its annual report on Form 10-K for its fiscal year ending June 30, 2003.

After the acquisition of HealthMont, SunLink will not be able to utilize certain registration statement forms and the SEC will not declare registration statements or post-effective amendments to registration statements effective until SunLink has filed its annual report on Form 10-K for its fiscal year ending June 30, 2003. As a result, SunLink will, as a practical matter, be unable to register any of its securities until it files its 2003 annual report. Accordingly, SunLink s ability to raise equity or debt through public offerings of the securities until such time will be adversely affected, which could have an adverse effect on its ability to obtain financing, whether for working capital or in connection with potential acquisitions. Furthermore, SunLink will be unable to register the sale of securities under employee benefit plans until it files its 2003 annual report on Form 10-K. The inability to implement new equity based employee benefit plans could have an adverse impact on employee morale and hence SunLink s operations and could require SunLink to use non-equity based arrangements to incent its employees, which could have an adverse impact on its results of operations or financial condition. Finally, SunLink may be unable to register replacement options to be issued in connection with the merger and the provisions of Rule 145(d) will be unavailable to former affiliates of HealthMont with respect to the resale by them of SunLink common stock received in the merger, in each case, until SunLink files its 2003 annual report on Form 10-K.

Risks Relating to an Investment in SunLink

SunLink has a limited operating history in the community hospital business, a history of losses, and may experience additional losses before or after the merger.

SunLink does not have an extensive history of operating community hospitals. Prior to February 1, 2001, all of SunLink s operations were in business segments unrelated to healthcare.

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SunLink had a loss from continuing operations of $98,000 for the fiscal year ended June 30, 2002, a loss from continuing operations of $319,000 for the three month transitional period ended June 30, 2001, a loss from continuing operations of $881,000 for the fiscal year ended March 31, 2001, and a loss from continuing operations of $937,000 for the fiscal year ended March 31, 2000. SunLink experienced a net loss of $4,316,000 for the transitional period ended June 30, 2001 which included additional losses from discontinued, non-healthcare operations. SunLink may experience operating and net losses from continuing operations in the future.

Management continues to review the impact of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, which SunLink adopted effective July 1, 2002, on its long-lived assets, particularly on the existing Mountainside Medical Center facility which is scheduled to be replaced by a new hospital facility currently under construction. Management believes the impact of SFAS No. 144 on the carrying value of the existing Mountainside Medical Center facility will likely result in a write-down of approximately $1,400,000 to $1,600,000. The amount of the write-down will be based on an outside appraisal and SunLink expects to take the charge during the period ended December 31, 2002.

SunLink may issue additional equity in the future which could dilute the value of shares of existing shareholders.

SunLink is highly leveraged, has limited working capital, and its debt capacity is limited. Management and the board of directors of SunLink have discussed the need to raise equity in the future and have considered certain transactions which might be available to SunLink to raise equity. Those transactions include the sale of common shares to outsiders, the offer to existing shareholders of the right to acquire additional shares, and the reduction in the exercise price of SunLink s outstanding warrants to a level and on terms that would be expected to result in their immediate exercise. While the board of directors has not decided to effect any of these transactions at this time, it may do so in the future. Any of these transactions could result in dilution in the value of existing shares.

SunLink s growth strategy depends in part on making successful acquisitions via mergers or otherwise which may expose SunLink to new liabilities.

As part of its growth strategy, SunLink will seek further growth through acquisitions, via mergers or otherwise, of community hospitals to stay competitive with its increasingly larger competitors or to enhance its position in its core areas of operation. This strategy entails risks that could negatively affect SunLink s results of operations or financial condition. These risks include:

- unidentified liabilities of the companies SunLink may acquire or merge with;
- the possible inability to successfully integrate and manage acquired operations, systems and personnel;
- the potential failure to achieve the economics of scale or synergies sought; and
- the diversion of management s attention away from other ongoing business concerns.

Acquired businesses may have unknown or contingent liabilities, including liabilities for failure to comply with health care laws and regulations. Although SunLink has policies which require acquired facilities to implement SunLink compliance standards, and generally will seek contractual indemnification from prospective sellers covering for past activities of acquired businesses, SunLink may become liable for such matters. Except for an indemnification agreement from HealthMont of Texas, Inc. and its subsidiary as to certain matters, there are no effective indemnification rights under the Merger Agreement which would be available to SunLink after the merger with respect to the acquisition of HealthMont.

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Significant capital investments may be required to achieve SunLink s operational and growth plans, which may affect SunLink s competitive position, reduce earnings, and negatively affect the value of your SunLink common stock.

SunLink s growth plans require significant capital investments. Significant capital investments are required for on-going and planned capital improvements at existing hospitals and for HealthMont s hospitals. Significant capital investments also may be required in connection with future capital projects either in connection with existing properties or future acquired properties. SunLink s ability to make capital investments depends on numerous factors such as the availability of funds from operations and access to additional debt and equity financing. No assurance can be given that the necessary funds will be available. Moreover, incurrence of additional debt financing, if available, may involve additional restrictive covenants that could negatively affect SunLink s ability to operate the combined business in the desired manner, and raising additional equity may be dilutive to shareholders. The failure to obtain funds necessary for SunLink s growth plans could prevent SunLink from realizing its growth strategy and, in particular, could force SunLink to forego acquisition opportunities that may arise in the future. This could, in turn, have a negative impact on SunLink s competitive position.

One element of SunLink s business strategy is expansion through the selective acquisitions of community hospitals in selected markets. The competition to acquire hospitals in the markets that SunLink targets is significant, and SunLink may not be able to make suitable acquisitions on terms favorable to it if other health care companies, including those with greater financial resources, are competing for the same target businesses. In order to make future acquisitions SunLink may be required to incur or assume additional indebtedness. SunLink may not be able to obtain financing, if necessary, for any acquisitions that it might desire to make or it might be required to borrow at higher rates and on less favorable terms than its competitors.

Many states have enacted or are considering enacting laws affecting sales, leases or other transactions in which control of not-for-profit hospitals is acquired by for-profit corporations. These laws, in general, include provisions relating to state attorney general approval, advance notification, and community involvement. In addition, state attorneys general in states without specific legislation governing these transactions may exercise authority based upon charitable trust and other existing law. The increased legal and regulatory review of these transactions involving the change of control of not-for-profit entities may increase the costs required, or limit SunLink s ability, to acquire not-for-profit hospitals.

SunLink s success depends on its ability to maintain good relationships with the physicians at its hospitals, and if SunLink is unable to successfully maintain good relationships with physicians, admissions at SunLink hospitals may decrease and SunLink s operating performance before or after the merger could decline.

Because physicians generally direct the majority of hospital admissions and outpatient services, SunLink s success is, in part, dependent upon the number and quality of physicians on the medical staffs of its hospitals, the admissions and referrals practices of the physicians at its hospitals, and its ability to maintain good relations with its physicians. Physicians at SunLink hospitals are generally not employees of the hospitals at which they practice and, in many of the markets that SunLink serves, most physicians have admitting privileges at other hospitals in addition to SunLink s hospitals. If SunLink is unable to successfully maintain good relationships with physicians, admissions at SunLink hospitals may decrease and SunLink s operating performance before or after the merger could decline.

SunLink depends heavily on its senior and local management personnel, and the loss of the services of one or more of SunLink s key senior management personnel or SunLink s key local management personnel, including local management personnel at the HealthMont hospitals to be acquired, could weaken SunLink s management team and its ability to deliver health care services.

SunLink has been, and after the merger will continue to be, dependent upon the services and management experience of its executive officers. If any of SunLink s executive officers were to resign their positions or otherwise be unable to serve, either before or after the merger, SunLink s management could be weakened and operating results could be adversely affected. In addition, SunLink s success depends on its ability to attract and retain managers at its hospitals and related facilities, on the ability of hospital based officers and key employees to manage growth successfully, and on their ability to attract and retain skilled employees. If, after the merger,

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SunLink is unable to attract and retain affective local management, SunLink s operating performance could decline.

SunLink s success depends on its ability to attract and retain qualified healthcare professionals, and a shortage of qualified healthcare professionals in certain markets could weaken their ability to deliver healthcare services.

In addition to the physicians and management personnel whom SunLink employs, SunLink s operations are dependent on the efforts, ability, and experience of other healthcare professionals, such as nurses, pharmacists, and lab technicians. Nurses, pharmacists, lab technicians, and other healthcare professionals at hospitals are generally employees of SunLink. SunLink s success, both before and after the merger, will continue to be influenced by its ability to attract and retain these skilled employees. A shortage of healthcare professionals in certain markets, the loss of some or all of its key employees, or the inability to attract or retain sufficient numbers of qualified healthcare professionals could cause SunLink s operating performance to decline.

A significant portion of SunLink s revenue is dependent on Medicare and Medicaid payments, and possible reductions in Medicare or Medicaid payments or the implementation of other measures to reduce reimbursements may reduce our revenues.

A significant portion of SunLink s revenues are derived from the Medicare and Medicaid programs, which are highly regulated and subject to frequent and substantial changes. SunLink derived approximately 82% of its patient days and 62% of its net patient revenues from the Medicare and Medicaid programs for the year ended June 30, 2002 and approximately 84% of its patient days and 62% of its net patient revenue from the Medicare and Medicaid programs for the quarter ended September 30, 2002. HealthMont derived approximately 57% of its net patient revenue from the Medicare and Medicaid programs for its fiscal year ended March 31, 2002 and approximately 53% of its net patient revenue from these programs for the six months ended September 30, 2002. Recent legislative changes, including those enacted as part of the Balanced Budget Act of 1997, have resulted in limitations on, and reduced levels of payment and reimbursement for, a substantial portion of hospital procedures and costs.

The Balanced Budget Act of 1997 included significant reductions in spending levels for the Medicare and Medicaid programs by adopting rate reductions for inpatient and outpatient hospital services, establishing a prospective payment system, or PPS, for hospital outpatient services, skilled nursing facilities, and home health agencies under Medicare, and repealing the Federal payment standard (the so-called *Boren Amendment*) for hospitals and nursing facilities under Medicaid.

