

MATIS CAPITAL LTD.

Immediate Report

12.6.2008

At the request of the Securities Authority the company hereby wishes to clarify hereby the background of the decision by the Board of Directors of the Company from 11th June 2008 regarding the appointment of Adv. Ms Tzilla Tamir ("**Adv. Tamir**") to Japanauto Holdings Ltd ("**Japanauto Holdings**") (a subsidiary company in which the Company holds one half of the issued share capital and voting rights) and in companies held by it (together: "**Japanauto Group**") instead of Mr Shimon (Moni) Harel ("**Harel**"), commencing at the date of passing of the said resolution as reported by the Company on 11th June 2008 (Document 164814-01-2008) as follows:

- a. The Company is entitled to appoint 4 directors to the Japanauto Group. The Company is required to appoint directors who will act for the benefit of the Japanauto Group, whilst maintaining the interests of the shareholders.
- b. Harel supports the attempt to remove Barzilai from his tenure as Chairman of Japanauto, in infringement of shareholders agreements between the Company and Mirage Development Ltd (which holds one half of the issued share capital and voting rights in Japanauto Holdings), and in infringement of the by-laws of the Japanauto Group companies. In this manner Harel is trying to transfer his dispute with Mr Amnon Barzilai, a controlling shareholder and Chairman of the Board of Directors of the Company and of the Japanauto Group, to the Board of Directors of the Japanauto Group..
- c. Harel has no right of possession of any kind to serve as a director of the Japanauto Group and the company which appointed him is entitled to replace him
- d. Replacing Harel with Adv. Tamir will contribute to maintaining the status of the Company and will stabilize the holdings of the Company in the Japanauto Group.
- e. Adv. Tamir is an attorney with extensive knowledge and experience in a number of areas, with experience as a director and is the founder of the Society for the Advancement of Correct Government and she is suited to serving as a director in Japanauto.

Prior to the meeting of the Board of Directors, the Company made an approach by letter, by means of its attorney, Adv. Dr. Avigdor Klagsburg, to Harel's attorney, Adv. Dr. Yaakov Weinrott, on 5th June 2008 and proposed that during the period available to him prior to the convening of the meeting of the Board of directors (which met on 11th June 2008), Harel would explain his position in writing regarding the termination of his tenure as a director of Japanauto Group and also invited Harel to present his position in person at the Board meeting itself.

As a result, on 11th June 2008, prior to the start of the Board meeting, the Company's attorney, Adv. Dr. Avigdor Klagsburg, received a response from Harel, via his attorney, Adv. Dr. Yaakov Weinrott, in which Harel regards the proposal to remove him from the Board of Directors of the Japanauto Group companies as an act of retaliation the sole purpose of which being to remove him and to prevent the continuing revelations of corruption which have characterized the mode of management of the Japanauto Group and of the Company, under Barzilai's leadership. In addition, Harel gave written notice that he does not intend taking part in the hearing offered him, since he assumes that it would not be conducted "openly and readily", as required in law and in accordance with precedent.

Yours faithfully

Matis Capital Ltd.