Certain rate reductions resulting from the Balanced Budget Act of 1997 are being mitigated by provisions of the Balanced Budget Refinement Act of 1999 and the Benefits Improvement Protection Act of 2000. Nonetheless, the Balanced Budget Act of 1997 significantly changed the method and amounts of payment under the Medicare and Medicaid programs. A number of states have adopted or are considering legislation designed to reduce their Medicaid expenditures and to provide universal coverage and additional care, including enrolling Medicaid recipients in managed care programs and imposing additional taxes on hospitals to help finance or expand the states Medicaid systems. We believe that hospital operating margins have been, and may continue to be, under significant pressure because of deterioration in pricing flexibility and payor mix, and growth in operating expenses in excess of the increase in prospective payments under the Medicare program.

Future health care legislation or other changes in the administration or interpretation of governmental health care programs may have a material adverse effect on SunLink s business, financial condition, results of operations or prospects after the merger.

Revenue and profitability may be constrained by future cost containment initiatives undertaken by purchasers of health care services if SunLink is unable to contain costs.

SunLink derived approximately 38% of its net patient revenues for the year ended June 30, 2002 from private payors and other non-governmental sources who contributed approximately 18% of SunLink s patient

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days. SunLink s hospitals have been affected by the increasing number of initiatives undertaken during the past several years by all major purchasers of health care, including (in addition to Federal and state governments) insurance companies and employers, to revise payment methodologies and monitor healthcare expenditures in order to contain healthcare costs. As a result of these initiatives, managed care organizations offering prepaid and discounted medical services packages represent an increasing portion of SunLink s admissions, resulting in reduced hospital revenue growth nationwide. In addition, private payors increasingly are attempting to control healthcare costs through direct contracting with hospitals to provide services on a discounted basis, increased utilization review, and greater enrollment in managed care programs such as health maintenance organizations and preferred provider organizations, referred to as PPOs. If, after the merger, SunLink is unable to contain costs through increased operational efficiencies and the trend toward declining reimbursements and payments continues, the results of its operations and cash flow will be adversely affected.

SunLink s revenues are heavily concentrated in Georgia which will make SunLink particularly sensitive to economic and other changes in the state of Georgia.

On a pro forma basis after giving effect to the merger, the combined company s four Georgia hospitals generated approximately 59% of revenues and 76% of hospital operating profit for the year ended June 30, 2002. Accordingly, any change in the current demographic, economic, competitive or regulatory conditions in the state of Georgia could have a material adverse effect on the business, financial condition, results of operations or prospects of SunLink after the merger.

SunLink faces intense competition from other hospitals and health care providers which may result in a decline in revenues, profitability or market share.

Although each of SunLink s and HealthMont s hospitals operate in communities where they are currently the only general, acute care hospital, they do face competition from other hospitals, including larger tertiary care centers. Although these competing hospitals may be as far as 30 to 50 miles away, patients in these markets may migrate to these competing facilities as a result of local physician referrals, managed care plan incentives or personal choice.

The healthcare business is highly competitive and competition among hospitals and other healthcare providers for patients has intensified in recent years. Each of SunLink s and HealthMont s hospitals operate in geographic areas where they compete with at least one other hospital that provides services comparable to those offered by their hospitals. Some of these competing facilities offer services, including extensive medical research and medical education programs, which are not offered by SunLink s and HealthMont s facilities. Some of the competing hospitals are owned or operated by tax-supported governmental bodies or by private not-for-profit entities supported by endowments and charitable contributions which can finance capital expenditures on a tax- exempt basis and are exempt from sales, property, and income taxes. In some of these markets, SunLink s and HealthMont s hospitals also face competition from for-profit hospital companies which have substantially greater resources as well as other providers such as outpatient surgery and diagnostic centers.

The intense competition from other hospitals and other health care providers may result in a decline in SunLink s revenues, profitability or market share either before or after the merger.

SunLink conducts business in a heavily regulated industry; changes in regulations or violations of regulations may result in increased costs or sanctions that could reduce revenue and profitability.

The healthcare industry is subject to extensive Federal, state and local laws and regulations relating to:

- licensure;
- conduct of operations;
- ownership of facilities;

addition of facilities and services;

confidentiality, maintenance, and security issues associated with medical records;

billing for services; and

prices for services.

These laws and regulations are extremely complex and, in many instances, the healthcare industry does not have the benefit of significant regulatory or judicial interpretation of these laws and regulations, including in particular, Medicare and Medicaid antifraud and abuse provisions codified under Section 1128B(b) of the Social Security Act and known as the anti-kickback statute. This law prohibits providers and others from soliciting, receiving, offering or paying, directly or indirectly, any remuneration with the intent to generate referrals of orders for services or items reimbursable under Medicare, Medicaid, or other Federal healthcare programs.

As authorized by Congress, the United States Department of Health and Human Services, or HHS, has issued regulations which describe some of the conduct and business relationships immune from prosecution under the anti-kickback statute. The fact that a given business arrangement does not fall within one of these safe harbor provisions does not render the arrangement illegal. However, business arrangements of healthcare service providers that fail to satisfy the applicable safe harbor criteria risk increased scrutiny by enforcement authorities.

We have a variety of financial relationships with physicians who refer patients to our hospitals. We have contracts with physicians providing services under a variety of financial arrangements such as employment contracts, leases, and professional service agreements. We also provide financial incentives, including loans and minimum revenue guarantees, to recruit physicians into the communities served by our hospitals.

The Health Insurance Portability and Accountability Act of 1996 broadened the scope of the fraud and abuse laws to include all healthcare services, whether or not they are reimbursed under a Federal program. In addition, provisions of the Social Security Act, known as the Stark Act, also prohibit physicians from referring Medicare and Medicaid patients to providers of a broad range of designated healthcare services in which the physicians or their immediate family members have an ownership interest or certain other financial arrangements.

In addition, SunLink s facilities will continue to remain subject to any state laws that are more restrictive than the regulations issued under the Health Insurance Portability and Accountability Act of 1996, which vary by state and could impose additional penalties. Many of the states in which SunLink operates have adopted similar anti-kickback and physician self-referral legislation, some of which extends beyond the scope of the Federal law to prohibit the payment or receipt of remuneration for the referral of patients and physician self-referrals. In recent years, both Federal and state government agencies have announced plans for or implemented heightened and coordinated civil and criminal enforcement efforts.

Government officials charged with responsibility for enforcing healthcare laws could assert that either of SunLink or HealthMont, or any of the transactions in which either company is or was involved, are in violation of these laws. It is also possible that these laws ultimately could be interpreted by the courts in a manner that is different than the interpretations made by each company. A determination that either SunLink or HealthMont has violated these laws, or the public announcement that either of us is being investigated for possible violations of these laws, could have a material adverse effect on SunLink s business, financial condition, results of operations or prospects before or after the merger and SunLink s business reputation could suffer significantly.

The laws, rules, and regulations described above are complex and subject to interpretation. In the event of a determination that we are in violation of any of these laws, rules or regulations, or if further changes in the regulatory framework occur, our post-merger results of operations could be significantly harmed.

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SunLink and HealthMont are subject to, and depend on, certificate of need laws which could affect their ability to operate profitably.

All states in which SunLink currently owns hospitals, and the states in which HealthMont s hospitals being acquired by SunLink are located, have laws affecting acute care hospital facilities and services known as certificate of need laws. These laws typically require prior approval for certain acquisitions of major medical equipment or the purchase, lease, construction, expansion or, in certain cases, the sale or closure of healthcare facilities, based on determination of need for additional or expanded facilities or services. The required approval is known generally as a certificate of need or CON. A CON may be required for capital expenditures exceeding a prescribed amount, changes in bed capacity or services, and certain other matters. The failure to obtain any required CON may impair SunLink s post-merger ability to operate profitably.

In addition, the elimination or modification of CON laws in states in which SunLink owns or will own hospitals after the merger could subject its hospitals to greater competition making it more difficult to operate profitably.

SunLink could be subject to claims related to discontinued operations and claims relating to hospitals sold by HealthMont prior to the merger.

Over the past thirteen years, SunLink has discontinued operations carried on by its former industrial, U.K. leisure marine, life sciences and engineering, and U.K. child safety segments, as well as our U.K. housewares segment. SunLink s reserves relating to discontinued operations represent management s best estimate of possible liability for property, product liability, and other claims for which SunLink may incur liability. These estimates are based on management s judgments using currently available information as well as, in certain instances, consultation with SunLink s insurance carriers and legal counsel. SunLink historically has purchased insurance policies to reduce certain product liability exposure and anticipates it will continue to purchase such insurance if available at commercially reasonable rates. While estimates have been based on the evaluation of available information, it is not possible to predict with certainty the ultimate outcome of many contingencies relating to discontinued operations. In addition, HealthMont has previously sold two hospitals and is obligated to dispose of one additional hospital as a condition of the merger. Future events or evaluations could cause us to adjust existing reserves made by HealthMont in connection with its operations. We intend to adjust our estimates of the reserves as additional information is developed and evaluated.

SunLink and HealthMont are subject to potential claims for professional and general liability, including claims based on the acts or omissions of third parties, which claims may not be covered by insurance.

We are subject to potential claims for professional medical malpractice and general liability, both in connection with our current operations, as well as acquired operations. To cover these claims, we maintain professional malpractice liability insurance and general liability insurance in amounts that we believe are sufficient for our operations, although some claims may exceed the scope or amount of the coverage in effect. The assertion of a significant number of claims, either within our self-insured retention (deductible) or, individually or in the aggregate in excess of available insurance, could have a material adverse effect on our business, financial condition, results of operation or prospects. Premiums for professional liability insurance have increased substantially in recent times and we believe will continue to increase. We can not assure you that professional liability insurance will continue to be available on terms or at prices acceptable to us, if at all.

The operations of our hospitals also depend on the professional services of physicians and other trained health care providers and technicians in the conduct of their respective operations, including independent laboratories and physicians rendering diagnostic and medical services. There can be no assurance that any legal action stemming from the act or omission of a third party provider of health care services, would not be brought against one of our hospitals or SunLink, resulting in significant legal expenses in order to defend against such

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legal action or to obtain a financial contribution from the third-party whose acts or omissions occasioned the legal action.

Forward-looking statements in this document may prove inaccurate.

This document contains forward-looking statements about SunLink, HealthMont, and the combined company that are not historical facts but, rather, are statements about future expectations. Forward-looking statements in this document may prove inaccurate. Important factors, some of which are beyond the control of SunLink, HealthMont or the combined company, could cause actual results, performance or events to differ materially from those in the forward-looking statements. These factors include those described in this section entitled *Risk Factors* and below under *Forward-Looking Statements*.

FORWARD-LOOKING STATEMENTS

This proxy statement/prospectus and the documents that are incorporated by reference in this proxy statement/prospectus contain disclosures which are forward-looking statements within the meaning of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can be identified by the use of words such as may, believe, will, expect, project, estimate, anticipate, plan or continue and similar or These forward-looking statements are based on the current plans and expectations of SunLink and/or HealthMont and are subject to a number of risks, uncertainties, and other factors that could significantly affect current plans and expectations and the future financial condition and results of SunLink or the combined company. These factors, which could cause actual results, performance, and achievements to differ materially from those anticipated, include, but are not limited to:

General Business Conditions

- general economic and business conditions in the U.S., both nationwide and in the states in which we operate hospitals;
- the competitive nature of the U.S. community hospital business;
- demographic changes in areas where we operate hospitals;
- the availability of capital to fund working capital, renovations, and capital improvements at existing hospital facilities and for acquisitions and replacement hospital facilities;
- changes in accounting principles generally accepted in the U.S.; and
- fluctuations in the market value of equity securities including SunLink common stock.

Operational Factors

- the availability of, and our ability to attract and retain, sufficient qualified staff physicians, management, and staff personnel for our hospital operations;
- timeliness of reimbursement payments received under government programs;
- restrictions imposed by debt agreements;
- the cost and availability of insurance coverage including professional liability (e.g., medical malpractice) and general liability insurance;
- the efforts of insurers, healthcare providers, and others to contain healthcare costs;

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- the impact on hospital services of the treatment of patients in lower acuity healthcare settings, whether with drug therapy or via alternative healthcare services;
- changes in medical and other technology; and,
- increases in prices of materials and services utilized in our hospital operations.

Liabilities, Claims and Obligations

- claims under leases, guarantees, and other obligations relating to discontinued operations, including sold facilities, retained subsidiaries, and former subsidiaries;
- potential adverse affects of known and unknown government investigations;
- claims for product and environmental liabilities from continuing and discontinued operations; and,
- professional, general, and other claims which may be asserted against us.

Regulation and Governmental Activity

- existing and proposed governmental budgetary constraints;
- the regulatory environment for our businesses, including state CON laws and regulations, rules, and judicial cases relating thereto;
- possible changes in the levels and terms of government (including Medicare, Medicaid, and other programs) and private reimbursement for SunLink s healthcare services including the payment arrangements and terms of managed care agreements;
- changes in or failure to comply with Federal, state or local laws and regulations affecting the healthcare industry; and
- the possible enactment of Federal healthcare reform laws or reform laws in states where we operate hospital facilities (including Medicaid waivers and other reforms).

Acquisition Related Matters

- our ability to integrate acquired hospitals and implement our business strategy;
- the ability to integrate effectively SunLink s and HealthMont s information systems, operations, and personnel in a timely and efficient manner; and
- other risk factors described herein.

As a consequence, current plans, anticipated actions, and future financial condition and results may differ from those expressed in any forward-looking statements made by or on behalf of SunLink or HealthMont. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this proxy statement/prospectus. Neither SunLink nor HealthMont undertake any obligation to update publicly or revise any forward-looking statements.

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THE SUNLINK SPECIAL MEETING OF SHAREHOLDERS

Date, Time, and Place of the Special Meeting

The special meeting of shareholders of SunLink Health Systems, Inc., will be held at 2:00 p.m., local time, on March 27, 2003, at the Sheraton Suites Galleria, 2844 Cobb Parkway S.W., Atlanta, Georgia 30339.

Purpose of the Special Meeting

The SunLink board of directors will convene its special meeting of SunLink s shareholders one business day after the HealthMont special meeting of its shareholders. The special meeting is being held so that shareholders of SunLink may consider and vote upon a proposal to approve the merger agreement among HealthMont, SunLink, and HM Acquisition Corp., a wholly owned subsidiary of SunLink, and to transact any other business that properly comes before the special meeting or any adjournment or postponement of the special meeting. At the meeting, SunLink s shareholders will be asked to approve:

- a resolution to approve the merger agreement including:
  - to authorize the issue of SunLink common shares in exchange for currently outstanding HealthMont common shares; and
  - to authorize the issue of SunLink options and warrants in place of currently outstanding HealthMont options and warrants.

The SunLink board of directors has approved the merger and will unanimously recommend at the special shareholders meeting that SunLink s shareholders approve the above resolution. The affirmative vote of holders of a majority of the outstanding SunLink common shares is required to approve the issuance of SunLink common shares in the merger, to approve the issuance of options and warrants to replace certain currently outstanding HealthMont options and warrants, and to approve the merger.

The completion of the merger is subject to, among other things, the approval of the merger agreement by shareholders of HealthMont. See *The Merger Agreement Conditions to Each Party s Obligation to Complete the Merger* beginning on page 60 of this document.

Record Date for the Special Meeting; Stock Entitled to Vote

The SunLink board of directors has fixed the close of business on February 24, 2003, as the record date for determination of SunLink shareholders entitled to receive notice of and to vote at the special meeting. On the record date, there were approximately 4,997,592 shares of SunLink common stock outstanding which were held by approximately 750 holders of record. Holders of record of SunLink common stock on the record date are each entitled to one vote per share on each matter to be considered at SunLink s special meeting.

Vote Required

The presence, in person or by proxy, of the holders of a majority of the shares of SunLink common stock outstanding and entitled to vote constitutes a quorum for the transaction of business at the special meeting. Abstentions and broker non-votes are included in determining whether a quorum is present. A broker non-vote occurs when a broker or nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker or nominee does not have discretionary voting power on that item and has not received instructions from the beneficial owner.

In the event that a quorum is not present at the special meeting, it is expected that SunLink will adjourn or postpone the special meeting to solicit additional proxies. The affirmative vote of the holders of at least a majority of SunLink common stock outstanding and entitled to vote at the special meeting is required for SunLink s shareholders to approve the merger agreement.

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Share Ownership of Management

At the close of business on the record date for the SunLink special meeting, the board of directors and executive officers of SunLink and their affiliates owned and were entitled to vote approximately 1,230,109 shares of SunLink common stock, which shares represented approximately 24.6% of the shares of SunLink common stock entitled to vote at the special meeting. SunLink s board of directors and executive officers have stated their intention, as of the date of this document, to vote for approval of the merger agreement.

For a description of SunLink s significant shareholders, see *Ownership of SunLink s Securities by Management and Significant Shareholders* beginning on page 95 of this proxy statement/prospectus.

Proxies and Effect on Vote

All shares of SunLink common stock represented by properly executed proxies received before or at the special meeting will, unless the proxies are revoked, be voted in accordance with the instructions indicated on the proxy card. If you return a properly executed proxy which does not indicate any instructions, the SunLink shares represented by your proxy will be considered present at the special meeting for purposes of determining a quorum and for purposes of calculating the vote and will be voted **FOR** the approval of the merger agreement.

If you return a properly executed proxy and you have specifically abstained from voting on the adoption of the merger agreement, the SunLink shares represented by your proxy will be considered present and entitled to vote at the special meeting for purposes of determining the existence of a quorum but will not be considered to have been voted in favor of the approval of the merger agreement. If a broker or other nominee holding shares of SunLink common stock in street name signs and returns a proxy but indicates on the proxy that it does not have discretionary authority to vote certain shares on the approval of the merger agreement, those shares will be considered present at the meeting but not entitled to vote. They will, therefore, not be counted for purposes of determining the presence of a quorum and will not be considered to have been voted for the approval of the merger agreement.

Abstentions, failures to vote, and broker non-votes by SunLink shareholders will have the same effect as a vote against the approval of the merger agreement.

SunLink is not aware of any matters expected to be brought before the special meeting other than as described in its notice of special meeting. If, however, other matters are properly presented, the persons named as proxies in the enclosed form of proxy will have discretion to vote or not vote in accordance with their judgment with respect to those matters, unless authorization to use that discretion is withheld. However, if a proposal to adjourn SunLink s special meeting is properly presented, the persons named in the enclosed form of proxy will not have discretion to vote in favor of the adjournment proposal any shares which have been voted against the proposal(s) to be presented at the special meeting.

Submission of Proxies

SunLink shareholders may submit their proxy by attending the SunLink special meeting and delivering their proxy cards in person at the meeting, or by completing the enclosed proxy card, signing and dating it, and mailing it in the enclosed postage pre-paid envelope. If your shares are held in street name , that is, in the name of a broker, bank or other record holder, you must either direct the record holder of your shares as to how to vote your shares or obtain a proxy from the record holder to vote at the SunLink special meeting. Only holders of record on the record date may vote at the meeting.

Revocation of Proxies

SunLink shareholders may revoke their proxy at any time before it is voted by:

- notifying the secretary of SunLink in writing, including by telegram or telecopy, that the proxy is revoked;

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- sending a later-dated proxy to the secretary of SunLink or giving a later-dated proxy to a person who attends the special meeting; or
- in the case of holders of record, appearing in person and voting at the special meeting.

Attendance at the special meeting will not in and of itself constitute revocation of a proxy. You should send any later-dated proxy or notice of revocation of a proxy, which must be delivered before the taking of the vote at the SunLink special meeting, to:

SunLink Health Systems, Inc.
900 Circle 75 Parkway, Suite 1300
Atlanta, Georgia 30339
Attention: Maria Robinson

Solicitation of Proxies

In addition to solicitations by mail, directors, officers, and regular employees of SunLink may solicit proxies from shareholders personally or by telephone or other electronic means. These individuals will not receive any additional compensation for doing so. SunLink will bear its own costs of soliciting proxies. SunLink will also make arrangements with brokers and other custodians, nominees, and fiduciaries to send this prospectus/proxy statement to beneficial owners of SunLink common stock and, upon request, will reimburse those brokers and other custodians for their reasonable expenses in forwarding these materials. SunLink will use Georgeson Shareholder Communications, Inc. to assist in the solicitation of proxies for a fee estimated not to exceed $25,000.

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THE MERGER

General

The boards of directors of SunLink and HealthMont each have determined that the merger of HealthMont into a wholly-owned subsidiary of SunLink is in the best interests of their respective corporations and shareholders.

SunLink s board of directors is using this proxy statement/prospectus to solicit proxies from the holders of SunLink common stock for use at the SunLink special meeting and in connection with the registration of the SunLink securities to be issued in or pursuant to the merger.

Background of the Merger

In September 1998, the board of directors of KRUG International Corp., the predecessor to SunLink Health Systems, Inc., determined that the company should consider divesting its then-existing businesses, which were primarily industrial companies located in the United Kingdom and Europe, and direct its capital and efforts toward the acquisition of healthcare businesses in the United States. The board made its determination based on the unsatisfactory performance of the company s then-existing businesses, the perceived lack of growth opportunities in those businesses, the difficulty of managing overseas businesses, and the perceived lack of market support for the company s common stock due to its core operations being overseas.

During 1999, SunLink began evaluating opportunities in the U.S. healthcare industry and concluded that acquisition of community hospitals was desirable to establish a U.S. healthcare business because, among other things, we believed:

- the Balanced Budget Act of 1997 (BBA 97) had moderated the sales prices of hospitals;
- legislative sentiment seemed to indicate that some relief from negative provisions of the BBA 97 would be forthcoming for rural hospitals;
- certain companies which bought hospitals before BBA 97 might be motivated sellers;
- SunLink had access to resources sufficient with which to make an initial acquisition of at least one and potentially several community hospitals; and
- SunLink s management possessed, or because of its prior hospital experience had access to, the requisite management skills and experience necessary to acquire and subsequently manage community hospitals.

SunLink reviewed a number of potential hospital acquisitions in 1999 and 2000, and in February 2000 formed SunLink Healthcare Corp., a wholly-owned subsidiary holding company to own and operate community hospitals which it initially might acquire. On February 1, 2001, SunLink Healthcare Corp. acquired six community hospitals for approximately $26.5 million from a private company. At its annual meeting of shareholders on August 20, 2001 SunLink adopted its current name.

SunLink s strategy has been to focus its efforts on internal growth of its six existing hospitals, supplemented by growth from selected hospital acquisitions. During 2001 and 2002, SunLink concentrated its efforts on the operation and improvement of the six acquired hospitals, but continued to evaluate certain hospitals which were for sale as well as to review selected hospitals which SunLink thought might become available for sale.

Around the time of HealthMont s inception, SunLink s management was aware of HealthMont as a hospital management company that owned and operated general acute care community hospitals located in rural and non-urban markets. HealthMont commenced operations in September 2000 following its acquisition of four hospitals from New American Healthcare Corporation, or NAHC, in connection with NAHC s bankruptcy in 2000.

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HealthMont purchased the hospitals from NAHC for approximately $11 million cash. HealthMont believed that the hospitals, had under-performed while owned by NAHC as the result of factors specific to NAHC and its business environment, including NAHC s excessive indebtedness. HealthMont believed that it could increase profitability and enhance growth at these specific hospitals by implementing a focused management approach to their operations. The four hospitals were also intended to serve as a platform to support HealthMont s corporate structure and its future operating and growth strategy. HealthMont subsequently acquired a fifth hospital in January 2001 from a subsidiary of CHAMA, Inc., a not-for-profit corporation that filed for bankruptcy protection in the fourth quarter of 1998.

HealthMont s business strategy was to acquire under-performing hospitals within its niche market and to attempt to achieve profitability on a hospital-by-hospital and system-wide basis through margin improvement obtained by reduced expenses and increased utilization, the expansion of service offerings to grow revenue at facilities and reduce patient out-migration, and increased focus on business operations. In order to successfully implement this strategy, however, it was important for HealthMont to expand its business through the identification and acquisition of additional hospitals within its market and to execute a detailed integration plan for each acquisition. As of the end of the first quarter of 2001, HealthMont had not been able to achieve its desired profitability with its limited number of hospitals. In addition, certain of HealthMont s hospitals were not performing at expected levels. As a result, HealthMont s management and its board of directors determined that it was necessary to raise additional capital to fund necessary acquisitions of new hospitals and to make improvements at HealthMont s existing hospitals. Following this determination, during the second quarter of 2001, HealthMont engaged UBS Warburg LLC as its financial advisor to assist HealthMont in its efforts to raise up to $40 million in additional funds through the private placement of the company s equity securities.

During the summer of 2001, with the assistance of UBS Warburg, HealthMont prepared a private placement memorandum and entered into preliminary negotiations with one or more potential investors. However, due to the events of September 11, 2001 and other market-related events during the late summer and fall of 2001, and the continued under-performance of its then existing hospitals, HealthMont was unable to complete any transaction on terms favorable to HealthMont or otherwise. Subsequently, in late 2001, HealthMont terminated its relationship with UBS Warburg.

Due to its limited number of hospitals and the continued under-performance of certain of its hospitals, during the fourth quarter of 2001 and into the first quarter of 2002, HealthMont experienced significant liquidity and capital constraints. Following its unsuccessful attempts to raise capital during 2001, HealthMont began to consider various strategic alternatives such as obtaining various types of debt financing or pursuing a sale of assets or merger of the company, while at the same time continuing its efforts to raise additional capital through the sale of equity. In order to fund HealthMont s immediate capital needs, in January 2002, HealthMont obtained $1,650,000 in over-line borrowings under its revolving credit facility. In connection with this arrangement, certain members of HealthMont s board of directors were required to provide letters of credit referred to herein as the Overline Letters of Credit in favor of HealthMont s lender to secure the borrowings. As consideration for the issuance of the letters of credit, the directors who issued the letters of credit were subsequently issued warrants to purchase an aggregate of 660,000 shares of HealthMont s common stock at an exercise price of $1.25 per share.

In order to focus its operations within the community hospital market and position itself better to capitalize on any strategic alternatives available to it, in February 2002, HealthMont sold two of its hospitals, both of which were located in Portland, Oregon. HealthMont determined that it was in the company s best interest to complete the sale of these hospitals since each hospital was located in an urban market and therefore did not match HealthMont s core business focus on community hospitals. The net proceeds of the sale were used to repay certain indebtedness and provided no material working capital to HealthMont.

While finalizing the sale of the Portland hospitals, HealthMont s management and board of directors continued to review several strategic alternatives for the company. As part of this process, members of

HealthMont s management, including its Chief Executive Officer, Timothy S. Hill, and certain of its directors, began meeting with potential investors and acquirers. One of these parties was SunLink. On February 18, 2002, Mr. Hill contacted SunLink s Chief Executive Officer, Robert M. Thornton, Jr., regarding a combination of the two companies. Mr. Hill had become aware of SunLink and Mr. Thornton as the result of the two companies activities in the rural and non-urban hospital market and their prior competition to acquire hospitals.

In a telephone call to Mr. Thornton, Mr. Hill explained that HealthMont was in the process of divesting two urban hospitals in Oregon. Mr. Hill provided an overview of HealthMont and said he thought the similar objectives of SunLink and HealthMont could result in a combination which would increase shareholder value. At that time, Mr. Thornton was aware of HealthMont and believed there might be some synergies to combining HealthMont and SunLink. Mr. Thornton and Mr. Hill discussed the concept of a merger. Mr. Thornton and Mr. Hill also discussed the management and boards of directors of each company. Mr. Hill also provided a brief summary of the operating results of HealthMont s hospitals in Adel, Georgia, and Fulton, Missouri and mentioned the possibility of divesting a third hospital operated by HealthMont in San Benito, Texas, which Mr. Thornton indicated did not fit SunLink s strategy. Mr. Thornton and Mr. Hill agreed to talk further after HealthMont s disposal of its Oregon hospitals.

After the call, Mr. Thornton discussed the possibility of a HealthMont transaction with selected members of the SunLink Board of Directors and with SunLink s CFO and COO. All agreed it was worthwhile to continue discussions of a possible merger with HealthMont.

Mr. Thornton and Mr. Hill later scheduled a follow-up meeting for February 28, 2002, in Washington, D.C., in connection with a meeting both planned to attend. Mr. Hill later canceled the Washington meeting due to activity relating to the sale of HealthMont s Oregon hospitals.

Mr. Thornton and Mr. Hill talked by telephone on March 6, 2002, at which time they discussed a possible exclusivity arrangement, the potential rate of growth of the companies respective hospitals, and HealthMont s desires with respect to ownership of the combined company. No agreement could be reached on the exclusivity arrangement or HealthMont s shareholders ownership of the combined company, and Mr. Thornton and Mr. Hill agreed they should talk again if either s circumstances changed.

On March 14, 2002, at a special meeting, HealthMont s board reviewed a strategic planning presentation which provided an update on HealthMont s efforts to raise additional capital and various other alternatives potentially available to HealthMont to address its liquidity and capital constraints. As part of this presentation, the directors were formally informed of Mr. Hill s contact with Mr. Thornton and their discussion regarding a potential combination of the companies. At that meeting, the HealthMont board recommended that HealthMont continue its efforts to raise additional capital through the sale of equity and pursue other potential strategic alternatives, including discussions with SunLink.

Following the March 14, 2002 HealthMont board meeting, Mr. Hill continued HealthMont s efforts to raise capital while at the same time continuing to communicate with Mr. Thornton on a potential transaction. HealthMont, however, continued to be unsuccessful in its efforts to find equity investors.

On March 15, 2002, Mr. Thornton reported to SunLink s Board of Directors on the discussions and briefly discussed financing considerations which might include raising equity in the form of a sale of stock or a rights offering to existing shareholders. The SunLink board encouraged Mr. Thornton to explore a possible merger with HealthMont to determine if it could be achieved on satisfactory terms.

Mr. Hill called Mr. Thornton on March 26, 2002 to say he still thought a merger of the companies made sense and that the valuation of each company was a matter they should discuss further. Mr. Thornton and Mr. Hill discussed certain management issues relating to a possible combination of the companies and agreed to meet in Atlanta on April 2, 2002, to continue their discussions. Mr. Thornton and Mr. Hill agreed to proceed without any exclusivity agreement and Mr. Hill stated that he was continuing to seek to raise equity capital for HealthMont to use for growth and acquisitions.

At the meeting in Atlanta on April 2, 2002, Mr. Hill presented information about the sale of HealthMont s Oregon hospitals, a brief operating review, and a strategic overview of HealthMont s Dolly Visant hospital in Texas, including possible alternatives for divestiture of such hospital. Mr. Hill also presented information about HealthMont s debt structure, corporate office, information technology systems, insurance arrangements, and significant shareholders. Mr. Thornton and Mr. Hill held extensive discussions about the governance of a combined company, specifically representation by HealthMont on SunLink s board, and negotiated over the portion of the combined company that should be owned by the HealthMont shareholders. Mr. Thornton and Mr. Hill were unable to reach agreement on the board representation for HealthMont or the portion of the combined company HealthMont s shareholders should own. Mr. Thornton and Mr. Hill agreed to stay in touch without any specific plans for future discussions.

Mr. Hill called Mr. Thornton on April 8, 2002, and advised him that HealthMont s efforts to raise equity were proceeding but that HealthMont believed the timing was unfavorable in light of HealthMont s growth objectives and that HealthMont would consider a merger. Mr. Thornton and Mr. Hill were unable to reach agreement on the shares to be issued, but agreed that the process to continue discussions should involve (1) agreement on the number of shares to be issued, (2) the performance of due diligence, (3) the negotiation and execution of a merger agreement, and (4) the preparation of materials to submit any transaction to the companies respective shareholders.

On April 8, 2002, Mr. Thornton updated a summary of the transaction and reviewed it with Pete Morris, president of SunLink Healthcare Corp. Mr. Thornton then reviewed the proposed transaction with the SunLink Executive Committee members, Karen Brenner and Howard Turner, on April 9, 2002. The discussion with the Executive Committee members focused on the valuation of HealthMont, the operating profile of the combined companies, and the desirability of the HealthMont transaction compared to other possible hospital acquisition opportunities which Mr. Thornton believed could arise within the next nine to twelve months. Mr. Thornton believed that due to SunLink s capital structure and management resources, the HealthMont merger, if consummated, would make it unlikely SunLink could complete another acquisition of similar size for that period of time. Mr. Morris and the members of the SunLink Executive Committee all thought the corporation should pursue the HealthMont transaction.

Mr. Thornton called Mr. Hill on April 9, 2002, and proposed a merger under which SunLink would issue 1,350,000 shares for all issued and outstanding HealthMont shares. The merger would be subject to a number of terms and conditions, including due diligence, HealthMont s designation of one member to SunLink s Board, and the sale or divestiture of HealthMont s Texas hospital. Mr. Thornton and Mr. Hill agreed to proceed under these terms and execute a confidentiality agreement.

Mr. Hill called Mr. Thornton on April 12, 2002 during which call he said he had not talked to his Board but might proceed with limited due diligence under the confidentiality agreement. Mr. Thornton advised that SunLink s price of 1,350,000 shares was firm and told Mr. Hill if HealthMont decided to proceed to call Mr. Morris to arrange a confidentiality agreement and due diligence.

Mr. Morris and Mr. Hill talked by telephone on April 15, 2002, and discussed HealthMont s debt level, certain costs related to HealthMont s debt, and the possible need to refinance the debt. Mr. Morris and Mr. Hill also discussed the operating results at HealthMont s Memorial Hospital of Adel in Adel, Georgia, and Callaway Memorial Hospital in Fulton, Missouri, and the nature and amount of certain costs involved in eliminating HealthMont s corporate office. Mr. Morris confirmed the number of shares SunLink was willing to offer for HealthMont (1,350,000) and Mr. Hill indicated that HealthMont had a board meeting scheduled for April 17, 2002, at which he would seek approval to proceed with the transaction.

At a special meeting held on April 17, 2002, HealthMont s board of directors was updated on the status of the search for equity investors, as well as the status of Mr. Hill s conversations with Mr. Thornton regarding a potential transaction. The board was informed of the type and amount of merger consideration proposed by SunLink, as well as SunLink s review of HealthMont s level of indebtedness. The HealthMont board then discussed the proposed level of ownership of the combined company by HealthMont s existing shareholders and the membership of the combined companies board of directors. The HealthMont board authorized Mr. Hill to continue to pursue a transaction with SunLink.

Mr. Hill called Mr. Morris on April 18, 2002, and said the HealthMont board of directors had authorized moving forward, although they wanted to designate two SunLink board members. Mr. Morris and Mr. Hill discussed the process of conducting due diligence, both at the hospitals and at HealthMont s corporate office.

On May 1, 2002, Mr. Morris and Harry Alvis, SunLink s COO, traveled to Fulton, Missouri to meet Mr. Hill and take a tour of the Callaway Memorial Hospital hosted by the hospital s CEO.

At SunLink s regularly-scheduled board meeting on May 6, 2002, Mr. Thornton led a discussion of the HealthMont transaction, including a discussion of the reasons for, and nature of, the transaction, its structure and price, the due diligence process, major issues known at that time, and the expected timing of the transaction. Mr. Thornton explained to the SunLink board that management believed the transaction was desirable because the HealthMont hospitals in Adel, Georgia, and Fulton, Missouri, were geographically and operationally similar to those operated by SunLink, that the HealthMont shareholder group seemed compatible with SunLink s, as well as diverse for a small private company, that the merger could increase the liquidity afforded SunLink s shares, and that the price of 1,350,000 SunLink shares plus assumption of certain HealthMont debt seemed reasonable based on information reviewed to date. Mr. Thornton advised the SunLink board that HealthMont wanted to designate one person for election to the SunLink board, although they continued to seek two SunLink board seats, and that the transaction was conditioned on HealthMont selling its Texas hospital at no loss, and being free of significant contingencies. The SunLink board also discussed certain major issues foreseen at that time, including completion of due diligence and confirmation of the valuation supporting the shares to be issued and debt to be assumed or refinanced. The SunLink board further discussed the process leading to consummation of the merger, including audits of both companies, negotiation of documents, and submission of the transaction to a vote of the shareholders of both companies. Mr. Thornton had previously discussed raising equity with several investment bankers and advised the SunLink board of management s belief that SunLink should consider raising equity in connection with an acquisition, including the possible HealthMont merger. The SunLink board did not take any action at the May 6 meeting but encouraged Mr. Thornton to proceed with exploration of a possible HealthMont transaction.

On May 3, 2002, Mr. Thornton, Mr. Morris, and Mr. Alvis, met Mr. Hill at Memorial Hospital of Adel and were given a tour by the hospital s CEO.

On May 7, 2002, Mr. Thornton traveled to Fulton, Missouri and on May 7 and 8 viewed Callaway Memorial Hospital and the Fulton area.

Mr. Thornton called Mr. Hill on May 8, 2002 to advise him of SunLink s desire to move forward and to discuss certain operational issues relating to capital needs of HealthMont prior to closing and possible reductions in HealthMont s corporate staff. Mr. Thornton and Mr. Hill also discussed possible terms to be incorporated into the merger agreement relating to other offers and break-up fees, SunLink s possible stock price movement before closing, and limitations on sales of SunLink stock after the merger by HealthMont s significant shareholders. No agreements were reached on the call but Mr. Thornton agreed to authorize SunLink s attorneys to draft a merger agreement, and he and Mr. Hill agreed to discuss certain issues with their respective attorneys and to arrange a meeting to negotiate the merger agreement.

On May 13, 2002, HealthMont s board of directors met again and was informed by Mr. Hill that he was continuing to negotiate with Mr. Thornton and that SunLink had begun performing a limited amount of due diligence on HealthMont and its hospitals. The board authorized Mr. Hill to continue his efforts with respect to SunLink, as well as to continue efforts with respect to other strategic alternatives, including pursuing equity financing. In this regard, on May 24, 2002, the board authorized HealthMont s engagement of Harpeth Capital Atlanta to assist HealthMont in obtaining equity financing.

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Mr. Thornton and Mr. Hill talked by telephone on May 18, 2002, and agreed to meet in Atlanta with their attorneys on May 21, 2002, to begin negotiation of the merger agreement, a draft of which had been sent to Mr. Hill. Mr. Thornton and Mr. Hill discussed several issues relating to the agreement, including the possible assumption of HealthMont s debt, a portion of which was supported by letters of credit posted by certain HealthMont shareholders, and the treatment of consulting contracts between HealthMont and its board members which required payments over approximately two years, and the treatment of outstanding HealthMont options and warrants. Mr. Hill proposed to settle the HealthMont board consulting contracts and warrants by SunLink issuing warrants to HealthMont board members and increasing the number of SunLink s shares issuable to HealthMont s shareholders. Mr. Thornton agreed to take the proposal under advisement.

In May, SunLink engaged Cardinal Advisors, LLC to represent it in connection with arranging the assumption or refinancing of HealthMont s debt. At that time, Cardinal was working under an advisory agreement with SunLink to arrange debt financing for SunLink s replacement hospital in Jasper, Georgia. Mr. Thornton also met with other possible sources of debt and equity funding during late May but did not identify any sources he believed suitable for the HealthMont transaction.

During May and through June 2002, Mr. Hill continued negotiations with Mr. Thornton concerning a potential transaction, focusing on, among other things, issues concerning HealthMont s indebtedness. During this period, the parties continued negotiation of the terms of a merger agreement. At special meetings of the HealthMont board of directors held on June 20, 2002 and June 27, 2002, HealthMont s board of directors received updates on the status of the negotiations and proposed terms of the transaction and authorized Mr. Hill to continue negotiations with SunLink.

During the course of these negotiations, due to SunLink s business strategy and the particularly poor financial performance of HealthMont s Dolly Vinsant Memorial Hospital in San Benito, Texas and the existence of certain liabilities associated with its operations, SunLink conclusively determined that it was not interested in completing a transaction with HealthMont if it would obtain Dolly Vinsant as part of the transaction or, if it was required to do so, the consideration to be paid by SunLink for the acquisition of HealthMont would have to be significantly reduced. As a result, HealthMont explored various alternatives to address this issue, including structuring the transaction as an asset purchase rather than a merger, pursuant to which only the Callaway Community Hospital and the Memorial Hospital of Adel would be acquired by SunLink. However, HealthMont determined that such a transaction was not feasible for it due to, among other things, certain contingent liabilities associated with the hospitals that would have to be reserved for by HealthMont and certain potential tax risks to HealthMont and its shareholders.

As a result of the foregoing, HealthMont also explored various means of disposing of its Texas hospital, including its sale to an independent third party. Following an extensive search for a purchaser of such hospital, HealthMont determined that a sale of its Texas hospital to a third party in a timely manner was not possible. As a result, in order to facilitate the completion of a transaction with SunLink, Mr. Hill initially agreed to acquire HealthMont s Texas hospital from HealthMont provided that he could obtain additional capital to assist in the operation of such hospital immediately following its divestiture by HealthMont.

Mr. Thornton and Mr. Hill continued to discuss the merger terms and SunLink continued its due diligence activities through June 2002. During the latter part of May and June, Mr. Thornton and Mr. Hill also discussed the board consulting agreements, HealthMont s warrants, and the Overline Letters of Credit supporting $1,650,000 of HealthMont s debt.

On June 25, 2002, Mr. Thornton and Mr. Alvis attended a meeting of rural hospitals held at Memorial Hospital in Adel, Georgia. Mr. Hill also attended the meeting and provided additional information about HealthMont s Adel facility.

On July 3, 2002, Mr. Thornton and Mr. Hill discussed by telephone the Overline Letters of Credit and were unable to reach agreement on terms for their extension. On July 5, 2002, Mr. Thornton received a call from

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Richard Ragsdale, a member of the HealthMont board, and discussed the Overline Letters of Credit. Mr. Thornton agreed that in consideration of the cancellation of the warrants held by the HealthMont board members and the extension of the Overline Letters of Credit for 18 months from closing of the merger, and under certain other conditions, SunLink would pay the individuals who posted the Overline Letters of Credit a monthly fee at the rate of 5% per annum of the outstanding amount of the Overline Letters of Credit. Mr. Thornton also indicated that SunLink would agree to issue 350,000 shares if the Overline Letters of Credit were called and the underlying debt paid off.

On July 9, 2002, Mr. Thornton and Mr. Morris, together with SunLink s advisors and Mr. Hill, discussed with HealthMont s lender by telephone the proposed acquisition and SunLink s desire to have the surviving corporation assume HealthMont s debt owed to such senior lender. SunLink also outlined modifications to the debt which it required in connection with the acquisition. HealthMont s lender agreed to consider the proposal and HealthMont and SunLink agreed to visit the lender s offices to make a presentation relating to the acquisition and the debt modifications.

By telephone call on July 16, 2002, Mr. Thornton and Mr. Hill, together with the companies attorneys, discussed the status of the merger discussions, due diligence, and the request for debt modifications. The parties also discussed a timetable to complete the merger.

During July 2002, the parties continued their negotiations. The parties also continued negotiations with HealthMont s lender with respect to its consent to the proposed transaction and certain modifications to the terms of HealthMont s indebtedness required by SunLink in connection with the completion of the transactions. SunLink also continued its due diligence of HealthMont. In order to assist HealthMont in conserving working capital while the merger was being negotiated, Mr. Hill proposed that the companies enter into a management agreement whereby SunLink would manage HealthMont s hospitals through the completion of the merger. After considering certain details of this proposal, however, the parties agreed not to pursue such an agreement.

On July 23, 2002, Mr. Thornton, Mr. Hill, and a principal of Cardinal Advisors, LLC met with HealthMont s senior lender in Chevy Chase, Maryland, to discuss the merger and debt modifications. The lender s representatives indicated they were favorably inclined toward the assumption of HealthMont s debt and asked questions about a number of economic and operating matters.

SunLink continued its due diligence activities throughout July in addition to providing information to HealthMont s senior lender. On July 24, 2002, HealthMont s board of directors held a special meeting during which Mr. Hill advised the board of directors on the status of negotiations with SunLink. Because the consideration proposed by SunLink was shares of SunLink s common stock, the board was also provided with information regarding SunLink and its businesses. HealthMont s legal counsel then presented the most current terms of the merger agreement, including the proposed exchange ratio to the HealthMont board. The HealthMont board also discussed the most current terms of the transaction related to the divestiture of HealthMont s Vinsant hospital. It deliberated and considered various ways of structuring the divestiture other than through a transaction with Mr. Hill, including a distribution of the shares of HealthMont s wholly-owned subsidiary, HealthMont of Texas, which owns and operates the Vinsant hospital, to HealthMont s existing shareholders. However, these alternatives did not provide a means for obtaining the needed additional capital to assist in the operation of the Vinsant hospital immediately following its divestiture by HealthMont, and as such, were deemed by the HealthMont board to not be feasible or in the best interests of HealthMont or its shareholders. After considerable discussion on the matter, HealthMont s board of directors determined that it was in the best interests of HealthMont and its shareholders to continue to investigate and move forward with the merger and related transactions, and authorized the engagement of Harpeth Capital Atlanta to render a fairness opinion regarding the terms of the transaction. The HealthMont board determined that the fairness opinion should address not only the fairness of the consideration to be received by HealthMont s shareholders in the merger, but also the fairness of the divestiture of the Vinsant hospital prior to the merger.

On July 29, 2002, Mr. Thornton met with Gene Burleson, a HealthMont director and shareholder whom Mr. Hill and indicated would be HealthMont s designated SunLink director. Mr. Thornton and Mr. Burleson

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discussed the business strategy and history of each company, and Mr. Thornton provided an overview of SunLink s board of directors and management.

On July 30, 2002, HealthMont formally engaged Harpeth Capital Atlanta and directed Harpeth Capital Atlanta, to prepare a fairness opinion regarding the terms of the proposed transaction, including the fairness of the merger and the divestiture of HealthMont s Vinsant hospital, from a financial point of view, to the shareholders of HealthMont other than Mr. Hill.

On July 30, 2002, Mr. Thornton met with Howard Turner, SunLink s counsel and a SunLink director, to discuss issues relating to SunLink s due diligence and the merger terms. Mr. Thornton also met on July 30, 2002, with C. Michael Ford, a SunLink director, to inform Mr. Ford of the status of the transaction and certain issues. During August and September 2002, the parties continued their negotiations while SunLink continued to perform certain operating and financial due diligence and negotiated with HealthMont s senior lender. In connection therewith, the parties and their respective legal representatives reviewed drafts of the definitive merger agreement and related documents.

Mr. Thornton traveled to California and met with Ronald J. Vannuki, a SunLink director, on August 1, 2002, and with Karen B. Brenner and Steven J. Baileys, SunLink directors, on August 2, 2002, and returned to Atlanta and met with Michael Hall, a SunLink director, on August 8, 2002. At the meetings, Mr. Thornton discussed the status of the merger, certain issues, and the timing of completion of the merger. Based on the meetings with the selected SunLink directors, Mr. Thornton determined that it was advisable for SunLink to direct its counsel to proceed with preparation of a draft registration statement and proxy-related materials which would be required to be filed in connection with a shareholder meeting to consider the merger, to proceed with efforts to obtain modifications to HealthMont s debt, and to continue due diligence, especially in certain areas where contingent liability issues had been identified or appeared likely.

On August 13, 2002, Mr. Thornton communicated to Mr. Hill by e-mail a brief status report on the preparation of draft transaction documents. Mr. Thornton requested updated due diligence information and advised Mr. Hill that SunLink still needed to understand a number of matters as a result of its due diligence. Mr. Thornton advised Mr. Hill that Mr. Morris would contact him to coordinate further due diligence activities, which would include visits to the hospitals and meetings with certain key employees and physicians.

On August 19 and 20, 2002, Mr. Morris and Mr. Alvis visited Callaway Memorial Hospital in Fulton, Missouri, and met with certain key employees and physicians and toured the facility and the community. On August 21, 2002, Mr. Morris and Mr. Alvis, accompanied by Jeff Dunn, CEO of SunLink s hospital and nursing home in Ellijay, Georgia, visited Adel Memorial Hospital and Nursing Home in Adel, Georgia, and met with certain key employees and physicians. Mr. Dunn performed a due diligence review of the nursing home and Mr. Morris and Mr. Alvis toured the facility and community and met with certain members of the facility s advisory board.

On August 25, Mr. Thornton presented an overview of the merger to the SunLink board, including an overview of the proposed capital structure, assumption of HealthMont s debt, current information on HealthMont s operations, certain contingent liability matters, and the timing of the proposed merger. Mr. Thornton also reported to the SunLink board that management believed the company should consider raising equity around the time of the acquisition, and that management thought a rights offering to existing shareholders was preferable to trying to sell equity in a private placement or other outside transaction. Mr. Thornton also indicated he believed any rights offering should take place after the merger so the HealthMont shareholders would have the opportunity to participate in the offering. Mr. Thornton discussed the possibility of arranging a bridge loan in connection with the merger which might delay the need for raising additional equity. The SunLink board discussed the proposed merger and again encouraged Mr. Thornton to continue negotiations with HealthMont and pursue the possible bridge loan.

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On August 28, 2002, Mr. Thornton summarized by letter to Mr. Hill the open issues as of that date relating to the transaction, including a number of issues which Mr. Thornton believed warranted modification of the draft merger documents and a reduction in the purchase price.

At special meetings of the HealthMont board of directors held on August 13, 27, and 29, 2002, the HealthMont board of directors continued to review HealthMont s financial position and liquidity constraints. In this regard, the HealthMont board reviewed the extension of HealthMont s over-line borrowings, which were schedule to mature on August 31, 2002. The HealthMont board approved the extension of the maturity of the borrowings, and, in connection therewith, the directors who had previously obtained the Overline Letters of Credit to secure certain borrowings agreed to the extension of such Overline Letters of Credit. The HealthMont board also considered the terms of the proposed transaction with SunLink, including the structure of the divestiture of HealthMont of Texas.

Mr. Thornton and Mr. Hill talked by telephone on September 6 and discussed a number of open issues, including the risk that a proposed merger agreement could be terminated by one of the parties. Mr. Hill took the issues under advisement and agreed to call Mr. Thornton on September 11 to discuss possible resolutions of those issues.

At a special meeting held on September 10, 2002, the HealthMont board of directors continued to consider the latest terms of the proposed transaction, including the structure of the divestiture of HealthMont of Texas.

Mr. Hill called Mr. Thornton on September 11 and outlined the open issues as well as HealthMont s position on them. Mr. Hill provided additional information on a number of the issues and Mr. Thornton evaluated the impact of the issues on SunLink s expectations for HealthMont, including the transaction price.

Mr. Hill and Mr. Thornton continued their discussions by telephone on September 16, 18, and 20, including consideration of a reduction in the number of shares and certain other modifications of the deal terms to reflect the impact of the issues. No agreement was reached as a result of the calls.

Mr. Thornton traveled to Los Angeles on September 18 and introduced Mr. Burleson to three SunLink directors, Dr. Baileys, Ms. Brenner, and Mr. Vannuki. The SunLink directors and Mr. Burleson discussed various strategic and operational issues relating to both SunLink and HealthMont.

At a special meeting of the HealthMont board on September 20, 2002, Mr. Hill informed the HealthMont board that the proposed merger consideration had been reduced as the result of poorer than expected financial results at HealthMont s hospitals. The HealthMont board was also informed of certain financial covenants of HealthMont proposed to be included in the merger agreement. Representatives of Harpeth Capital Atlanta were also present at the meeting and provided the HealthMont board with certain updated information concerning SunLink and their latest analysis of the fairness of the proposed transaction. Shortly following the September 20, 2002 meeting, certain directors of HealthMont agreed to assist Mr. Hill with the divestiture of HealthMont of Texas through an investment in the entity that would own the shares of HealthMont of Texas, and thus HealthMont s Texas hospital, following the divestiture.

Mr. Hill called Mr. Thornton on September 23, 2002 and offered solutions to the remaining open issues. As a result of discussions during the call, Mr. Thornton and Mr. Hill instructed their attorneys to revise the transaction documents to reflect the resolution of a number of issues, including a reduction in the SunLink shares to be issued to 1,250,000 and the establishment of minimum operating results and working capital levels which HealthMont would achieve through closing. Mr. Thornton and Mr. Hill also agreed on the general terms of a limited indemnity to be provided by HealthMont of Texas.

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During the final week of September and through the first week of October 2002, the parties and their respective legal representatives reviewed drafts of the substantially complete merger agreement and related documents and conducted several telephone conferences to negotiate the remaining terms of the transaction. In addition, the parties completed their negotiations with HealthMont s lender. During the first week of October, the parties completed substantially all negotiations of the proposed merger agreement and related agreements, including HealthMont s divestiture of HealthMont of Texas. At a special meeting held on October 4, 2002, the HealthMont board of directors received the oral opinion of Harpeth Capital Atlanta as to the fairness of the exchange ratio of 0.1847 of a share of SunLink common stock for each share of HealthMont common stock. Harpeth Capital Atlanta also delivered its oral opinion that the sale of Vinsant was advantageous and fair, from a financial point of view, to the holders of HealthMont common stock other than Mr. Hill. After the board s careful review and consideration of the foregoing and the final terms of the transaction, HealthMont s board of directors voted to approve the form of the merger agreement, the merger contemplated thereby, and all related agreements.

In the second week of October 2002, the parties resolved certain minor outstanding matters and awaited the issuance of letters of intent from HealthMont s existing lender and from a new lender to SunLink under a $3 million dollar loan. At a special meeting held on October 3, 2002, following the receipt by SunLink s board of directors of the oral opinion of Cardinal Advisory, Inc. as to the fairness of the transaction from a financial point of view to SunLink, SunLink s board of directors voted to approve the merger agreement, the transaction contemplated thereby and all related agreements to which SunLink or its merger subsidiary was a party. Following receipt of the last pre-execution consents and opinions, on October 15, 2002, the parties executed the definitive merger agreement and related agreements and SunLink issued a press release announcing the transaction. Harpeth Capital Atlanta also confirmed the oral opinions described above by delivery of its written opinion, dated October 15, 2002.

Following the execution of the merger agreement, HealthMont continued to explore other options to dispose of its Vinsant hospital on terms or at a price more favorable to HealthMont than those contained in the agreement between Tim Hill and HealthMont with respect to the divestiture of such hospital. As part of that exploration, HealthMont discussed the sale of HealthMont of Texas with a third party (the Third Party). On January 9, 2003, HealthMont received a Letter of Intent (dated January 10, 2003) in which the Third Party proposed a potential transaction whereby it would acquire all of HealthMont. By letter dated January 10, 2003, HealthMont informed SunLink of the existence of such Letter of Intent, noting that the letter was ambiguous in a number of material respects, including the structure of the proposed transaction and aggregate value of the consideration offered. On January 13, 2002, counsel for SunLink telephoned counsel for HealthMont to discuss the applicable provisions of the merger agreement governing third party offers and the status of the draft registration statement. SunLink s counsel, by letter and e-mail to HealthMont s counsel, confirmed the prior day s telephone conversation with respect to the Third Party proposal and, among other things, SunLink s position that the Third Party s proposal did not constitute a superior proposal within the meaning of the merger agreement. By letter dated January 14, 2003, HealthMont notified SunLink that it had received a written clarification of the Third Party s January 9 proposal. In its letter to SunLink informing SunLink of the additional communication from the Third Party, HealthMont informed SunLink that it had engaged Harpeth Capital Atlanta to assist the HealthMont board of directors in determining whether the Third Party s proposal constituted a superior proposal. HealthMont s board of directors is currently evaluating the Third Party s proposal, and has not determined whether it constitutes a superior proposal.

During the last calendar quarter of 2002, SunLink experienced delays in filing the registration statement (of which this proxy statement/prospectus forms a part) resulting from, among other things, the absence of certain HealthMont financial information ordinarily required by applicable SEC rules and the necessity of having to seek and obtain confirmation from the SEC that it would not object to certain aspects of HealthMont s available financial information not being in compliance with applicable SEC regulations. In light of such delays, in the first week of January, counsel for SunLink discussed with counsel for HealthMont an extension of the Termination Date in the merger agreement from January 31, 2003 to April 4, 2003. This discussion was followed

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by correspondence and telephone conversations between Mr. Thornton and Mr. Hill concerning such an extension. Mr. Hill indicated that he was uncertain that HealthMont s projected cash flow would permit such an extension without an infusion of cash. He ultimately proposed that SunLink make a working capital loan of approximately $200,000 to HealthMont in connection with such extension. Mr. Thornton declined to commit SunLink to making any loan or any other modifications and indicated that he preferred to push ahead with closing the merger as promptly as possible. Mr. Hill and Mr. Thornton thus deferred the question of financing any shortfall in HealthMont s cash flow to a later date when the date for closing is better known.

Factors Considered by, and Recommendation of, the Board of Directors of SunLink

At its meeting on October 3, 2002, SunLink s board of directors unanimously:

- determined that the merger agreement and the merger are fair to, and in the best interests of, SunLink and its shareholders;
- approved the merger agreement with HealthMont;
- directed that the proposed transaction be submitted for consideration by the SunLink shareholders; and
- recommended that the SunLink shareholders vote FOR the approval and adoption of the merger agreement and the merger, including the issuance of shares of SunLink common stock in connection with the merger.

In the course of reaching its decision to approve the merger agreement, SunLink s board of directors consulted with SunLink s management, as well as SunLink s legal counsel and financial advisors, and considered the following material factors:

(1) the financial performance and condition, results of operations, asset quality, prospects, and businesses of each of SunLink and HealthMont as separate entities and on a combined basis, including:

- the revenues of the companies, their complementary businesses, and the potential for cost savings and revenue growth;
- the recent and historical stock price performance of SunLink common stock; and
- the percentage of SunLink that its current shareholders and the former shareholders of HealthMont, respectively, would own following the merger.

(2) the fact that the acquisition of HealthMont by SunLink would increase the number of hospitals owned by SunLink by one-third;

(3) the strategic nature of the transaction, in which SunLink will acquire assets in complementary markets, and create a company with a somewhat more geographically diversified asset base, substantially greater resources, and increased opportunities for growth;

(4) the similar focus of SunLink and HealthMont on ex-urban and selected rural markets, which SunLink believes offer less competition and lower levels of managed care penetration than larger urban markets;

(5) the fact that the merger is expected in the first year to be non-dilutive to reported earnings per share and, accretive on an earnings before interest, taxes, depreciation, and amortization, also known as EBITDA, basis;

(6) the potential benefits to be derived from the merger as described under *General*, including potential cost savings and efficiencies that are expected to result from the merger;

(7) the analyses and presentation prepared by Cardinal Advisory, Inc. and its opinion to the effect that, as of the date of the opinion and subject to the matters set forth in its opinion, the merger is fair, from a financial point of view, to SunLink; which opinion is described below under *Opinion of SunLink s Financial Advisor Cardinal Advisory, Inc.* ;

(8) the intended accounting for the merger under the purchase method of accounting;

(9) the structure of the transaction as a generally tax-free reorganization, to the extent SunLink common stock is received by HealthMont shareholders, for United States federal income tax purposes;

(10) the fact that after the merger the name of the company will remain SunLink Health Systems, Inc. and the headquarters of the company will remain in Atlanta, Georgia;

(11) the terms of the merger agreement regarding third party proposals, including the potential payment by HealthMont of a termination fee and a fee for reimbursement of SunLink s expenses, as well as the potential payment by SunLink of a termination fee and a fee for reimbursement of HealthMont s expenses if SunLink s shareholders fail to approve the merger agreement;

(12) the terms of the financing necessary for the merger, and the fact that obtaining the financing is a condition to SunLink s obligations to complete the merger;

(13) the risks associated with obtaining the necessary financing and regulatory approvals and the possibility that the merger may not be completed even if it is approved by the shareholders of both companies;

(14) the fact that HealthMont must divest Vinsant prior to the merger because such facility does not fit SunLink s strategic goals;

(15) the risks of contingent liabilities associated with former HealthMont facilities, including Vinsant and the former Oregon hospitals;

(16) the ability of existing hospital level management and SunLink s corporate management to integrate the acquisition and operate the two HealthMont hospitals; and

(17) the challenges of completing the merger of HealthMont into SunLink and combining the businesses of the two companies, and the risks of diverting management resources for an extended period of time.

The discussion above addresses the material factors considered by the SunLink board of directors. In view of the variety of factors and the amount of information considered, SunLink s board of directors did not find it practicable to and did not quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision. The determination was made after consideration of all of the factors as a whole. In addition, individual members of SunLink s board of directors may have given different weights to different factors.

The SunLink board of directors has unanimously approved the merger agreement, the merger, and the other transactions contemplated thereby and believes that the merger agreement and the merger are fair to, and in the best interests of, SunLink and its shareholders. **The SunLink board of directors unanimously recommends a vote FOR approval and adoption of the merger agreement and the merger, including the issuance of shares of SunLink common stock in connection with the merger.**

Opinion of SunLink s Financial Advisor Cardinal Advisory, Inc.

SunLink retained Cardinal Advisory, Inc. to act as its financial advisor in connection with the merger and to evaluate the fairness, from a financial point of view to SunLink, of the acquisition of all of the outstanding shares

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of HealthMont pursuant to the merger agreement. On October 15, 2002, Cardinal delivered its written opinion to the SunLink board of directors to the effect that, as of the date of such opinion and based upon the various qualifications and assumptions set forth therein, the merger is fair, from a financial point of view, to SunLink.

The full text of Cardinal s October 15, 2002 opinion, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Cardinal is attached as **Annex B** to this proxy statement/prospectus. SunLink shareholders are urged to read this opinion carefully and in its entirety. The following is a summary of Cardinal s opinion.

Cardinal s opinion is directed to the SunLink board of directors, relates only to the fairness, from a financial point of view, of the merger to SunLink as set forth in the merger agreement, does not address any other aspect of the merger or any related transaction, and is not intended to be and does not constitute a recommendation to holders of SunLink common stock as to how they should vote at the special meeting. No limitations were imposed by SunLink upon Cardinal with respect to the investigations made or procedures followed by it in rendering its opinion. Although Cardinal evaluated the financial terms of the merger and participated in discussions and negotiations concerning the determination of the merger consideration and indebtedness to be assumed, Cardinal was not asked to and did not recommend the merger price which was the result of arm s length negotiations between SunLink and HealthMont.

In connection with rendering its opinion, Cardinal, among other things:

- reviewed the merger agreement and certain related documents;
- reviewed certain publicly available financial statements and other information of SunLink;
- reviewed certain audited and unaudited financial statements and other information of HealthMont;
- reviewed a number of internal financial analyses and forecasts for SunLink and HealthMont prepared by the respective companies;
- discussed the past and current operations, financial condition, and prospects of SunLink and HealthMont with senior executives of SunLink and HealthMont, respectively;
- reviewed certain information relating to, and discussed with senior executives of SunLink and HealthMont, certain of the strategic implications and operational benefits anticipated from the merger;
- visited one of the two hospitals to be acquired by SunLink;
- compared the financial performance of HealthMont with the financial performance, reported prices, and trading activity of certain comparable publicly-traded companies and their securities and determined a relevant marketability discount for the privately held common stock of HealthMont;
- reviewed the financial terms, to the extent publicly available, of certain similar transactions which Cardinal deemed relevant and compared them to the proposed transaction;
- considered certain pro forma effects of the acquisition of HealthMont on SunLink s historical financial statements;
- performed a discounted cash flow analysis with respect to HealthMont;
- participated in certain discussions and negotiations among representatives of SunLink and HealthMont and their legal advisors, and with representatives of HealthMont s senior lender; and
- performed such other analyses, which Cardinal does not believe were material to its opinion, and considered such other factors as it deemed appropriate.

Cardinal assumed and relied upon, without independent verification, the accuracy and completeness of all of the financial and other information publicly available or furnished to or otherwise reviewed by or discussed with it. In that regard, Cardinal assumed, with the consent of SunLink s board of directors, that the financial forecasts prepared by the management of SunLink and HealthMont, including the strategic, financial, and operational benefits of the merger, were reasonably prepared on bases reflecting the best currently available judgments and estimates of SunLink and HealthMont. Cardinal did not make and did not assume any responsibility for making any independent evaluation or appraisal of the assets or liabilities of SunLink or HealthMont, nor was Cardinal furnished with any evaluation or appraisal of those assets and liabilities. Cardinal assumed that the executed versions of the merger agreement and other related agreements would not differ in any material respect from the last drafts of these agreements reviewed by Cardinal. Cardinal also assumed, with the consent of the SunLink board of directors, that the merger will be completed in accordance with the terms provided in the merger agreement without material modification or waiver.

Cardinal did not express any opinion as to what the value of the SunLink shares actually will be when issued to shareholders of HealthMont pursuant to the merger or the price at which the SunLink shares will trade subsequent to the merger. Cardinal was not asked to consider, and its opinion does not address, the relative merits of the merger as compared to any alternative business strategies that might exist for SunLink or the effect of any other transaction in which SunLink might engage.

The opinion of Cardinal is necessarily based on financial, economic, market, and other conditions as in effect on, the information made available to Cardinal as of, and the financial condition of SunLink and HealthMont on, October 15, 2002.

The preparation of a fairness opinion is a complex process and involves various judgments and determinations as to the most appropriate and relevant quantitative and qualitative methods of financial analyses. Judgments also must be made in the application of those methods to the particular circumstances involved. Accordingly, such opinions are not readily susceptible to a partial analysis or summary description. In arriving at its opinion, Cardinal considered the results of all of its analyses as a whole and did not form a conclusion as to whether any individual analysis supported or failed to support its opinion. Cardinal s conclusions also involved elements of judgment and qualitative analyses. In addition, even though the separate analyses are summarized above, Cardinal believes that its analyses must be considered as a whole. Cardinal also believes that selecting portions of its analyses, without considering all analyses, could create an incomplete view of the evaluation process underlying its opinion.

In performing its analyses, Cardinal made numerous assumptions with respect to industry performance, general business and economic conditions, and other matters, many of which are beyond the control of SunLink or HealthMont. Any estimates contained in Cardinal s analysis are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by these estimates. The analyses performed were prepared solely as a part of Cardinal s opinion of the fairness from a financial point of view to SunLink of the acquisition of HealthCare pursuant to the merger agreement and were conducted in connection with the delivery by Cardinal of its opinion dated October 15, 2002 to the SunLink board of directors.

Cardinal, as part of its investment banking business, regularly engages in:

- the valuation of businesses and their securities in connection with mergers and acquisitions;
- negotiated underwritings;
- financial advisory services with respect to mergers and acquisitions;
- secondary distributions of listed and unlisted securities;
- private placements; and
- valuations for corporate and other purposes.

SunLink selected Cardinal to act as its financial advisor based on Cardinal s experience and expertise in such valuations and its familiarity with SunLink and its business. In the ordinary course of its business, Cardinal

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and its affiliates may actively trade the equity and any debt securities of SunLink for its own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities. Cardinal currently is providing other investment banking services to SunLink and may provide investment banking services to SunLink and its subsidiaries in the future.

Pursuant to a letter agreement dated August 8, 2002, SunLink engaged Cardinal to act as its financial advisor in exploring SunLink s financing alternatives for a potential transaction with HealthMont. Under the terms of such letter agreement, which was negotiated by SunLink and Cardinal, SunLink has agreed to pay Cardinal a transaction fee, upon consummation of the financing for the merger, of $130,000. Pursuant to a separate letter agreement dated October 2, 2002, SunLink also agreed to pay $40,000 in connection with Cardinal s issuance of its fairness opinion relating to the merger agreement. In addition, SunLink has also agreed to reimburse Cardinal for its reasonable out-of-pocket expenses and to indemnify Cardinal and its affiliates against certain liabilities, including certain liabilities under the federal securities laws.

HealthMont s Reasons for the Merger; Recommendation of the HealthMont Board of Directors

The HealthMont board of directors has determined that the terms of the proposed merger and related transactions are fair and in the best interests of HealthMont and its shareholders. Accordingly, the board of directors approved the merger agreement, the merger contemplated thereby, and the related transactions, and recommended that HealthMont s shareholders vote **FOR** approval of the merger agreement, the merger contemplated thereby, and the related transactions.

In reaching its decision, the HealthMont board of directors consulted with outside legal counsel with respect to the legal and fiduciary duties of the board of directors, regulatory matters, tax matters, the merger agreement and related agreements, and securities matters. The HealthMont board also consulted with Harpeth Capital Atlanta and obtained an opinion from that firm as to the fairness from a financial point of view to the holders of HealthMont common stock of the exchange ratio of 0.1847 per share of HealthMont common stock, and the fairness from a financial point of view to the holders of HealthMont common stock (other than Mr. Hill) of the sale of HealthMont s Vinsant hospital. The HealthMont board also consulted with senior management of HealthMont on all of the foregoing issues as well as other, more conceptual, issues and the advantages of the proposed merger as compared to other alternatives such as joint ventures, acquisitions of or by other companies or seeking additional financing with venture capitalists or other equity or debt investors. The HealthMont board considered a number of factors in reaching its decision, without assigning any specific or relative weight to such factors. The material factors considered included:

- information concerning the businesses, earnings, operations, competitive position, and future business prospects of HealthMont and SunLink, both individually and on a combined basis;
- the belief that by combining operations, the combined company would have better opportunities for future growth than HealthMont would have on its own;
- the current and prospective economic and competitive environments facing HealthMont as a stand-alone company;
- the performance of HealthMont s hospitals to date, including the under-performance of its Vinsant hospital;
- the belief that the merger would provide HealthMont with the management, technical, and financial resources to grow more quickly;
- the fact that the outstanding shares of SunLink common stock are, and the shares of such stock to be received in exchange for HealthMont common stock in the merger will be, listed on the American Stock Exchange and, as a result, enjoy greater liquidity than shares of HealthMont common stock, which are not traded in any market;

- the opportunity for HealthMont s shareholders to participate in a larger, more diversified organization and to benefit from the potential appreciation in the value of SunLink s common stock;
- the opportunity for HealthMont s shareholders to receive a premium over the existing value of HealthMont s stock;
- the likely impact of the merger on HealthMont s employees and customers;
- the interests that the Chief Executive Officer and certain of the directors of HealthMont may have with respect to the merger, in addition to their interests as shareholders of HealthMont generally;
- the treatment of the merger as a reorganization for tax purposes, which would allow HealthMont shareholders flexibility in their personal tax-planning;
- the opinion of Harpeth Capital Atlanta as to the fairness to HealthMont s shareholders, from a financial point of view, of an exchange ratio of 0.1847 shares of SunLink common stock for each share of HealthMont Common Stock, as well as the fairness to HealthMont s shareholders, other than Mr. Hill, from a financial point of view, of the sale of HealthMont s Vinsant hospital; and
- the belief of HealthMont s board that it was unlikely that any other party would be a more attractive strategic partner or make a proposal more favorable to HealthMont and its shareholders than SunLink.

The HealthMont board also considered a number of risks and potentially negative factors in its deliberations concerning the merger, including the risk factors described elsewhere in this prospectus/proxy statement, and in particular: